LOWER COLUMBIA COLLEGE

2015 FINANCIAL REPORT

Lower Columbia College
2015
Financial Report

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You may view the financial report at http://lowercolumbia.edu/disclosure/financial-report.php.

Visit the home page at link www.lowercolumbia.edu.

Trustees and Administrative Officers

Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Lower Columbia College

For the period July 1, 2014 through June 30, 2015

Published February 23, 2017

Report No. 1018662

Office of the Washington State Auditor
Pat McCarthy

February 23, 2017

Board of Directors
Lower Columbia College
Longview, Washington

Report on Financial Statements

Please find attached our report on the Lower Columbia College's financial statements.

We are issuing this report in order to provide information on the College's financial condition.

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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Lower Columbia College
July 1, 2014 through June 30, 2015

2015-001 The College should improve internal controls over its financial statement preparation.

Background

It is the responsibility of the College to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. In our previous audit, our Office reported a finding on internal control over financial reporting. The current audit again identified deficiencies in internal controls that could adversely affect the College's ability to produce reliable financial statements.

Description of Condition

We identified the following deficiencies in internal control that, when taken together, represent a significant deficiency:

- Staff preparing financial statements lacked adequate resources to ensure transactions were appropriately reported under generally accepted accounting principles.
- The review performed on the financial statements and notes was not adequate to ensure they were complete and accurate.

Cause of Condition

The College experienced turnover in the position primarily responsible for preparing financial statements. The new individual lacked experience preparing financial statements for colleges. The College did not provide additional resources to compensate for the transition.

Effect of Condition

The College's financial statements contained significant errors that were not detected by management. We identified the following errors in the original financial statements we received for audit:

- Receivables were overstated and expenses were understated by $983,560 due to challenges recording building and innovation fee remittances.

- The Management Discussion and Analysis (MD&A) did not contain the required two years of comparative information.
- The College did not fully implement the new pension accounting standard that was effective for the audit period. The note disclosures and supplementary information required by the standard were not prepared.
- Net Investment in Capital Assets, a component of Net Position, was understated by $1,080,848 due to errors classifying unspent debt proceeds.
- Negative expenses of $751,263 associated with capitalized fixed assets were presented on the face of the operating statement. These expenses should have reduced maintenance and repair expenses.
- The College disclosed but did not record the loss and related liability for a legal settlement of $338,263 on their statements.
- Cash was overstated by $42,905 because the College was unable to fully reconcile its cash balance to bank statements.

These errors were corrected in the College's final financial statements.

Recommendation

We recommend the College dedicate the necessary time and resources to ensure procedures such as training and oversight are in place to ensure financial statements are accurate, complete and comply with generally accepted accounting principles.

College's Response

Thank you for working with Lower Columbia College (LCC) on our FY2015 Financial Statement Audit. FY2015 is the second year that LCC has prepared Financial Statements and has already implemented some vital changes in ensure internal controls. LCC would like it noted that all of the misclassifications that were found during the audit of the FY2014 Financial Statements were not repeated in the FY2015 Financial Statements. Additionally, all errors found by the State Auditor's office were corrected before the final FY2015 Statements were published.

Auditor's Remarks

We appreciate the College's commitment to resolve this finding and thank the College for its cooperation, assistance and the corrective action taken during the audit. We will review corrective action in our next regularly scheduled audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23, states:

> 4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its *Codification of Statements on Auditing Standards*, Section 265, as follows:

> **.07** For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:
>
> Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.
>
> Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

RCW 43.88.160 Fiscal management—Powers and duties of officers and agencies, states in part:

> (4) In addition, the director of financial management, as agent of the governor, shall:
>
>> (a) Develop and maintain a system of internal controls and internal audits comprising methods and procedures to be adopted by each agency that will safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies for accounting and financial

> controls. The system developed by the director shall include criteria for determining the scope and comprehensiveness of internal controls required by classes of agencies, depending on the level of resources at risk.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

> Section 20.15.30.a *Who is responsible for internal control?*
>
> The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.
>
> Section 20.15.40.c *Control Activities*
>
> Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved. Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.
>
> Section 20.15.40.e *Monitoring*
>
> Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.
>
> Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses before they materially affect the achievement of the agency's objectives. An

agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Lower Columbia College
July 1, 2014 through June 30, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of the Lower Columbia College. The State Auditor's Office has reviewed the status as presented by the College.

<table>
<tr><td>Audit Period:
July 1, 2013 - June 30, 2014</td><td>Report Ref. No.:
1016062</td><td>Finding Ref. No.:
2014-001</td></tr>
<tr><td colspan="3">Finding Caption: The College should improve internal controls over financial reporting.</td></tr>
<tr><td colspan="3">Background:
We noted those preparing the statements lacked adequate resources to ensure transactions were appropriately reported under generally accepted accounting principles. We also found the review performed on the financial statements and notes was not adequate to ensure they were complete and accurate.

As a result of these deficiencies we noted multiple errors on the financial statements. These included $6.5M in loans presented on the operating statement, $6.9M in misclassified revenue on the operating statement, and $20M of financing cash flows misclassified on the statement of cash flows.</td></tr>
<tr><td colspan="3">Status of Corrective Action: (check one)
☐ Fully Corrected ☒ Partially Corrected ☐ Not Corrected ☐ Finding is considered no longer valid</td></tr>
<tr><td colspan="3">Corrective Action Taken:
Lower Columbia College (LCC) has implemented many of the recommendations from the above finding. LCC will continue to work on developing additional resources to ensure transactions are appropriately reported under generally accepted accounting principles. LCC would like it noted that all of the misclassifications that were found during the audit of the FY 2014 Financial Statements were not repeated in the FY 2015 Financial Statements.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Lower Columbia College
July 1, 2014 through June 30, 2015

Board of Trustees
Lower Columbia College
Longview, Washington

We have audited, 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, the financial statements of the business-type activities and the aggregate discretely presented component units of the Lower Columbia College, Cowlitz County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 14, 2017. As discussed in Note 1 to the financial statements, during the year ended June 30, 2015, the College implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

Our report includes a reference to other auditors who audited the financial statements of the Lower Columbia College Foundation, as described in our report on the College's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. The financial statements of the Lower Columbia College Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Lower Columbia College Foundation. The Lower Columbia College Foundation prior year comparative information has been derived from the Foundation's 2014 basic financial statements, on which other auditors issued their report dated December 16, 2014.

The financial statements of Lower Columbia College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 that we consider to be significant deficiencies.

We also noted certain matters that we have reported to the management of the College in a separate letter dated February 14, 2017.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of the College's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

COLLEGE'S RESPONSE TO FINDINGS

The College's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

Pat McCarthy

State Auditor

Olympia, WA

February 14, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lower Columbia College
July 1, 2014 through June 30, 2015

Board of Trustees
Lower Columbia College
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the Lower Columbia College, Cowlitz County, Washington, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lower Columbia College Foundation, which represents 100 percent of the assets, net position and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lower Columbia College Foundation, is based solely on the report of the other auditors.

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

Columbia College Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Lower Columbia College, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements of the Lower Columbia College, an agency of the state of Washington, are intended to present the financial position, and the changes in financial position, and where applicable, cash flows of only the respective portion of the activities of the state of Washington that is attributable to the transactions of the College and its aggregate discretely presented component units. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2015, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information for the Lower Columbia College Foundation. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which such summarized information was derived. Other auditors have previously audited the Lower Columbia College Foundation's 2014 financial statements and they expressed an unmodified opinion in their report dated December 16, 2014.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Lower Columbia College's Share of Net Pension Liability and Schedule of Contributions 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 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 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.

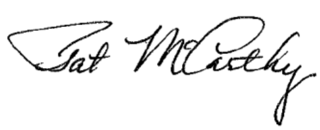
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements as a whole. The information identified in the table of contents as the Trustees and Administrative Officers are presented for purposes of additional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

Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 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 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.



Pat McCarthy

State Auditor

Olympia, WA

February 14, 2017

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as fraud, state whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

Management's Discussion and Analysis

Lower Columbia College

The following discussion and analysis provides an overview of the financial position and activities of Lower Columbia College (the College) for the fiscal year ended June 30, 2015 (FY 2015). The 2015 report constitutes the college's second annual audited financial statements.

This overview provides readers with an objective and easily readable analysis of the College's financial performance for the year, based on currently known facts and conditions. This discussion has been prepared by management and should be read in conjunction with the College's financial statements and accompanying note disclosures.

