

# **Lehigh Carbon Community College**

Financial Statements

June 30, 2014 and 2013



**BAKER TILLY**

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# Lehigh Carbon Community College

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June 30, 2014 and 2013

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## Independent Auditors' Report

Board of Trustees  
Lehigh Carbon Community College

### Report on the Financial Statements

We have audited the accompanying financial statements (as described in the table of contents) of Lehigh Carbon Community College (the "College") and its discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, 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.

### Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lehigh Carbon Community College and of its discretely presented component unit as of June 30, 2014 and 2013, 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 ("MD&A") on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Viechow Krause, LLP*

Allentown, Pennsylvania  
December 11, 2014

# Lehigh Carbon Community College

## Management's Discussion and Analysis (Unaudited)

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This section of Lehigh Carbon Community College's (the "College") annual financial report presents our discussion and analysis of the financial performance of the College for the fiscal years ended June 30, 2014 and 2013. 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. The financial results of the Lehigh Carbon Community College Foundation (the "Foundation") are reported as a component unit.

### 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, 2014 and 2013. 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 more than 7,500 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.

# **Lehigh Carbon Community College**

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## Management's Discussion and Analysis (Unaudited)

From the main campus in Schnecksville and modern satellite sites in Allentown, Tamaqua and Jim Thorpe, the College offers two-year associate degrees, certificates 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**

- Net position increased by \$0.5 million in 2014 compared to \$3.4 million in 2013.
- At June 30, 2014, the Colleges assets of \$84.3 million exceeded its liabilities of \$33.8 million by \$50.6 million, an increase over prior year of 1.0%.
- Tuition and fee revenue totaled \$18.0 million and \$19.9 million in 2014 and 2013, respectively or a decrease of 9.5%
- Total credit full time equivalents (FTE's) were 10,226 and 10,351 in 2014 and 2013, respectively or a decrease of 1.2%.
- The fiscal year 2013-2014 credit hours decreased by 2.9% with 127,867 credit hours compared to 131,719 in fiscal year 2012-2013.

## Lehigh Carbon Community College

### Management's Discussion and Analysis (Unaudited)

The following is a Condensed Statement of Net Position as of June 30, 2014 and 2013 (dollars are in thousands).

	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
<b>Assets:</b>				
Current assets	\$ 25,026	\$ 32,474	\$ (7,448)	(22.9)%
Non-current assets	59,290	56,328	2,962	5.3%
Total assets	<u>\$ 84,316</u>	<u>\$ 88,802</u>	<u>\$ (4,486)</u>	<u>(5.0)%</u>
<b>Liabilities and net position:</b>				
Current liabilities	\$ 12,961	\$ 15,833	\$ (2,872)	(18.1)%
Non-current liabilities	20,756	22,850	(2,094)	(9.0)%
Total liabilities	<u>33,717</u>	<u>38,683</u>	<u>(4,966)</u>	<u>(12.7)%</u>
<b>Net position:</b>				
Investment in capital assets	30,786	29,992	794	2.6%
Unrestricted	19,713	19,723	(10)	(0.1)%
Restricted	100	404	(304)	(75.2)%
Total net position	<u>50,599</u>	<u>50,119</u>	<u>480</u>	<u>1.0%</u>
Total liabilities and net position	<u>\$ 84,316</u>	<u>\$ 88,802</u>	<u>\$ (4,486)</u>	<u>(5.0)%</u>

The College's assets amounted to \$84.3 and \$88.8 million as of June 30, 2014 and 2013, respectively.

- The decrease in current assets is attributable to the classification of \$5 million, 18 month Certificate of Deposit into non-current assets in 2014 due to a change in cash management policy to take advantage of higher interest rates.
- Total liabilities decreased largely due to debt principal payments of over \$4.3 million. These payments resulted in eliminating both the 2002 Series bond obligation and a term loan during the fiscal year.
- Although the College's unrestricted net position is not subject to externally imposed restrictions, \$19.6 million of the College's \$19.7 million of unrestricted net position is designated for purposes to fulfill its various fiduciary responsibilities, including maintaining reserves for capital improvement and operation projects, and a reserve for future operations.

## Lehigh Carbon Community College

### Management's Discussion and Analysis (Unaudited)

The following is a Condensed Statement of Revenues, Expenses and Changes in Net Position as of June 30, 2014 and 2013 (dollars are in thousands).

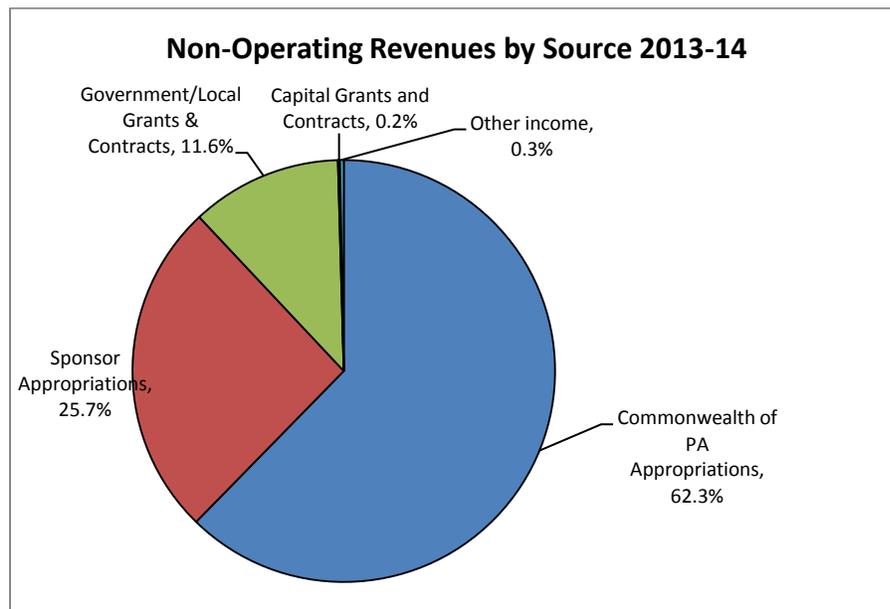
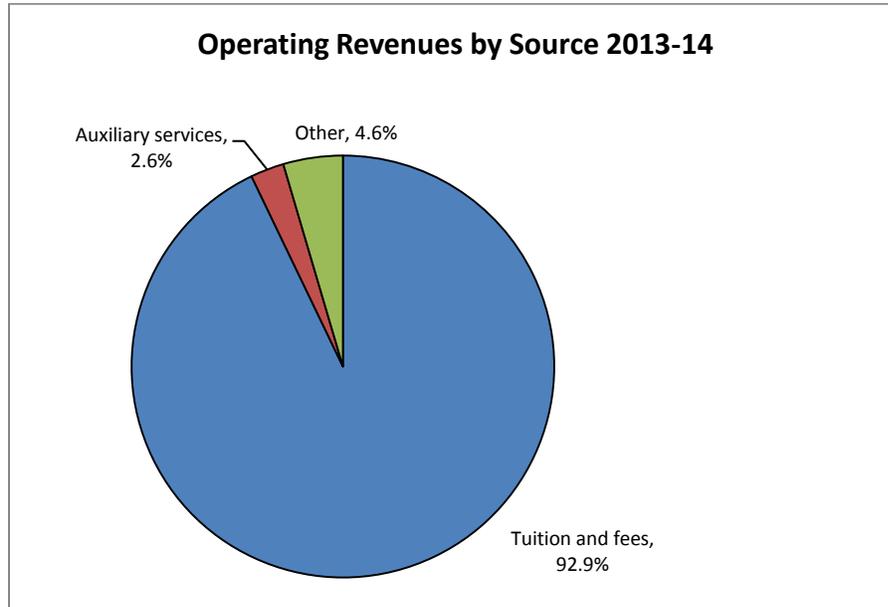
	2014	2013	Increase/ (Decrease)	Percentage Change
Operating revenues:				
Tuition and fees	\$ 18,036	\$ 19,940	\$ (1,904)	(9.5)%
Auxiliary services	499	592	(93)	(15.7)%
Other	885	1,006	(121)	(12.0)%
Nonoperating revenues:				
Commonwealth and local sponsor appropriations	22,239	22,099	140	0.6%
Government/local grant and contracts	2,919	3,209	(290)	(9.0)%
Capital grants and contracts	39	361	(322)	(89.2)%
Investment income	73	61	12	19.7%
Total revenues	44,690	47,268	(2,578)	(5.5)%
Operating expenses:				
Educational and general	39,898	39,352	546	1.4%
Depreciation and amortization	3,049	3,236	(187)	(5.8)%
Loss on disposal of capital assets	16	7	9	128.6%
Auxiliary services	276	229	47	20.5%
Nonoperating revenues:				
Bond issuance costs	-	114	(114)	(100.0)%
Interest on indebtedness	971	943	28	3.0%
Total expenses	44,210	43,881	329	0.7%
Increase in net position	480	3,387	(2,907)	(85.5)%
Net position, beginning period	50,119	46,732		
Net position, ending	\$ 50,599	\$ 50,119		

- Revenue recognized from appropriations amounted to \$22.2 million and \$22.1 million in 2014 and 2013, respectively.
- Operating expenses increased \$0.4M or 1.0% over prior year. Non-operating expenses decreased \$0.1 million or 8.1% over prior year.
- Approximately, 58.2% of the College's total operating expenses in fiscal year 2013-14 directly support instruction which is consistent with prior year.

# Lehigh Carbon Community College

Management's Discussion and Analysis  
(Unaudited)

## Revenue by Sources



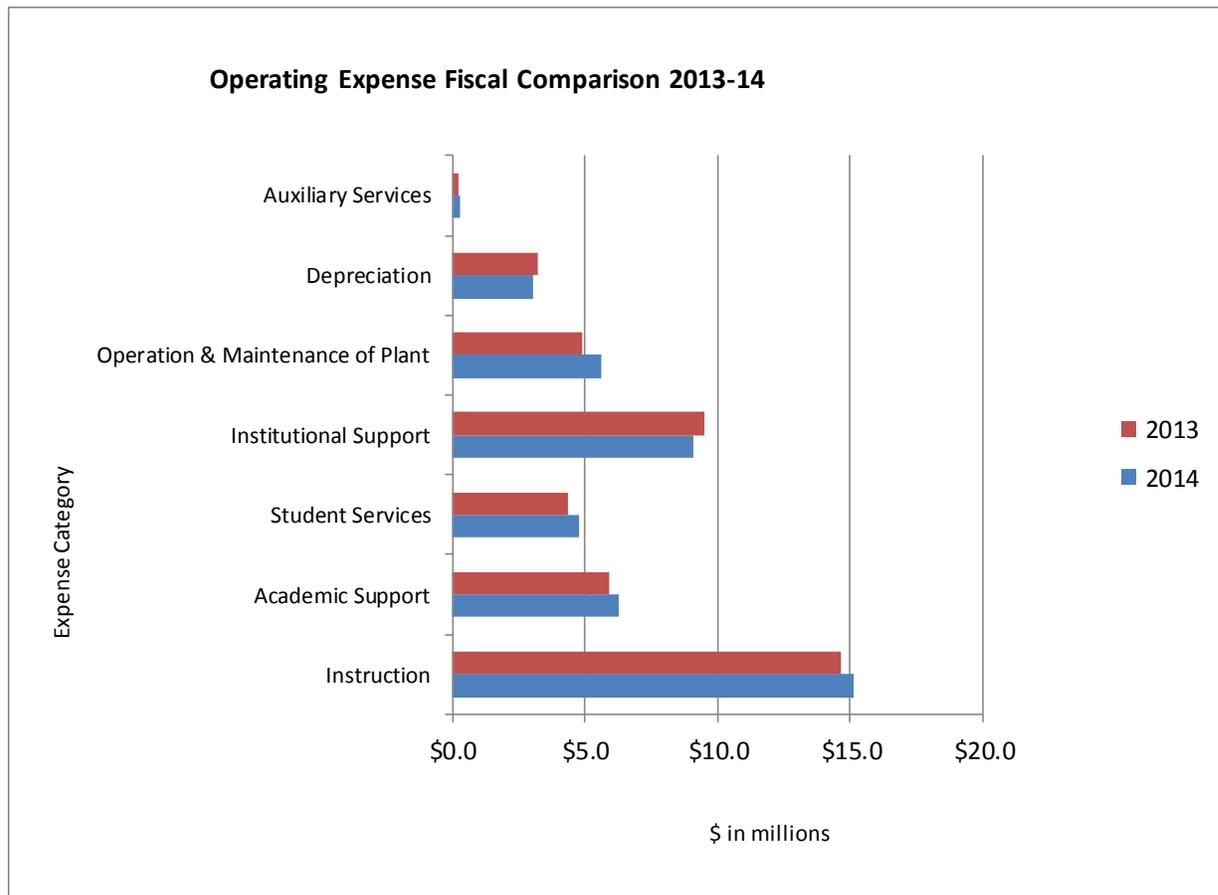
- The College received student financial assistance of approximately \$9.1 million from the Pell Grant and Supplemental Education Opportunity Grant in 2013-14 for a decrease of 1.1% over 2013.
- Pennsylvania Higher Education Assistance Agency (PHEAA) awarded grants of approximately \$1.1 million dollars for the year, an increase of 18% over prior year.
- There were approximately 3,800 of Federal Direct Loan recipients for a total of \$10.2 million disbursed in 2013-14.