Reporting Entity
Lower Columbia College is one of thirty public community and technical college districts in the state of Washington, providing comprehensive, open-door academic programs, workforce education, basic skills and community service educational programs to approximately 6,850 students. The College confers associates degrees, certificates and high school diplomas. The College was established in 1934 and its primary purpose is to ensure each learner's personal and professional success, and influence lives in ways that are local, global, traditional, and innovative. The college's vision is to be a powerful force for improving the quality of life in our community. Our campus community promotes and fosters an environment of integrity, respect, collaboration, cooperation, inclusion, and innovation that fosters personal growth, academic excellence, and accountability.

The College campus is located in Longview, Washington; however, as the lone institution of higher education in the immediate area, it services a regional population of approximately 106,000 residents. The College is governed by a five member Board of Trustees appointed by the governor of the state with the consent of the state Senate. By statute, the Board of Trustees has full control of the College, except as otherwise provided by law.

Using the Financial Statements
The financial statements presented in this report encompass the College and it's discretely presented component unit. The College's financial statements include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. The Statement of Net Position provides information about the College as of June 30, 2015. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over the entire fiscal year. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net position are reported under the accrual basis of accounting where all of the current year's revenues and expenses are taken into account regardless of when cash is received or payments are made. Full accrual statements are intended to provide a view of the College's financial position similar to that presented by most private-sector companies. These financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for external financial reporting for public colleges and universities. The full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

The college has made a prior period adjustment in the amount of $868,524, which will increase the beginning net position balance. The college's understatement of its FY 2014 net position is largely due to the college inadvertently missing an adjustment for the Vendor Payment Advance (VPA) reimbursement / payable in the net amount of $882,053. The prior period adjustment resulted in an increase and restatement of net position to a balance of $67,527,176 for the year ending June 30, 2014.

During 2015, the College adopted GASB Statement No. 68, as amended by GASB Statement No. 71. These statements require the College to record its proportionate share of net pension liabilities, deferred outflows and inflows by restating its 2014 net position, pension liabilities and deferral of resources as a change in accounting principle. For the purposes of this analysis, the restatement of the 2014 net position was made to conform to 2015 presentation. The change in accounting principle resulted in a reduction to unrestricted net position in the amount of $5,758,598. This decrease resulted in an additional restatement of net position to a final balance of $61,768,598 for the year ending June 30, 2014.

Statement of Net Position

The Statement of Net Position provides information about the College's financial position, and presents the College's assets, liabilities, and net position at year-end and includes all assets and liabilities of the College. A condensed Statement of Net Position is as follows:

Condensed Statement of Net Position As of June 30th	**FY 2015**	**FY 2014**
Assets		
Current Assets	9,462,933	15,373,572
Capital Assets, net	86,106,580	76,747,190
Other Assets, non-current	7,455,127	9,395,371
Total Assets	**$ 103,024,639**	**$ 101,516,134**
Defered Outflows	**$ 733,520**	**$ 590,089**
Liabilities		
Current Liabilities	4,611,197	3,632,594
Other Liabilities, non-current	34,001,265	36,705,031
Total Liabilities	**$ 38,612,462**	**$ 40,337,625**
Deferred Inflows	**$ 1,959,375**	**$ -**
Net Position, as restated	**$ 63,186,322**	**$ 61,768,598**

Current assets consist primarily of cash and cash equivalents, various accounts receivables and inventories. The significant portion of the decrease of current assets in FY 2015 can be attributed to a decrease in the receivable related to the Certificate of Participation (COP) for construction of the Health and Science Building, an energy efficiency project also partially funded by a grant from the Washington State Department of Commerce. As the project continues and funds are drawn from the COP, this decrease in receivables is offset by an increase in net capital assets, in the form of Construction in Progress, which will be turned into a capitalized building once the project is complete.

Net Capital Assets increased by $9,359,390 from FY 2014 to FY 2015. After taking into consideration current depreciation expense of $1,521,111, the majority of the increase is the result of the construction of the Health and Science Building which is expected to be completed in 2016.

Non-Current Assets presents long term investments. In FY 2015 the college sold investments in the amount of $2,030,000. This, along with a few other small transactions within premiums and discounts of investments, accounts for the decrease in non-current assets from FY 2014 to FY 2015.

Deferred outflows of resources totaling $733,520 are related to the net pension liability that was recorded on the College's financials this year.

Current liabilities include payables owed to suppliers for goods and services, accrued payroll and related liabilities, the current portion of Certificate of Participation (COP) debt, deposits held for others, and unearned revenue. Current liabilities can fluctuate from year to year depending on the timeliness of vendor invoices and resulting vendor payments, especially in the area of capital assets and improvements.

The increase in current liabilities from FY 2014 to FY 2015 is the result of the increase in accounts payable to include an accrual for the College's portion of the HCA vs. Moore litigation in the amount of $338,263. The total increase in current liabilities can also be attributed to an increase in unearned revenue for summer quarter received prior to the start of the quarter.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees, the long-term portion of Certificates of Participation debt, and the College's share of the net pension liability.

The College's non-current liabilities increased due to the implementation of GASB Statement No. 68, reflecting the College's proportionate share of the net pension liability. This increase was offset by a decrease in the long term portion of the certificate of participate as the College pays down the principal owed on Certificates of Participation for the Health and Science Building.

Net position represents the residual value of the College's assets after liabilities are deducted. The College is required by accounting standards to report its net position in four categories:

Net Investment in Capital Assets – The College's total investment in property, plant, equipment, and infrastructure net of accumulated depreciation and outstanding debt obligations related to those capital assets. Changes in these balances are discussed above.

Restricted:

Expendable – resources the College is legally or contractually obligated to spend in accordance with restrictions placed by donor and/or external parties who have placed time or purpose restrictions on the use of the asset. The primary expendable funds for the College are student loans and the expendable portion of endowments.

Unexpendable – consists of funds in which a donor or external party has imposed the restriction that the corpus or principal is not available for expenditures but for investment purposes only. Historically, donors interested in establishing such funds to benefit the College or its students have chosen to do so through the Foundation; however, this corpus balance was established directly with the college at the direction of the donors.

Unrestricted – Includes all other assets not subject to externally imposed restrictions, but which may be designated or obligated for specific purposes by the Board of Trustees or management. Prudent balances are maintained for use as working capital, as a reserve against emergencies and for other purposes, in accordance with policies established by the Board of Trustees.

As stated earlier in this section, the College's net position was adjusted by ($5,758,598) to reflect the implementation of GASB Statement No. 68 to report the net pension liability and the offsetting adjustment to net position.

Condensed Net Position As of June 30th	**FY 2015**	**FY 2014**
Net Investment in Capital Assets	60,203,114	55,161,582
Restricted		
Expendable	644,404	545,717
Unexpendable	215,498	226,852
Unrestricted	2,123,307	5,834,447
Total Net Position, as restated	**$ 63,186,322**	**$ 61,768,598**

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position accounts for the College's changes in total net position during FY 2015. The objective of the statement is to present the revenues received, both operating and non-operating, and the expenses paid by the College, along with any other revenue, expenses, gains and losses of the College.

Generally, operating revenues are earned by the College in exchange for providing goods and services. Tuition and grants and contracts are included in this category. In contrast, non-operating revenues include monies the college receives from another government without directly giving equal value to that government in return. Accounting standards require that the College categorize state operating appropriations and Pell Grants as non-operating revenues.

Operating expenses are expenses incurred in the normal operation of the College, including depreciation on property and equipment assets. When operating revenues, excluding state appropriations and Pell Grants, are measured against operating expenses, the College shows an operating loss. The operating loss is reflective of the external funding necessary to keep tuition lower than the cost of the services provided.

A condensed statement of revenues, expense and changes in net position for the year ended June 30, 2015 and 2014 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	**FY 2015**	**FY 2014**
Operating Revenues	$ 24,116,109	$ 22,369,913
Operating Expenses	(43,414,297)	(41,516,012)
Net Operating Loss	**(19,298,188)**	**(19,146,099)**
Non-Operating Revenues and Expenses	16,225,980	16,439,078
Loss Before Other	**(3,072,208)**	**(2,707,021)**
Capital Appropriations and Contributions	4,489,932	4,738,834
Increase (Decrease) in Net Position	**1,417,724**	**2,031,813**
Net Position, Beginning of the Year restated	61,768,598	64,626,859
Prior Period Adjustment		868,524
Cummulative effect of change in accounting principle		(5,758,598)
Net Position, End of the Year	**$ 63,186,322**	**$61,768,598**

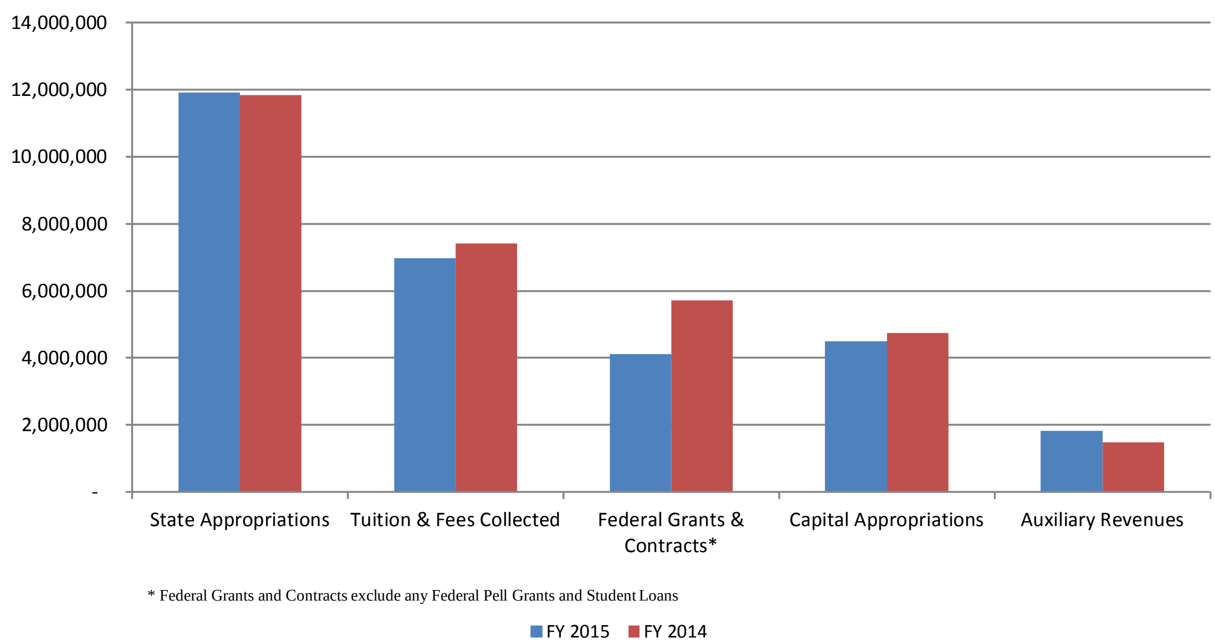
Revenues:

Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased each fiscal year through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then allocates monies to each college. System-level appropriations hit their height in FY 2009 and as of FY 2013 had been reduced by almost 24%. In FY 2015, the Legislature reinstated a small portion of the previous cuts.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. However, in FY 2015 the state legislature froze tuition rates. The College continued to serve students under the terms of various contracted programs. The College contracts with local high schools to enroll Running Start students who earn both high school and college credit for these courses. For FY 2015, the College held student fees as stable as possible, resulting in only small changes in these revenues. In addition, the College serves some students and offers other programs on a fee-only basis, as allowed by law.

The College receives capital spending authority on a biennial basis and may carry unexpended amounts forward into one or two future biennia, depending on the original purpose of the funding. In accordance with accounting standards, the amount shown as capital appropriation revenue on the financial statement is the amount expended in the current year. Expenditures from capital project funds that do not meet accounting standards for capitalization are reported as operating expenses. Those expenditures that meet the capitalization standard are not shown as expense in the current period and are instead recognized as depreciation expense over the expected useful lifetime of the asset.

Selected Elements of Revenue



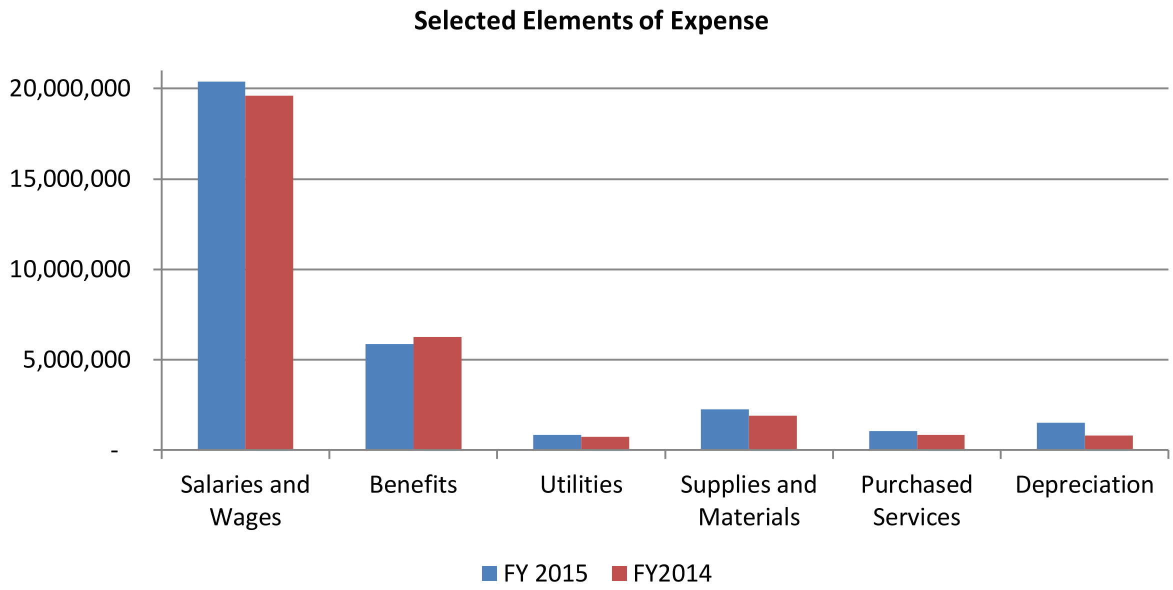
<u>Expenses:</u>

As previously mentioned, State appropriation budget cuts of approximately $2.9MM between FY 2011 and FY 2013 required the College to maximize its efforts to identify savings and efficiencies across all functional areas of campus. Over time, the College decreased spending and curtailed some services as it was subject to various state spending freezes and employee salary reductions.

Salaries and benefits account for the most significant portion (68%) of total operating expenses. In FY 2015, salary and benefit costs increased slightly as the result of an accumulation of several factors, most notably backfilling long-standing vacancies across campus, deferred salary increases for exempt staff, the reinstatement of classified staff reductions mandated by contract in FY 2013, and support staff required by the preparations for the planned ctcLink ERP project implementation.

Comparison of Selected Operating Expenses by Function

The chart below shows the amount, in dollars, for selected functional areas of operating expenses.



Capital Assets and Long-Term Debt Activities

The community and technical college system submits a single prioritized request to the Office of Financial Management and the Legislature for appropriated capital funds, which includes major projects, minor projects, repairs, emergency funds, alternative financing and major leases. The primary funding source for college capital projects is state general obligation bonds. In recent years, declining state revenues significantly reduced the state's debt capacity and are expected to continue to impact the number of new projects that can be financed. In addition, the College has one of four community college projects that were funded through a Certificate of Participation (COP) against which system–wide building fee monies were pledged.

At June 30, 2015, the College had invested $ 86,106,580 in capital assets, net of accumulated depreciation. Note the significant Construction-in-progress activity at year end, which primarily reflects the nearly completed Health & Science building.

Asset Type	June 30, 2015	June 30, 2014	Change
Land	$ 5,846,698	$ 5,842,316	$ 4,382
Construction in Progress	44,655,110	34,356,757	10,298,353
Buildings, net	33,488,537	34,484,281	(995,744)
Other Improvements and Infrastructure, net	606,652	667,592	(60,940)
Equipment, net	1,458,920	1,351,566	107,354
Library Resources, net	50,663	44,678	5,985
Total Capital Assets, Net	**$ 86,106,580**	**$ 76,747,190**	**$ 9,359,390**

In addition, the College Fitness Center project was underway on June 30, 2015 and is also reflected in the increase in Construction-in-progress balance. In FY 2015, the College applied the retroactive infrastructure reporting requirements of Government Accounting Standards Board Statement Number 34 for the first time.

At June 30, 2015, the College had $ 28,445,000 in outstanding debt, all of this in the form of one Certificate of Participation issued by the State Treasurers Office. The COP was issued in December, 2012 in lieu of a Capital Appropriation for the construction of the Health & Science building.