# Lehigh Carbon Community College

## Management's Discussion and Analysis (Unaudited)

- The Commonwealth of Pennsylvania's operating appropriation for fiscal year 2013-2014 remained constant at \$12,266,383. The College has been notified of a \$0.2 million increase for 2014-15. Expectations are that Commonwealth funding will remain fixed at that level over the next few years.
- The Local Sponsor operating appropriation for fiscal year 2013-2014 increased 1% over the prior fiscal year appropriation. The 2014-2015 increase is expected to increase 1%.

### Expense Comparison



# Lehigh Carbon Community College

## Management's Discussion and Analysis (Unaudited)

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- Instruction direct expenses include faculty and instructional support staff salaries, benefits and their related expenses. Instruction expenses increased \$0.5 million or 3.1% over prior year primarily due to increased salary and benefit costs.
- Academic support, student services, and student grant and scholarship services comprise the education support activities expense. These support activities decreased \$0.2 million or 2.0% over prior year.
- Institutional support and operation and maintenance of plant expenses consist of administrative and facility operating costs. These expenses increased \$0.3 million or 2.0% over prior year primarily due to increased salary and benefit costs and also a \$0.1 million increase in utility costs.

### 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 \$4.2 million primarily due to the Administrative Building Renovations. Depreciation expense on capital expenditures was \$3.0 million.

Noteworthy capital asset purchases/projects that took place in 2014 were as follows:

- \$3.3 million - Administrative Building renovations
- \$0.3 million - Campus signage and landscape enhancements
- \$0.2 million - Telephone system upgrade

Additional information of the College's Capital Assets can be found in Note 5 on page 24.

### Debt Administration

At June 30, 2014, the College had four general obligation bond issues totaling \$22.0 million. The debt issues are funded by the Commonwealth capital appropriation, local sponsor capital appropriation and College capital funds. The fiscal year 2013-2014 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

Principal payments and interest expense totaled \$5.2 million and \$4.0 million during fiscal years ended June 30, 2014 and 2013, respectively. The principal obligation on the outstanding bonds and lease obligations is \$22.8 million at June 30, 2014.

The bond debt has been rated as A2 by Moody's Investor Services and AA by Standard and Poor's due to the College's stable financial position.

More detailed information about the College's long-term debt is presented in Note 7 on page 26.

# **Lehigh Carbon Community College**

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Management's Discussion and Analysis  
(Unaudited)

## **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 13% over the prior fiscal year while the full-time FTEs decreased 14% for a net decrease of 1%. The College revised its operating budget for 2014-2015 to reflect tuition and fee revenue based on a 1.7% decrease in enrollment from 2013-2014. The College's initial budget projections for 2015-2016 reflect a 1.7% increase over 2014-2015. The College has reorganized the structure of the President's Cabinet and created a Vice President of Enrollment position to focus on increasing student enrollment and retention.

## **Summary**

Overall, the College's financial position remains strong as evidenced by the 2014 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

## Statement of Net Position - Primary Institution

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,090,547	\$ 23,380,063
Certificates of deposit	5,000,000	-
Accounts receivable, students and other, net	6,358,433	7,966,520
Accounts receivable, grants	310,244	558,684
Prepaid expenses and other assets	<u>266,722</u>	<u>568,500</u>
Total current assets	<u>25,025,946</u>	<u>32,473,767</u>
<b>Noncurrent Assets</b>		
Bond proceeds available for campus construction	605,792	3,648,589
Certificates of deposit	5,000,000	-
Student loans receivable, net	99,207	330,493
Capital assets, net	<u>53,584,714</u>	<u>52,348,479</u>
Total other assets	<u>59,289,713</u>	<u>56,327,561</u>
Total assets	<u><u>\$ 84,315,659</u></u>	<u><u>\$ 88,801,328</u></u>

See notes to financial statements

# Lehigh Carbon Community College

## Statement of Net Position - Primary Institution

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Notes payable, current portion	\$ 1,920,000	\$ 4,349,703
Capital lease obligation, current portion	474,691	572,479
Accounts payable	1,119,720	991,726
Accrued expenses and other liabilities	2,478,453	1,754,059
Accrued interest payable	161,987	170,314
Unearned revenues	6,669,351	7,817,129
Accrued partial retirement benefits	120,701	-
Accrued settlements	16,382	177,768
	<u>12,961,285</u>	<u>15,833,178</u>
Total current liabilities		
<b>Noncurrent Liabilities</b>		
Accrued settlements	-	16,383
Notes payable, less current portion	20,225,838	22,150,676
Accrued partial retirement benefits, less current portion	167,257	28,485
Capital lease obligation, less current portion	362,696	654,006
	<u>20,755,791</u>	<u>22,849,550</u>
Total noncurrent liabilities		
Total liabilities	<u>33,717,076</u>	<u>38,682,728</u>
<b>Net Position</b>		
Unrestricted, undesignated	61,139	69,049
Unrestricted, board designated	19,651,798	19,654,103
Net investment in capital assets	30,786,015	29,991,520
Permanently restricted	99,631	403,928
	<u>50,598,583</u>	<u>50,118,600</u>
Total net position		
Total liabilities and net position	<u>\$ 84,315,659</u>	<u>\$ 88,801,328</u>

See notes to financial statements

## Lehigh Carbon Community College

Statement of Revenues, Expenses and Change in Net Position - Primary Institution  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenue</b>		
Student tuition and fees, net of scholarship allowance of \$6,079,197 in 2014 and \$4,031,937 in 2013	\$ 18,036,325	\$ 19,939,772
Auxiliary enterprises	499,376	591,970
Other operating revenues	<u>884,893</u>	<u>1,006,389</u>
Total operating revenues	<u>19,420,594</u>	<u>21,538,131</u>
<b>Operating Expenses</b>		
Educational and general:		
Instruction	15,127,467	14,666,873
Academic support	5,257,603	5,911,524
Student services	4,800,448	4,355,013
Institutional support	9,107,664	9,514,291
Operation and maintenance of plant	5,604,605	4,904,034
Depreciation	3,048,564	3,236,536
Loss on disposal of capital assets	16,500	6,694
Auxiliary services	<u>276,424</u>	<u>229,409</u>
Total operating expenses	<u>43,239,275</u>	<u>42,824,374</u>
Operating loss	<u>(23,818,681)</u>	<u>(21,286,243)</u>
<b>Non-Operating Revenues (Expenses)</b>		
Appropriations:		
Local	4,099,090	4,058,505
Commonwealth of Pennsylvania	13,012,861	12,950,582
Federal grants and contracts	2,271,208	2,997,159
Commonwealth of Pennsylvania grant and contracts	606,709	161,734
Local grants and contracts	41,030	50,424
Investment income	72,600	60,472
Bond issuance costs	-	(113,979)
Interest on indebtedness	<u>(970,838)</u>	<u>(942,715)</u>
Total non-operating revenues, net	<u>19,132,660</u>	<u>19,222,182</u>
Loss before other revenues	<u>(4,686,021)</u>	<u>(2,064,061)</u>
<b>Other Revenues</b>		
Capital appropriations:		
Local	2,391,067	2,323,046
Commonwealth of Pennsylvania	2,736,164	2,766,585
Capital grants and contracts	<u>38,773</u>	<u>361,294</u>
Total other revenues	<u>5,166,004</u>	<u>5,450,925</u>
Increase in net position	479,983	3,386,864
<b>Net Position, Beginning</b>		
As previously reported	50,118,600	47,084,284
Effect of adoption of GASB Statement No. 65	-	(352,548)
As adjusted	<u>50,118,600</u>	<u>46,731,736</u>
<b>Net Position, Ending</b>	<u>\$ 50,598,583</u>	<u>\$ 50,118,600</u>

See notes to financial statements

# Lehigh Carbon Community College

## Statement of Cash Flows - Primary Institution

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 18,727,920	\$ 20,735,116
Payments to employees	(21,136,804)	(21,487,778)
Payments for benefits	(6,871,368)	(6,999,125)
Payments to suppliers and utilities	(10,752,400)	(11,367,274)
Auxiliary services	499,376	591,970
Other receipts	884,893	1,006,389
	<u>(18,648,383)</u>	<u>(17,520,702)</u>
Net cash used in operating activities		
<b>Cash Flows from Noncapital Financing Activities</b>		
Local appropriations	4,099,090	4,058,505
Commonwealth appropriations	13,012,861	12,950,582
Grants and contracts for other than capital purposes	3,167,387	3,096,207
	<u>20,279,338</u>	<u>20,105,294</u>
Net cash provided by noncapital financing activities		
<b>Cash Flows from Capital and Related Financing Activities</b>		
Local and commonwealth capital appropriations	5,127,231	5,089,631
Capital grants and contracts	38,773	361,294
Purchases of capital assets	(4,174,956)	(1,825,870)
Borrowings on capital debt	-	5,239,354
Principal paid on capital debt	(4,354,541)	(2,498,343)
Interest paid on capital debt	(979,165)	(935,964)
Payment of deferred charges	-	(113,979)
Payments on capital lease obligation	(515,441)	(779,577)
Payments on accrued settlement	(177,769)	(177,768)
	<u>(5,035,868)</u>	<u>4,358,778</u>
Net cash provided by (used in) capital and related financing activities		
<b>Cash Flows from Investing Activities</b>		
Decrease in bond funds available for campus construction	3,042,797	(2,700,938)
Purchase of certificates of deposit	(10,000,000)	-
Interest on investments	72,600	60,472
	<u>(6,884,603)</u>	<u>(2,640,466)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(10,289,516)	4,302,904
<b>Cash and Cash Equivalents, Beginning</b>	<u>23,380,063</u>	<u>19,077,159</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 13,090,547</u>	<u>\$ 23,380,063</u>