Debt, Short and Long-Term	June 30, 2015	June 30, 2014
Certificates of Participation	$ 28,445,000	$ 29,600,014
Total	**$ 28,445,000**	**$ 29,600,014**

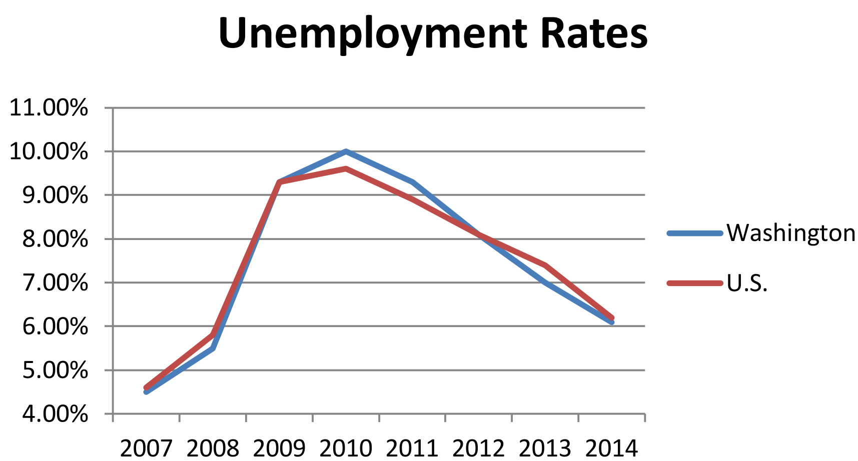
Economic Factors That Will Affect the Future

Following a trend that began in FY 2009, the College's state operating appropriations continued to decrease through FY 2013. More recently, when creating the 2013 – 2015 biennial budget, the state Legislature re-invested in community and technical colleges. They continued this trend with a supplemental budget that included community colleges as a key partner in an investment in aerospace training. As a result, the net reduction of community college funding between FY 2009 and expected funding levels by the end of FY 2015 will have been a little over 15 percent. These investments in community colleges allowed the Legislature to keep FY 2015 tuition flat for resident, non-resident and baccalaureate students. It's unclear how much opportunity there may be for additional investments in community and technical colleges in the next few years, as state budget writers continue to grapple with court-mandated basic education obligations.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its most recent forecast (February 2015), the council observed that most of the state's economic risk factors continue to come from outside the state. A slowing Chinese economy, the potential for a slowdown in the U.S. housing recovery, and European economic and debt problems all remain major threats to the U.S. and Washington economies. However, the passage of a federal budget in January and the recent suspension of the debt ceiling reduce uncertainty surrounding federal fiscal policy.

Closer to home, Washington continues to add jobs, including showing growth in the manufacturing sector. Housing construction, home prices and car sales also increased and exports are at an all-time high. Both employment in Washington state and personal income are expected to continue to grow through 2019, the end of the period covered by the forecast.

A hallmark of community colleges is the flexibility to quickly respond to the needs of the community, resulting in a pattern of high enrollment during economic downturns, punctuated by lower enrollment when the job market is strong. The Great Recession of 2008 has had a lingering effect on the job market in Washington, which has only recently shown improvement. Enrollment continues to hold steady at Lower Columbia College and is forecasted to remain relatively stable for the near term.



Statement of Net Position

Lower Columbia College June 30, 2015

ASSETS	
Current assets	
Cash and cash equivalents	$ 2,183,184
Restricted Cash (RCW 28 B.15.820)	294,250
Accounts Receivable, net	3,967,935
Restricted Investments for COP Proceeds	2,541,534
Interest Receivable	6,681
Inventories	449,464
Prepaid Expenses	19,885
Total current assets	9,462,933
Non-Current Assets	
Long-term investments	7,455,126
Depreciable Capital assets, net of depreciation	35,604,772
Non-Depreciable Capital assets	50,501,808
Total non-current assets	93,561,706
Total assets	**103,024,639**
Deferred Outflows of Resources	733,520
LIABILITIES	
Current Liabilities	
Accounts Payable	1,366,115
Accrued Liabilities	1,626,694
Compensated absences	2,113
Deposits Payable	7,431
Unearned Revenue	493,844
Certificates of Participation Payable	1,115,000
Total current liabilities	4,611,197
Noncurrent Liabilities	
Compensated Absences	2,164,233
Pension Liability	4,507,032
Certificates of Participation Payable	27,330,000
Total non-current liabilities	34,001,265
Total liabilities	**38,612,462**
Deferred Inflows of Resources	1,959,375
NET POSITION	
Net Investment in Capital Assets	60,203,114
Restricted for:	
Expendable	644,404
Unexpendable	215,498
Unrestricted	2,123,307
Total Net Position	**63,186,322**

College Statement of Revenues, Expenses and Changes in Net Position

Lower Columbia College June 30, 2015

Operating Revenues	
Student tuition and fees, net	$ 6,969,760
Auxiliary enterprise sales	1,819,958
State and local grants and contracts	10,884,259
Federal grants and contracts	4,116,832
Other operating revenues	325,300
Total operating revenue	24,116,109
Operating Expenses	
General Administrative	3,548,901
Salaries and wages	20,386,858
Benefits	5,870,933
Scholarships and fellowships, net	7,420,655
Supplies and materials	2,260,800
Depreciation	1,521,111
Purchased services	1,057,622
Utilities	844,953
Repair and Maintenance Expenses	502,464
Total operating expenses	43,414,297
Operating income (loss)	**(19,298,188)**
Non-Operating Revenues (Expenses)	
State appropriations	11,914,329
Federal Pell grant revenue	6,340,359
Investment income, gains and losses	306,563
Building Fee Remittance	(781,884)
Innovation Fund Remittance	(218,021)
Interest on indebtedness	(1,335,366)
Total non-operating revenues (Expenses)	**16,225,980**
Income before capital contributions	(3,072,208)
Capital Revenues	
Capital appropriations	4,489,932
Increase (Decrease) in net position	1,417,724
Net Position	
Net position, beginning of year	66,658,672
Prior Period Adjustment	868,524
Net Position, as restated	67,527,196
Change in Accounting Principle due to GASB 68	(5,758,598)
Adjusted Net Position, beginning of year	61,768,598
Net position, end of year	**$ 63,186,322**

Statement of Cash Flows

Lower Columbia College June 30, 2015

Cash flow from operating activities	
Student tuition and fees	$ 6,845,202
Grants and contracts	14,678,128
Payments to vendors	(2,962,177)
Payments for utilities	(817,760)
Payments to employees	(20,115,285)
Payments for benefits	(5,867,283)
Auxiliary enterprise sales	1,865,952
Payments for scholarships and fellowships	(7,420,655)
Other receipts	455,188
Other payments	(3,519,098)
Net cash used by operating activities	(16,857,788)
Cash flow from noncapital financing activities	
State appropriations	$ 10,427,596
Pell grants	6,340,359
Building fee remittance	(778,579)
Innovation fund remittance	(204,981)
Net cash provided by noncapital financing activities	15,784,395
Cash flow from capital and related financing activities	
Capital appropriations	$ 3,003,199
Purchases of capital assets	(9,410,112)
Principal paid on capital debt	(1,155,014)
Interest paid	(1,335,366)
Net cash used by capital and related financing activities	(8,897,293)
Cash flow from investing activities	
Proceeds from sales and maturities of investments	$ 7,413,116
Income of investments	306,563
Net cash provided by investing activities	7,719,679
Increase (Decrease) in cash and cash equivalents	(2,251,006)
Cash and cash equivalents at the beginning of the year	4,728,440
Cash and cash equivalents at the end of the year	$ 2,477,434

Statement of Cash Flows, continued

Reconciliation of Operating Loss to Net Cash used by Operating Activities

Operating Loss	(19,298,188)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	1,521,111
Changes in assets and liabilities	
Receivables , net	(358,588)
Inventories	1,616
Other assets	30,466
Accounts payable	687,071
Accrued liabilities	243,757
Deferred revenue	86,949
Compensated absences	254,393
Pension Liability Adjustment Expense	(25,711)
Deposits payable	(664)
Net cash used by operating activities	(16,857,788)

Foundation Statement of Financial Position

Lower Columbia College Foundation
For the Year Ended June 30, 2015

ASSETS	2015	2014
Cash and cash equivalents (Note 2)	$ 660,978	$ 518,332
Marketable securities (Note 3)	13,555,286	14,357,270
Pledges receivable (Note 4)	100,280	85,910
Prepaid expenses	1,193	746
Fixtures and equipment (Note 5)	24,500	15,950
Total assets	$ 14,342,237	$ 14,978,208
LIABILITIES AND NET ASSETS		
Accrued expenses	$ 42,233	$ 62,975
Amounts held in trust for Lower Columbia College	69,109	61,370
Annuity payment liability (Note 6)	3,484	3,666
Total liabilities	114,826	128,011
Net assets (Note 10)	14,227,411	14,850,197
Total Liabilities and Net Assets	$ 14,342,237	$ 14,978,208