See notes to financial statements

## Lehigh Carbon Community College

Statement of Cash Flows - Primary Institution

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (23,818,681)	\$ (21,286,243)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,048,564	3,236,536
Bad debt expense	251,350	416,053
Loss on disposal of capital assets	16,500	6,694
Changes in assets and liabilities:		
Accounts receivable	1,356,737	(6,819,832)
Prepaid and other current assets	301,778	115,030
Student loans receivable	231,286	56,797
Accounts payable	127,994	(391,446)
Accrued expenses and other liabilities	724,394	110,969
Accrued partial retirement benefits	259,473	(107,586)
Unearned revenues	(1,147,778)	7,142,326
Net cash used in operating activities	<u>\$ (18,648,383)</u>	<u>\$ (17,520,702)</u>
<b>Supplementary Disclosure of Noncash Capital, Financing Activity</b>		
Capital leases	<u>\$ 126,343</u>	<u>\$ 368,534</u>

See notes to financial statements

## Lehigh Carbon Community College

Statement of Financial Position - Component Unit  
Lehigh Carbon Community College Foundation  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 831,446	\$ 553,091
Investments	7,146,306	6,144,533
Accounts receivable	-	13,000
Promise to give	150,800	127,044
Prepaid expenses	1,481	1,080
	<u>8,130,033</u>	<u>6,838,748</u>
<b>Noncurrent Assets</b>		
Promise to give	255,251	232,842
Deferred rent	73,207	-
Land and buildings, net	5,662,567	5,754,171
	<u>5,991,025</u>	<u>5,987,013</u>
Total assets	<u>\$ 14,121,058</u>	<u>\$ 12,825,761</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Deferred revenue	\$ 47,063	\$ 56,313
	<u>47,063</u>	<u>56,313</u>
<b>Net Assets</b>		
Unrestricted	6,924,868	6,988,985
Unrestricted, designated	3,527,414	3,229,213
Temporarily restricted	1,725,064	871,608
Permanently restricted	1,896,649	1,679,642
	<u>14,073,995</u>	<u>12,769,448</u>
Total liabilities and net assets	<u>\$ 14,121,058</u>	<u>\$ 12,825,761</u>

See notes to financial statements

## Lehigh Carbon Community College

Statement of Activities - Component Unit  
 Lehigh Carbon Community College Foundation  
 Years Ended June 30, 2014 and 2013

	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Other Support</b>								
Contributions	\$ 135,336	\$ 359,751	\$ -	\$ 495,087	\$ 176,792	\$ 89,013	\$ -	\$ 265,805
Special event revenue	82,260	-	-	82,260	82,679	-	-	82,679
Rental income	583,475	-	-	583,475	508,261	-	-	508,261
Investment return	186,641	521,166	217,007	924,814	217,294	253,484	83,266	554,044
Other income	2,644	-	-	2,644	501,602	-	-	501,602
Net assets released from restrictions, satisfaction of program restrictions	27,461	(27,461)	-	-	210,765	(210,765)	-	-
Total revenues and other support	1,017,817	853,456	217,007	2,088,280	1,697,393	131,732	83,266	1,912,391
<b>Expenses</b>								
Program services	570,462	-	-	570,462	674,945	-	-	674,945
Supportive services:								
Management and general	166,948	-	-	166,948	193,295	-	-	193,295
Fundraising	46,323	-	-	46,323	54,094	-	-	54,094
Total expenses	783,733	-	-	783,733	922,334	-	-	922,334
Change in net assets	234,084	853,456	217,007	1,304,547	775,059	131,732	83,266	990,057
<b>Net Assets, Beginning</b>	10,218,198	871,608	1,679,642	12,769,448	9,443,139	739,876	1,596,376	11,779,391
<b>Net Assets, End</b>	<u>\$ 10,452,282</u>	<u>\$ 1,725,064</u>	<u>\$ 1,896,649</u>	<u>\$ 14,073,995</u>	<u>\$ 10,218,198</u>	<u>\$ 871,608</u>	<u>\$ 1,679,642</u>	<u>\$ 12,769,448</u>

See notes to financial statements

# Lehigh Carbon Community College

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Notes to Financial Statements  
June 30, 2014 and 2013

## 1. Nature of Operations and Reporting Entity

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

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units, an amendment to GASB 14* the College has determined that the Lehigh Carbon Community College Foundation (the "Foundation") should be included in the College's financial statements as a discretely presented component unit. A component unit is a legally separate organization for which the primary institution is 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, 2014 and 2013.

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

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board ("FASB") accounting standards codification. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

## 2. Summary of Significant Accounting Policies

### Measurement Focus, Basis of Accounting and Basis of Presentation

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

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

# Lehigh Carbon Community College

Notes to Financial Statements  
June 30, 2014 and 2013

## Use of Estimates

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

## Cash and Cash Equivalents

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

## Accounts Receivable

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

Accounts receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the College's historical losses and periodic review of individual accounts. The allowance for doubtful accounts was approximately \$40,000 and \$20,000 as of June 30, 2014 and 2013, respectively.

## Capital Assets

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

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

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

At each statement of financial position date, management evaluates whether any property and equipment have been impaired. The College made no adjustments to carrying values of property and equipment during the years ended June 30, 2014 and 2013.

# Lehigh Carbon Community College

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Notes to Financial Statements  
June 30, 2014 and 2013

## **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.

## **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.

## **Net Position**

The College maintains the following net position classifications:

### **Net Investment in Capital Assets**

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

### **Unrestricted**

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

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

### **Permanently Restricted**

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

# Lehigh Carbon Community College

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Notes to Financial Statements  
June 30, 2014 and 2013

## **Classification of Revenues**

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

## **Tuition Revenue**

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

## **Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on students' behalf. Certain governmental grants are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

## **Income Taxes**

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

## **Risk Management**

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

## **Unemployment Compensation Fund**

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

# Lehigh Carbon Community College

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Notes to Financial Statements  
June 30, 2014 and 2013

## Advertising

Advertising expenses are recorded as incurred and were approximately \$465,000 and \$426,000 in 2014 and 2013, respectively.

## Subsequent Events

The College has evaluated subsequent events through December 11, 2014, which is the date the financial statements were issued.

## New Accounting Standards

The College adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014. GASB No. 65 provides financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources, and changes the use of the term “deferred” in financial statement presentations. In addition, this statement also amends the financial statement element classification of certain items previously reported as assets and liabilities to more consistently align with asset, liability, deferred inflow of resources and deferred outflow of resource definitions. The College implemented the accounting and reporting requirement of GASB 65 as of July 1, 2012. The effect of this adoption decreased the College's net position at July 1, 2012 by \$352,548 and increased the College's 2013 operating expenses and increase in net position by \$98,669. Management believes the effects of the adoption of this standard are not material to the financial statements.

## New Accounting Pronouncements

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The College is required to adopt Statement No. 71 for its fiscal year 2015 financial statements.

College management is in the process of analyzing these pending changes in accounting principles and the impact they will have on the financial reporting process.

### 3. Cash, Certificates of Deposit and Bond Proceeds Available for Campus Construction

#### Cash and Cash Equivalents

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

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

The carrying amount of the College's deposits was \$23,696,339 and \$27,028,652 as of June 30, 2014 and 2013, respectively, including restricted cash of \$605,792 and \$5,495,059 as of June 30, 2014 and 2013, respectively. The bank balance totaled \$23,589,519 and \$28,467,529 as of June 30, 2014 and 2013, respectively. The difference represents outstanding checks payable and normal reconciling items.

# Lehigh Carbon Community College

## Notes to Financial Statements

June 30, 2014 and 2013

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a policy for custodial credit risk. Commonwealth of Pennsylvania Act 72 of 1972, as amended, allows banking institutions to satisfy the collateralization requirement by pooling eligible investments to cover public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments of collateral securities that are in the possession of an outside party.

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

	<u>2014</u>	<u>2013</u>
Insured	\$ 795,153	\$ 1,197,007
Collateralized, collateral held by pledging banks trust department not in the College's name	<u>22,794,366</u>	<u>27,270,522</u>
	<u>\$ 23,589,519</u>	<u>\$ 28,467,529</u>

Bond proceeds available for campus construction represent restricted funds held by First Niagara Bank, N.A., State Public School Building Authority and The Bank of New York, (the "trustees"), under the terms of various bond indentures. Bond proceeds available for campus construction are carried in the financial statements at fair value and consist of short-term investments guaranteed by the U.S. Government. As of June 30, 2014 and 2013, bond proceeds available for campus construction were \$605,792 and \$3,648,589, respectively.

#### 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Accounts receivable, student	\$ 5,817,618	\$ 5,377,101
Accounts receivable, other	583,198	2,609,451
Less allowance for doubtful accounts	<u>(42,383)</u>	<u>(20,032)</u>
	6,358,433	7,966,520
Accounts receivable, grants	<u>310,244</u>	<u>558,684</u>
	<u>\$ 6,668,677</u>	<u>\$ 8,525,204</u>

# Lehigh Carbon Community College

Notes to Financial Statements

June 30, 2014 and 2013

## 5. Capital Assets, Net

	<u>July 1, 2013 Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>June 30, 2014 Balance</u>
Non depreciable assets:				
Land	\$ 2,445,717	\$ -	\$ -	\$ 2,445,717
Construction in progress	379,946	3,745,806	(2,566,606)	1,559,146
Total non-depreciable assets	<u>2,825,663</u>	<u>3,745,806</u>	<u>(2,566,606)</u>	<u>4,004,863</u>
Depreciable assets:				
Land improvements	7,081,667	93,839	-	7,175,506
Buildings and building improvements	58,525,327	2,145,335	-	60,670,662
Furniture and equipment	18,232,294	846,700	(30,000)	19,048,994
Library books	1,357,028	36,225	-	1,393,253
	<u>85,196,316</u>	<u>3,122,099</u>	<u>(30,000)</u>	<u>88,288,415</u>
Less accumulated depreciation	<u>(35,673,500)</u>	<u>(3,048,564)</u>	<u>13,500</u>	<u>(38,708,564)</u>
Total capital assets, net	<u>\$ 52,348,479</u>	<u>\$ 3,819,341</u>	<u>\$ (2,583,106)</u>	<u>\$ 53,584,714</u>

# Lehigh Carbon Community College

Notes to Financial Statements  
June 30, 2014 and 2013

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

As of June 30, 2014, the College has committed to approximately \$2,121,000 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, 2014 and 2013 was as follows:

	July 1, 2013 Balance	Additions	Payments/ Settlements	June 30, 2014 Balance	Current Portion
Accrued settlements	\$ 194,151	\$ -	\$ (177,769)	\$ 16,382	\$ 16,382
Accrued partial retirement benefits	28,485	259,473	-	287,958	120,701
Notes payable	26,500,379	-	(4,354,541)	22,145,838	1,920,000
Lease obligations	1,226,485	126,343	(515,441)	837,387	474,691
Total	<u>\$ 27,949,500</u>	<u>\$ 385,816</u>	<u>\$ (5,047,751)</u>	<u>\$ 23,287,565</u>	<u>\$ 2,531,774</u>

# Lehigh Carbon Community College

Notes to Financial Statements  
June 30, 2014 and 2013

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

## 7. Notes Payable

Notes payable as of June 30, 2014 and 2013 consists of the following:

	2014	2013
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%.	\$ 4,935,000	\$ 5,290,000
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%.	6,555,000	7,070,000
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%.	10,515,000	12,180,000
General Obligation Note, Series of 2002.	-	1,685,000
General Obligation Note, Series of 2008.	-	129,703
	22,005,000	26,354,703
Unamortized discount on notes payable	-	(50,223)
Unamortized premium on notes payable	188,529	246,398
Deferred cost of refunding	(47,691)	(50,499)
	<b>\$ 22,145,838</b>	<b>\$ 26,500,379</b>

# Lehigh Carbon Community College

Notes to Financial Statements  
June 30, 2014 and 2013

During the year ended June 30, 2013, the College borrowed funds under the General Obligation Note, Series of 2013. As part of this borrowing, the College allocated \$1,750,000 of the proceeds to advance refund the 2002 Series bonds. The proceeds allocated for this purpose were placed in a restricted cash account and are included in the Statement of Net Position in cash and cash equivalents at June 30, 2013. See Note 3 for disclosures of restricted cash amounts. These funds were utilized during the year ended June 30, 2014 to advance refund the remaining outstanding balance of the 2002 Series bonds as planned.