Foundation Statement of Activities and Changes in Net Position

Lower Columbia College Foundation
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total 2015	Combined Total 2014
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	$ 284,560	$ 330,603	$ 234,872	$ 850,035	$ 779,534
Investment earnings (losses) (Note 8)	6,948	(35,581)	-	(28,633)	1,830,989
Other revenues and gains (losses)	(738)	4,278	-	3,540	4,698
In-kind contributions	18,000	-	-	18,000	18,000
Reclassifications of net assets					
Satisfaction of program restrictions	681,751	(681,751)	-	-	-
Interfund transfer	167,880	(182,155)	14,275	-	-
Total revenues, gains and other support	1,158,401	(564,606)	249,147	842,942	2,633,221
EXPENSES					
Program services	1,090,864	-	-	1,090,864	969,626
General and administrative expenses	204,438	-	-	204,438	182,484
Fund raising expenses	170,426	-	-	170,426	217,034
Total expenses	1,465,728	-	-	1,465,728	1,369,144
CHANGE IN NET ASSETS	(307,327)	(564,606)	249,147	(622,786)	1,264,077
Net assets at beginning of year	3,229,630	4,362,580	7,257,987	14,850,197	13,586,120
Net assets at end of year	$ 2,922,303	$ 3,797,974	$ 7,507,134	$ 14,227,411	$ 14,850,197

Lower Columbia College Foundation

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (622,786)	$ 1,264,077
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	1,150	100
Investment gains	(30,311)	(1,888,835)
(Gain) loss on sale of assets	2,800	(1,800)
In-kind contributions received	(12,500)	(3,000)
Donated securities received	(26,025)	(21,316)
(Increase) decrease in assets:		
Pledges receivable	(14,370)	15,445
Prepaid expenses	(447)	(65)
Increase (decrease) in liabilities:		
Accrued expenses	(20,742)	17,445
Amounts held in trust for Lower Columbia College	7,739	(4,835)
Charitable gift annuity payable	(182)	(180)
Net cash used by operating activities	(715,674)	(622,964)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment	-	2,300
Additions to investment accounts	(7,769,581)	(1,163,161)
Withdrawals from investment accounts	8,627,901	2,018,762
Net cash provided by investing activities	858,320	857,901
INCREASE IN CASH AND CASH EQUIVALENTS	142,646	234,937
Cash and cash equivalents at beginning of year	518,332	283,395
Cash and cash equivalents at end of year	$ 660,978	$ 518,332

Notes to the Financial Statements

June 30, 2015
These notes form an integral part of the financial statements.

1. <u>Summary of Significant Accounting Policies</u>

Financial Reporting Entity

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

The College is an agency of the State of Washington. The financial activity of the college is included in the State's Comprehensive Annual Financial Report.

The Lower Columbia College Foundation (the Foundation) is a separate but affiliated non-profit entity, incorporated under Washington law in 1976 and recognized as a tax exempt 501(c)(3) charity. The Foundation is dedicated to providing a conduit for private support of the College through scholarship endowments, program grants, and similar types of support. Because the majority of the Foundation's income and resources are restricted by donors and may only be used for the benefit of the college or its students, the Foundation is considered a discrete component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statement Nos. 61, 39 and 14. A discrete component unit is an entity which is legally separate from the College, but has the potential to provide significant financial benefits to the College or whose relationship with the College is such that excluding it would cause the College's financial statements to be misleading or incomplete.

The Foundation's financial statements are discretely presented in this report. The Foundation's statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Intra-entity transactions and balances between the College and the Foundation are not eliminated for financial statement presentation. During the fiscal year ended June 30, 2015, the Foundation distributed approximately $262,773 to the College for restricted and unrestricted purposes, which includes student scholarships, program support, and capital improvements. The College provides 1,140 square feet of rent-free office space to the Foundation valued at $13,680. A copy of the Foundation's complete financial statements may be obtained from the Foundation's Administrative Offices at 1600 Maple St., Longview, WA.

Basis of Presentation

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

Prior Period Adjustment

The college recorded an increase to the beginning net position balance as a result of a prior period adjustment. The college understated its total net position by $868,524. This was largely due not recording a Vendor Payment Advance (VPA) reimbursement in the amount of $1,054,153 and not recording a VPA payable in the amount of ($172,100).

The Vendor Payment Advance (VPA)
The college receives annual allocations giving it authority to spend a specific amount of State general fund or capital fund dollars. It spends this by charging expenditures against fund type 1 accounts and then requesting reimbursement from the State Treasurer. The total expenditures recorded in fund type 1 accounts are limited to the amount of the allocation. The amount withdrawn from the State Treasurer is limited to the amount of the required to reimbursement the college for actual expenditures. SBCTC monitors expenditures to verify the college is not exceeding the authority (allocation) to spend state dollars. SBCTC also monitors the amount withdrawn from the State Treasurer to verify that the college is only withdrawing funds for reimbursement of those expenditures.

Net Position as previously reported at June 30, 2014	$66,658,672
Adjustment to beginning net position:	
Prior Period Adjustment	868,524
Net Position, as restated, July 1, 2014	$67,527,196

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal years beginning after June 15, 2014. The college has implemented this pronouncement during the 2015 fiscal year. Implementation of this pronouncement has required a restatement of the prior year net position to reflect the net pension liability and the impact to net position.

The Governmental Accounting Standards Board (GASB) issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* effective for the year ended June 30, 2015. This statement addresses an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The effect of Statement No. 71 to the College is to require the deferral (Deferred Outflows) of pension contributions made subsequent to the measurement date and is addressed in Not 7 to the financial statements.

Cumulative effect of change in accounting principle
The college recorded a reduction to the beginning net position balance as a result of implementing GASB Statement No. 68. The net position has been restated as follows:

Net Position at June 30, 2014, as restated	$67,527,196
Adjustment to beginning net position:	
Net Pension Liability	(6,348,687)
Deferred Outflows	590,089
Total Adjustment	(5,758,598)
Net Position, as restated, July 1, 2014	$61,768,598

Basis of Accounting

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

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

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

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

Cash, Cash Equivalents and Investments

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

The College combines unrestricted cash operating funds from all departments into an internal investment pool, the income from which is allocated on a proportional basis to those unrestricted cash operating funds. The internal investment pool is comprised of cash and cash equivalents.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. This also includes amounts due from federal, state and local governments or private sources as allowed under the terms of grants and contracts. The college considers all accounts aging 12 months or more as uncollectible. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

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

Capital Assets

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

Land, buildings and equipment are recorded at cost, or if acquired by gift, at fair market value at the date of the gift. GASB 34 guidance concerning preparing initial estimates for historical cost and accumulated depreciation related to infrastructure was followed. Capital additions, replacements and major renovations are capitalized. The value of assets constructed includes all material direct and indirect construction costs. Any interest costs incurred are capitalized during the period of construction. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. In accordance with the state capitalization policy, all land, intangible assets and software with a unit cost of $1,000,000 or more, buildings and improvements with a unit cost of $100,000 or more, library collections with a total cost of $5,000 or more and all other assets with a unit cost of $5,000 or more are capitalized. Depreciation is computed using the straight line method over the estimated useful life of the asset as defined by the State of Washington’s Office of Financial Management. Useful lives generally range from 15 to 50 years for buildings and improvements, 15 to 50 years for other improvements and infrastructure, 7 years for library resources, 2 to 10 years for most equipment, and 11 to 40 years for heavy duty equipment.

In accordance with GASB Statement 42, the college reviews assets for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Impaired assets are reported at the lower of cost or fair value. At June 30, 2015, no assets had been written down.

Unearned Revenues

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

Tax Exemption

The College is a tax-exempt organization under the provisions of Section 115 (1) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Net Pension Liability

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 State of Washington Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and additions to/deductions from PERS's and TRS's fiduciary net position have been determined on the same basis as they are reported by PERS and TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reports at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent consumption of net position that is applicable to a future period. Deferred inflows of resources represent acquisition of net position that is applicable to a future period. Changes in net position liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net Position

The College's net position is classified as follows.

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

Restricted for Nonexpendable. This consists of endowment and similar type funds for which donors or other outside sources have stipulated as a condition of the gift instrument that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income which may either be expended or added to the principle.

Restricted for Expendable. These include resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by third parties. The expendable balance for the College is funds held for student loans and Institutional financial aid funds per RCW 28B.15.820.

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

Classification of Revenues and Expenses

The College has classified its revenues and expenses as either operating or non-operating revenues according to the following criteria:

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

Operating Expenses. Operating expenses include salaries, wages, fringe benefits, utilities, supplies and materials, purchased services, and depreciation.

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

Non-operating Expenses. Non-operating expenses include state remittance related to the building fee and the innovation fee, along with interest incurred on the Certificate of Participation Loans.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance. Discounts and allowances for the year ending June 30, 2015 are $ 3,323,870.