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

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ended June 30:			
2015	\$ 1,920,000	\$ 830,669	\$ 2,750,669
2016	1,970,000	774,425	2,744,425
2017	2,035,000	712,263	2,747,263
2018	1,790,000	649,689	2,439,689
2019-2023	5,615,000	2,559,054	8,174,054
2024-2028	6,055,000	1,195,912	7,250,912
2029-2033	2,390,000	235,353	2,625,353
2034	230,000	4,312	234,312
Total	<u>\$ 22,005,000</u>	<u>\$ 6,961,677</u>	<u>\$ 28,966,677</u>

## 8. Capital Lease Obligations

The College has entered into lease agreements for equipment under a noncancelable leases that are classified as capital leases. The principal balance due under capital leases amounted to \$837,387 and \$1,226,485 as of June 30, 2014 and 2013, respectively. Future minimum lease payments under capital leases are as follows:

Years ending June 30:	
2015	\$ 498,215
2016	290,621
2017	56,488
2018	<u>25,409</u>
	870,733
Less amounts representing interest	<u>(33,346)</u>
Present value of net minimum lease payments	837,387
Portion reflected as current liability	<u>(474,691)</u>
	<u>\$ 362,696</u>

# Lehigh Carbon Community College

Notes to Financial Statements  
June 30, 2014 and 2013

The cost of equipment under capital leases is \$5,554,647 and \$5,428,304 as of June 30, 2014 and 2013, respectively. Accumulated depreciation for equipment under capital leases is \$4,791,710 and \$4,327,050 as of June 30, 2014 and 2013, 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:	
2015	\$ 1,547,880
2016	1,484,815
2017	1,338,537
2018	1,427,082
2019	1,020,727
Thereafter	<u>2,333,258</u>
	<u>\$ 9,152,299</u>

Rent expense for the years ended June 30, 2014 and 2013 was approximately \$1,633,000 and \$1,567,000, respectively.

## 10. Related Party Transactions

The Lehigh Carbon Community College Foundation (the "Foundation") provided institutional support to the College of approximately \$570,000 and \$675,000 for the years ended June 30, 2014 and 2013, respectively. During the year ended June 30, 2013, the College contributed approximately \$500,000 to the Foundation. There were no contributions to the Foundation by the College in the year ended June 30, 2014.

The Foundation leases building space to the College under formal lease agreements. Rental expense for the College was approximately \$583,000 and \$508,000 for the years ended June 30, 2014 and 2013, respectively. The following is a schedule of future minimum lease rental payments as of June 30, 2014:

Years ending June 30:	
2015	\$ 522,775
2016	535,594
2017	548,733
2018	562,202
2019	576,008
Thereafter	<u>2,306,372</u>
	<u>\$ 5,051,684</u>

## 11. Retirement Plans

### Public School Employees' Retirement System ("PSERS")

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

The report is also available on the PSERS website at [www.psers.state.pa.us/publications/cafr/index.htm](http://www.psers.state.pa.us/publications/cafr/index.htm).

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

Contributions required by employers are based upon an actuarial valuation. The current rate at June 30, 2014 is 16.93% of annual covered payroll. The 16.93% rate is composed of a pension contribution rate of 16.00% for pension benefits and 0.93% for healthcare insurance premium assistance. The rate was 12.36% at June 30, 2013 and 8.65% at June 30, 2012. The College's contribution to PSERS for the years ended June 30, 2014, 2013, and 2012 was, \$107,895, \$84,884 and \$49,844, respectively, which equals the required contractual contribution.

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

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

# Lehigh Carbon Community College

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The contribution policy for SERS, as established by SERS's Board, requires contributions by active members and employers (the "College"). Active members contribute at a rate of 6.25 percent of their qualifying compensation. The contribution rate for the College is an actuarially determined rate. The rate for the years ended June 30, 2014, 2013 and 2012 is 15.12%, 11.31% and 8.01%, respectively of annual covered payroll. The College's contribution for the years ended June 30, 2014, 2013, and 2012 were \$106,574, \$75,093, and \$33,393, respectively.

## **Teachers Insurance and Annuity Association-College Retirement and Equity Fund ("TIAA-CREF")**

The Teachers Insurance and Annuity Association-College Retirement and Equity Fund ("TIAA-CREF") is a cost-sharing multiple-employer defined contribution plan in which employees are eligible to participate. In a defined contribution plan, benefits depend on amounts contributed to the plan plus investment earnings. Employees who elect to participate in this Plan are not required to make contributions to the Plan, although they may elect to contribute a percentage of total annual compensation. The College's contribution rate on June 30, 2014, 2013 and 2012 was between 3% and 9% of qualifying compensation. The College's contributions to TIAA-CREF for the years ended June 30, 2014, 2013, and 2012 were \$1,113,861, \$1,160,890, and \$1,048,598, respectively.

## **12. Accrued Settlements**

The Commonwealth of Pennsylvania has conducted audits of cost reimbursements and other matters for the year 1998 through 2005. Based upon these audits, the College has recorded a liability of \$16,382, a result of the findings and resulting claims against the College for these years. The liability for each applicable audit year is payable to the Pennsylvania Department of Education over a period of 20 consecutive quarters. The College expects to make the final payment on this liability during the year ending June 30, 2015.

## **13. Contingencies**

The College participates in both state and federally assisted grant programs and receives appropriations from the Commonwealth of Pennsylvania. These programs and appropriations are subject to program compliance audits by the grantors or their representatives. The College is potentially liable for any expenditure which may be disallowed pursuant to the terms of the grant and appropriation programs. Management is not aware of any material items of noncompliance which would result in the disallowance of expenditures, other than the audit settlements discussed in Note 12.