State Appropriations

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

Building and Innovation Fee Remittance

Tuition collected includes amounts remitted to the Washington State Treasurer's office to be held and appropriated in future years. The Building Fee portion of tuition charged to students is an amount established by the Legislature is subject to change annually. The fee provides funding for capital construction and projects on a system wide basis using a competitive biennial allocation process. The Building Fee is remitted on the 35th day of each quarter. The Innovation Fee was established in order to fund the State Board of Community and Technical College's Strategic Technology Plan. The use of the fund is to implement new ERP software across the entire system. On a monthly basis, the College's remits the portion of tuition collected for the Innovation Fee to the State Treasurer for allocation to SBCTC. These remittances are non-exchange transactions reported as an expense in the non-operating revenues and expenses section of the statement of revenues, expenses and changes in net position.

2. Cash and Investments

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

As of June 30, 2015, the table below shows the College's cash and equivalents of $ 2,477,434, $294,250 of which is presented on the Statement of net position as restricted in accordance with RCW 28 B.15.820.

Cash and Cash Equivalents	**June 30, 2015**
Petty Cash and Change Funds	$ 71,620
Bank Demand and Time Deposits	2,405,814
Total Cash and Cash Equivalents	**$ 2,477,434**

The investment portfolio consists of 21 individual issues of Municipal Bonds, diversified by type, locale, and maturity date which are held by custodian U.S. Bank N.A. Treasury Division.

Investment Maturities	**Market Value**	**2016-2020**	**2021-2025**	**2026-2030**	**2031-2034**
Municipal Bonds	$ 7,455,127	$ 1,172,875	$ 2,831,149	$ 1,910,410	$ 1,540,692
Total Investments	**$7,455,127**	**$1,172,875**	**$2,831,149**	**$1,910,410**	**$1,540,692**

Custodial Credit Risks—Deposits

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

Interest Rate Risk—Investments

The College manages its exposure to fair value losses resulting from changes in interest rates by structuring the entire portfolio time horizon. Unless matched to a specific cash flow, the college generally will not directly invest in securities maturing more than fifteen years from the date of purchase. The goal of the overall portfolio is to balance cash flow requirements, safety, liquidity, and yield.

Concentration of Credit Risk—Investments

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

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the College will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2015, short and long term investments totaling $7,321,522 are held by U.S. Bank N.A., Treasury Division as custodial agent for the benefit of the College.

The College currently defines all investments as long-term and therefore has classified them as noncurrent assets. The College has historically categorized all investments as 'held to maturity' and recorded them using amortized cost. With the fluctuation of the economic environment over the past few years there has been the need to sell some of those investments in order to fund the College's operations. The College has determined that these investments are truly 'available for sale' and therefore should be recorded at fair market value. The College still will classify them as long-term investments and noncurrent assets due to the fact that the true intent remains to hold them long-term whenever possible. By changing from 'held to maturity' to 'available for sale' we believe it states more truly the nature of our investments in the current economic environment and allows to us more appropriately value them on the financial statement.

Endowment assets, totaling $ 133,605 are also included in the total amount held for the benefit of Lower Columbia College, which are exposed to custodial credit risk. See the accompanying schedule of investments subject to custodial credit risk.

North Las Vegas NV GO Ltd Ref-Limited Tax	06/01/18	$	236,065
Port Anacortes WA GO LTD	09/01/19		429,496
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM	12/01/19		507,314
Grant County WA PUD#2 Revenue - Priest Rapids Hydro	01/01/20		505,300
Burien WA GO LTD, BLD AM 121265CS9	12/01/20		112,659
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM	12/01/20		526,340
Lewis Co. WA Pub Fac Dist Sls Tax Rev, BLD AM	12/01/20		232,243
Centralia, WA Elec Revenue	12/01/20		432,924
Multnomah County OR GO LTD	12/01/21		211,602
Longview, WA GO LTD Quality Energy Consrv	12/01/21		115,654
WA St Health Facil.Auth 5.25%Rev Bond US#93978E6F4	01/01/24		213,532
Port of Vancouver GO Ref	12/01/24		347,291
Pasco WA WTR & SWR Rev Bond US#702571MB3 (Endowment Funds)	05/01/24		133,604
Burlingame CA Elem School Dist GO	08/01/25		468,692
Burlingame CA Elem School Dist GO	08/01/25		380,812
Burien WA GO LTD, BLD AM 121265CT7	12/01/25		524,580
Georgia St GO UNLTD TXBL SERIES E	02/01/29		226,565
El Paso TX GO LTD TXBL airport CTFD	08/15/29		309,761
Bremerton WA GO LTD REF LTDTAX BAM TCRS	07/01/31		506,730
Santa Ana CA UNIF SD GO UNLTD ELECT 1999 SR B ZERO COUP	08/01/31		587,774
North Monterey CNTY CA GO UNTD UNION SD ELECT SER A	05/01/34		446,188
Total Investments Exposed to Custodial Risk		**$**	**7,455,127**

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses.

3. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from federal, state and local governments or private sources in connection with reimbursements of allowable expenditures made according to sponsored agreements. At June 30, 2015, accounts receivable were as follows.

Accounts Receivable		**FY15**
Due from State Agencies	$	2,923,480
Return to Title IV Repayments		1,029,394
Due from Federal/Local Govt Agencies		739,863
Other Operating/Foundation/Misc		90,076
Student Tuition and Fees		38,948
Interest Receivable		6,681
Subtotal		4,828,442
Less Allowance for Uncollectible Accounts*		(853,826)
Accounts Receivable, net	**$**	**3,974,616**

Note: *The majority of the allowance for uncollectible accounts is associated with Title IV Repayments.

4. Inventories

Inventories, stated at cost using FIFO method, consisted of the following as of June 30, 2015.

Inventories	FY15	
Book Store Merchandise	$	425,259
Auto Parts Consumables		12,378
Food Services Inventory		11,826
Inventories	**$**	**449,464**

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2015 is presented as follows. The current year depreciation expense was $ 1,521,111.

Capital Assets	Beginning Balance	Additions/ Transfers	Retirements / Adjustments	Ending Balance
Nondepreciable capital assets				
Land	**$5,842,316**	**$4,382**	**-**	**$5,846,698**
Construction in progress	**$34,356,757**	**$10,298,354**	**-**	**$44,655,110**
Total nondepreciable capital assets	**$40,199,073**	**$10,302,736**		**$50,501,808**
Depreciable capital assets				
Buildings	**$55,184,933**	**-**	**-**	**$55,184,933**
Other improvements and infrastructure	**$2,716,295**	**-**	**-**	**$2,716,295**
Equipment	**$5,851,852**	**566,119.04**	**(234,464.00)**	**$6,183,507**
Library resources	**$1,585,068**	**$15,284**		**$1,600,352**
Subtotal depreciable capital assets	**$65,338,148**	**$581,404**	**(234,464.00)**	**$65,685,087**
Less accumulated depreciation				
Buildings	**$20,700,652**	**$984,013**	**11,731.24**	**$21,696,396**
Other improvements and infrastructure	**$2,048,703**	**$60,940**	**-**	**$2,109,643**
Equipment	**$4,500,286**	**$466,858**	**(242,557.00)**	**$4,724,587**
Library resources	**$1,540,390**	**$9,300**	**-**	**$1,549,690**
Total accumulated depreciation	**$28,790,030**	**$1,521,111**	**(230,825.76)**	**$30,080,315**
Total depreciable capital assets	**$36,548,117**	**($939,708)**	**($3,638)**	**$35,604,772**
Capital assets, net of accumulated depreciation	**$76,747,190**	**$9,363,028**	**($3,638)**	**$86,106,580**

6. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The category of deferred outflow of resources reported in statement of net position relates to pensions.

Deferred outflows on pensions are recorded when actual earnings on pension plan investments exceed projected earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred outflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan. State contributions to pension plans made subsequent to the measurement date are also deferred and reduce net pension liability in the subsequent year.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported by the College relate to pensions.

Deferred inflows on pensions are recorded when projected earnings on pension plan investments exceed actual earnings and are amortized to pension expense using a systematic and rational method over a closed five-year period. Deferred inflows on pensions also include the difference between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic, demographic, or other input factors; or changes in the state's proportionate share of net pension liability. These are amortized over the average expected remaining service lives of all employees that are provided with pensions through each pension plan.

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual earnings of pension plan investments		$ 357,818		$ 1,515,354
Changes in College's proportionate share of pension liabilities			$ 77,648	
Contributions to pension plans after measurement date	$ 270,236		$ 333,101	
	$ 270,236	**$ 357,818**	**$ 410,749**	**$ 1,515,354**

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual earnings of pension plan investments		$ 33,866		$ 52,335
Changes in College's proportionate share of pension liabilities			$ 16,323	
Contributions to pension plans after measurement date	$ 16,008		$ 20,204	
	$ 16,008	**$ 33,866**	**$ 36,527**	**$ 52,335**

The $733,520 reported as deferred outflows of resources represent contributions the College made subsequent to the measurement date and will be recognized as a reduction of the net pension liability for the year ended June 30, 2016.

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

Year ended June 30:								
		PERS 1		**PERS 2/3**		**TRS 1**		**TRS 2/3**
2016	$	89,455	$	356,654	$	8,467	$	9,536
2017	$	89,455	$	356,654	$	8,467	$	9,536
2018	$	89,455	$	356,654	$	8,467	$	9,536
2019	$	89,455	$	367,746	$	8,467	$	9,536
2020		-						(2,129)
Total	**$**	**357,818**	**$**	**1,437,707**	**$**	**33,866**	**$**	**36,013**

7. Accrued Liabilities

At June 30, 2015, accrued liabilities are the following.

Accrued Liabilities		Amount
Amounts Owed to Employees	$	943,816
Other Accrued Liabilities		682,878
Total	**$**	**1,626,694**

8. Unearned Revenue

Unearned revenue is comprised of receipts which have not yet met revenue recognition criteria, as follows:

Unearned Revenue		Amount
Summer Quarter Tuition & Fees	$	438,161
Tuition Deposits		7,431
Auxilary Enterprises		55,232
Grants & Contracts		450
Total Unearned Revenue	$	501,274

9. Risk Management

The College, in accordance with state policy, pays unemployment claims on a pay-as-you-go basis. The college finances these costs by assessing all funds a monthly payroll expense for unemployment compensation for all employees. Payments made for claims from July 1, 2013 through June 30, 2015, were $ 13,829.

The College purchases commercial property insurance through the master property program administered by the Department of Enterprise Services for buildings that were acquired with COP proceeds. The policy has a deductible of $250,000 per occurrence and the policy limit is $100,000,000 per occurrence. The college has had no claims in excess of the coverage amount within the past three years. The College assumes its potential property losses for most other buildings and contents.

The College participates in a State of Washington risk management self-insurance program, which covers its exposure to tort, general damage and vehicle claims. Premiums paid to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. Coverage is provided up to $10,000,000 for each claim with no deductible. The college has had no claims in excess of the coverage amount within the past three years.

10. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Upon retirement or death, employees receive 25% of the value of their accumulated sick leave credited to a Voluntary Employee's Beneficiary Association (VEBA) account, which can be used for future medical expenses and insurance purposes. The amounts of unpaid vacation and compensatory time accumulated by College employees are accrued when incurred. The sick leave liability is recorded as an actuarial estimate of one-fourth of the total balance on the payroll records. The accrued vacation leave totaled $1,148,963, accrued sick leave totaled $1,015,270, and the accrued compensatory leave totaled $2,113 at June 30, 2015.

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

11. Notes Payable

In December 2012, the College obtained financing in order to fund the construction of the Health & Science Building through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $ 31,550,000. The interest rate charged is 3.10% for a term of twenty years.

12. Annual Debt Services Requirements

Future debt service requirements at June 30, 2015 are as follows.

Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	**Principal**	**Interest**	**Total**
2016	1,115,000	1,291,461	2,406,461
2017	1,160,000	1,246,575	2,406,575
2018	1,215,000	1,194,375	2,409,375
2019	1,275,000	1,139,700	2,414,700
2020-2024	7,435,000	4,674,250	12,109,250
2025-2029	9,505,000	2,634,400	12,139,400
2030-2032	6,740,000	546,400	7,286,400
Total	**$ 28,445,000**	**$ 12,727,161**	**$ 41,172,161**

13. Schedule of Long Term Debt

	Balance outstanding 6/30/14	**Additions**	**Reductions**	**Balance outstanding 6/30/14**	**Current portion**
Certificates of Participation	**$ 29,600,014**	**$ -**	**$1,155,014**	**$ 28,445,000**	**$1,115,000**

14. <u>Pension Liability</u>

Pension liabilities reported as of June 30, 2015 consists of the following:

Pension Liability by Plan	
PERS 1	$ 2,861,528
PERS 2/3	1,429,567
TRS 1	193,131
TRS 2/3	22,806
Total	**$ 4,507,032**

15. <u>Pension Plans</u>

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

For FY2014-15, the payroll for the College's employees was $ 6,662,843 for PERS, $ 353,259 for TRS, and $ 10,287,961 for SBRP. Total covered payroll was $ 20,183,396.

Lower Columbia College implemented Government Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015 financial reporting. The College's defined benefit pension plans were created by statutes rather than through trust documents. With the exception of the supplemental defined benefit component of the higher education retirement plan, they are administered in a way equivalent to pension trust arrangements as defined by the GASB.

In accordance with Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities to align with the State CAFR.

Basis of Accounting
Pension plans administered by the state are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, employee and employer contributions are recognized in the period in which employee services are performed; investment gains and losses are recognized as incurred; and benefits and refunds are recognized when due and payable in accordance with the terms of the applicable plan. 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 all plans and additions to/deductions from all plan fiduciary net position have been determined in all material respects on the same basis as they are reported by the plans.

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement No. 68 for Lower Columbia College, for reported year June 30, 2015:

Aggregate Pension Amounts - All Plans

Pension liabilities	$ 4,507,032
Deferred outflows of resources related to pensions	733,520
Deferred inflows of resources related to pensions	1,959,375
Pension expense/expenditures	613,838

Department of Retirement Systems
As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement System (DRS) administers eight retirement systems covering eligible employees of the state and local government. The Governor appoints the director of the DRS.

The DRS administered systems that Lower Columbia College offers its employees are comprised of four defined benefit pension plans and two defined benefit/defined contribution plans. Below are the DRS plans that the College offers its employees:

Public Employees' Retirement System (PERS)
- Plan 1 – defined benefit
- Plan 2 – defined benefit
- Plan 3 – defined benefit/defined contribution

Teachers' Retirement System (TRS)
- Plan 1 – defined benefit
- Plan 2 – defined benefit
- Plan 3 – defined benefit/defined contribution

Although some assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan in accordance with the terms of the plan.

Administration of the PERS and TRS systems and plans was funded by an employer rate of 0.18 percent of employee salaries.

The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at http://www.drs.wa.gov/administration/annualreport/.

Higher Education. As established in chapter 28B.10. RCW, eligible higher education state employees may participate in higher education retirement plans. These plans include a defined contribution plan administered by a third party with a supplemental defined ed benefit component (on a pay as you go basis) which is administered by the state.

Retirement Plans

PERS and TRS

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

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

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

Funding Policy. Each biennium, the state Pension Funding Council adopts PERS and TRS Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for PERS and TRS Plans 1 are established by statute. By statute, PERS 3 employees may select among six contribution rate options, ranging from 5 to 15 percent.

The required contribution rates expressed as a percentage of current year covered payroll are shown in the table below. The College and the employees made 100% of required contributions.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2015, 2014, and 2013 are as follows.

Contribution Rates at June 30						
	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.21%	6.00%	9.21%	6.00%	9.21%
Plan 2	4.64%	7.21%	4.92%	9.21%	4.92%	9.21%
Plan 3	5 - 15%	7.21%	5 - 15%	9.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.05%	6.00%	10.39%	6.00%	10.39%
Plan 3	5-15%	8.05%	5-15%	10.39%	5-15%	10.39%

Required Contributions						
	FY2013		FY2014		FY2015	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 7,381.31	$ 14,375.12	$ 5,432.40	$ 8,338.73	$ 2,102.40	$ 3,227.18
Plan 2	$ 174,690.46	$ 349,338.47	$ 201,014.66	$ 376,761.45	$ 219,882.07	$ 411,611.03
Plan 3	$ 118,741.10	$ 173,980.09	$ 127,346.58	$ 185,529.15	$ 140,728.19	$ 198,809.61
TRS						
Plan 1	$ -	$ -	$ -	$ -	$ -	$ -
Plan 3	$ 13,567.87	$ 23,173.02	$ 18,637.40	$ 31,092.66	$ 22,547.12	$ 36,703.57

Investments

The Washington State Investment Board (WSIB) has been authorized by statute as having investment management responsibility for the pension funds. The WSIB manages retirement fund assets to maximize return at a prudent level of risk.

Retirement funds are invested in the Commingled Trust Fund (CTF). Established on July 1, 1992, the CTF is a diversified pool of investments that invests in fixed income, public equity, private equity, real estate, and tangible assets. Investment decisions are made within the framework of a Strategic Asset Allocation Policy and a series of written WSIB adopted investment policies for the various asset classes in which the WSIB invests.