## **14. Concentrations**

Approximately 35% and 34% of the College's total revenue for the years ended June 30, 2014 and 2013, respectively, was provided by appropriations and contracts with the Commonwealth of Pennsylvania. A significant reduction in the amounts provided by the Commonwealth of Pennsylvania could have an adverse impact on the College's operations.

# Lehigh Carbon Community College

Notes to Financial Statements  
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## 15. Designation 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, 2014 and 2013, the College designated unrestricted net position as follows:

	<u>2014</u>	<u>2013</u>
Unrestricted, board designated:		
Designated for capital projects	\$ 12,121,870	\$ 12,188,917
Designated for operating projects and auxiliary student operations	5,729,928	5,665,186
Reserve for future operations	<u>1,800,000</u>	<u>1,800,000</u>
Total unrestricted, board designated	<u>\$ 19,651,798</u>	<u>\$ 19,654,103</u>
Unrestricted, undesignated net position	<u>\$ 61,139</u>	<u>\$ 69,049</u>

## 16. Commitments

The College employs approximately 952 employees. Approximately 28% of the College's employees are covered by collective bargaining agreements. The current contract with the Faculty Association expires August 13, 2015. The current contract with the Education Support Professionals expires June 30, 2015.

## 17. Component Unit Disclosures, Lehigh Carbon Community College Foundation

### Promises to Give

Unconditional promises to give as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Library renovations	\$ 250,000	\$ 375,000
Title III Grant Match	160,000	-
Scholarships	5,000	-
Field of Dreams	<u>1,800</u>	<u>3,262</u>
	<u>\$ 416,800</u>	<u>\$ 378,262</u>
Receivable in less than one year	\$ 150,800	\$ 127,044
Receivable in one to five years	<u>266,000</u>	<u>251,218</u>
	416,800	378,262
Less discounts to net present value at 2.20% - 5.80%	<u>(10,749)</u>	<u>(18,376)</u>
	<u>\$ 406,051</u>	<u>\$ 359,886</u>

# Lehigh Carbon Community College

Notes to Financial Statements  
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Conditional promises to give for both the years ended June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
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 2019.

## Investments

Investments as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Money market accounts	\$ 87,017	\$ 940,514
Equity mutual funds:		
Large cap equity funds	2,345,922	1,622,725
Small and mid cap equity funds	695,687	413,458
International funds	1,226,485	847,922
Commodities	175,075	171,873
Real estate	205,508	180,056
Blended funds	177,306	-
Fixed income mutual funds	2,233,306	1,967,985
	<u>\$ 7,146,306</u>	<u>\$ 6,144,533</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investment income	\$ 108,941	\$ 43,969
Realized gains	118,128	132,628
Unrealized gains	697,745	377,447
	<u>\$ 924,814</u>	<u>\$ 554,044</u>

# Lehigh Carbon Community College

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## Land and Buildings

Land and buildings is comprised of the following as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 572,725	\$ 572,725
Buildings	<u>6,106,892</u>	<u>6,106,892</u>
	6,679,617	6,679,617
Accumulated depreciation	<u>(1,017,050)</u>	<u>(925,446)</u>
	<u>\$ 5,662,567</u>	<u>\$ 5,754,171</u>

## Restrictions and Limitations on Net Assets

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

	<u>2014</u>	<u>2013</u>
Endowment	\$ 1,041,533	\$ 1,004,918
Scholarships	323,574	271,801
Building construction, improvement and maintenance	<u>2,162,307</u>	<u>1,952,494</u>
	<u>\$ 3,527,414</u>	<u>\$ 3,229,213</u>

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

	<u>2014</u>	<u>2013</u>
Building construction, improvement and real property acquisition	\$ 253,240	\$ 254,084
Scholarships	900,152	396,577
Title III grant and match	339,004	-
Other	<u>232,668</u>	<u>220,947</u>
	<u>\$ 1,725,064</u>	<u>\$ 871,608</u>

Permanent restricted net assets of \$1,896,649 and \$1,679,642 at June 30, 2014 and 2013, respectively, are comprised primarily of scholarships.

# Lehigh Carbon Community College

Notes to Financial Statements  
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## Endowment

The Foundation's endowments consist of two individual funds established for a variety of purposes. Its endowments include both a donor-restricted endowment fund and fund designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Investment income on permanently restricted funds is earned and expended within the same year unless specifically restricted to be reinvested by the donor.

## Interpretation of Relevant Law

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

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

The following schedule represents the endowment net asset composition by type of endowment fund as of June 30, 2014 and 2013:

	June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	\$ 1,041,533	\$ -	\$ -	\$ 1,041,533
Donor-restricted endowment funds	-	179,004	1,896,649	2,075,653
	<u>\$ 1,041,533</u>	<u>\$ 179,004</u>	<u>\$ 1,896,649</u>	<u>\$ 3,117,186</u>

# Lehigh Carbon Community College

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

The following schedule represents the changes in endowment net assets for the years ended June 30, 2014 and 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, June 30, 2012	\$ 504,696	\$ -	\$ 1,596,376
Investment return:			
Investment income	-	-	3,345
Net realized and unrealized	-	-	79,921
Total investment return	-	-	83,266
Contributions	500,222	-	-
Endowment net assets, June 30, 2013	1,004,918	-	1,679,642
Investment return:			
Investment income	8,196	3,003	29,337
Net realized and unrealized	68,544	16,001	187,670
Total investment return	76,740	19,004	217,007
Contributions	2,750	160,000	-
Distributions	(42,875)	-	-
Endowment net assets, June 30, 2014	<u>\$ 1,041,533</u>	<u>\$ 179,004</u>	<u>\$ 1,896,649</u>

## Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at June 30, 2014 or 2013.

## **Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the broad market indexes while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 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 dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

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