For the year ended June 30, 2014, the annual money-weighted rate of return on the pension investments, net of pension plan expenses are as follows:

Pension Plan	Rate of Return
PERS Plan 1	16.98%
PERS Plan 2/3	17.06%
TRS Plan 1	16.97%
TRS Plan 2/3	17.07%

These money-weighted rates of return express investment performance, net of pension plan investment expense, and reflects both the size and timing of cash flows.

The PERS and TRS target asset allocation and long-term expected real rate of return as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	0.80%
Tangible Assets	5%	4.10%
Real Estate	15%	5.30%
Global Equity	37%	6.05%
Private Equity	23%	9.05%
Total	**100%**	

The inflation component used to create the above table is 2.70 percent and represents WSIB's most recent long-term estimate of broad economic inflation.

Pension Expense

Pension expense is included as part of "Employee Benefits" expense in the statement of revenues, expenses and changes in net position. The table below shows the components of each pension plans expense as it affected employee benefits:

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
Actuarially determined pension expense	$ 155,135	$ 229,392	$ 8,846	$ 15,314	$ 408,687
Amortization of change in proportionate liability	109,444	22,185	69,974	3,548	205,151
Total Pension Expense	**$ 264,579**	**$251,577**	**$78,820**	**$18,862**	**$ 613,838**

Changes in Proportionate Shares of Pension Liabilities

The changes to the College's proportionate share of pension liabilities from 2013 to 2014 for each retirement plan are listed below:

	2013	2014
PERS 1	.054931%	.056804%
PER 2/3	.068385%	.070723%
TRS 1	.004567%	.006548%
TRS 2/3	.005249%	.007061%

The College's proportion of the net pension liability was based on a projection of the College's long-term share of contributions to the pension plan to the projected contributions of all participating state agencies, actuarially determined.

Actuarial Assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2013 with the results rolled forward to the June 30, 2014 measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 3.00%
- Salary Increases 3.75%
- Investment rate of return 7.50%

Sensitivity of the net pension liability to changes in the discount rate
The discount rate used to measure the total pension liability was 7.50 percent. To determine the discount rate an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.70 percent long-term discount rate to determine funding liabilities for calculating future contributions rate requirements. Consistent with the long-term expected rate of return, a 7.50 percent future investment rate of return on invested assets was assumed for the test.

Contributions from plan members and employers are assumed to continue to be made at contractually required rates. 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 of 7.50 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability of the College calculated using the discount rate of 7.50 percent, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

Pension Plan	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
PERS Plan 1	3,527,113.73	2,861,528.19	2,290,188.45
PERS Plan 2/3	5,963,030.96	1,429,567.45	(2,033,155.41)
TRS Plan 1	248,532.68	193,130.22	145,574.61
TRS Plan 2/3	198,232.99	22,806.22	(107,588.25)

State Board Retirement Plan
Plan Description. Faculty and exempt administrative and professional staff are eligible to participate in SBRP. The Teacher's Insurance and Annuity Association (TIAA) and the College Retirement Equities Fund (CREF) are the companion organizations through which individual

retirement annuities are purchased. Employees have at all times a 100% vested interest in their accumulations.

TIAA-CREF benefits are payable upon termination at the member's option unless the participant is re-employed in another institution which participates in TIAA-CREF.

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

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

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

Contributions. Contribution rates for the SBRP (TIAA-CREF), which are based upon age, are 5%, 7.5% or 10% of salary and are matched by the College. Employee and employer contributions for the year ended June 30, 2015 were each $ 854,813.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2015, supplemental benefits were paid by the SBCTC on behalf of the college system in the amount of $583,625. In 2012, legislation (RCW 28B.10.423) was passed requiring colleges to pay into a Supplemental Benefit Fund managed by the State Investment Board, for the purpose of funding future benefit obligations. During FY 2015, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $ 10,287,961. As of June 30, 2015, the Community and Technical College system accounted for $7,729,471 of the fund balance.

Washington State Deferred Compensation Program

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

Other Post-Employment Benefits

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

State of Washington retirees may elect coverage through state health and life insurance plans, for which they pay less than the full cost of the benefits, based on their age and other demographic factors. The health care premiums for active employees, which are paid by the agency during the employees' working careers, subsidize the "underpayments" of retirees. An additional factor in the Other Post-Employment Benefits (OPEB) obligation is a payment that is required by the State Legislature to reduce the premiums for retirees covered by Medicare (an "explicit" subsidy). This explicit subsidy is also passed through to state agencies via active employee rates charged to the agency. There is no formal state or College plan that underlies the subsidy of retiree health and life insurance.

The actuary allocated the statewide disclosure information to the community and technical college system level. The SBCTC further allocated these amounts among the colleges. The College's share of the GASB 45 actuarially accrued liability (AAL) is $ 4,304,750 with an annual required contribution (ARC) of $ 420,631. The ARC represents the amortization of the liability for fiscal year 2015 plus the current expense for active employees, which is reduced by the current contributions of approximately $ 52,883. The College's net OPEB obligation (NOO) at June 30, 2015 was approximately $ 623,262. This amount is not included in the College's financial statements.

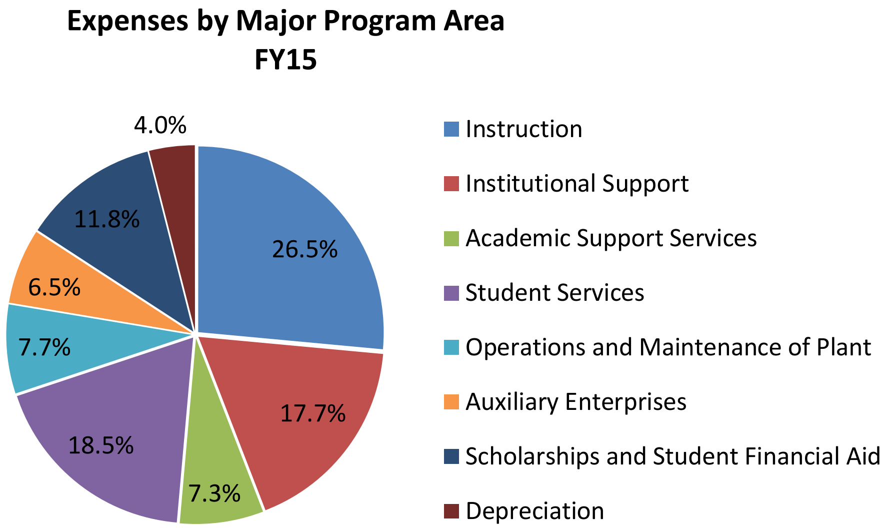
The College paid $ 2,769,786 for healthcare expenses in 2015, which included its pay-as-you-go portion of the OPEB liability.

16. Operating Expenses by Program

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

Instruction	$ 10,135,005
Institutional Support	6,760,219
Academic Support Services	2,787,650
Student Services	7,082,727
Operations and Maintenance of Plant	2,963,880
Auxiliary Enterprises	2,506,836
Scholarships and Student Financial Aid	4,533,195
Depreciation	1,521,111
TOTAL	**$ 38,290,623**

The following chart shows operating expenses by program for the year ending June 30, 2015.



17. Commitments and Contingencies

In FY 2006 there was a class action filed against the State of Washington, Moore vs. HCA, on behalf of certain employees alleging improper denial of healthcare benefits. Although the College has not been named as a defendant in the lawsuit, some of the class members are current or former employees of the College. In FY 2016 on June 24th, 2016 SBCTC received the final approval to the settlement in Moore vs. HCA. The total settlement amount is $80 million. The community college system's portion is $32 million. Of this total liability, $19 million was appropriated to the State Board, which they will remit to the State Treasurer. LCC is responsible for $338,263 of the $19 million appropriated to SBCTC. LCC has booked a liability in the amount of $338,263 in FY 2015 and remitted payment to SBCTC in FY 2017.

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

The College has commitments for various capital improvement projects across campus that include major construction-in-process commitments for the Health & Science Building and the Fitness Center. As of June 30, 2015, commitments for the Health and Science Building and Fitness Center totaled $2,400,000 and $1,000,000 million, respectively.

18. Subsequent Events

In September of 2015 (FY 2016) the College obtained a $3,000,000 COP for improvements to the Fitness Center. The COP liability carries an interest rate of 3.42% for a term of 20 years. The Fitness Center COP will be paid for by student fees as approved by the ASLCC.

In FY 2016 tuition and fees will reflect a 5% reduction authorized by the state legislature in bill E2SB 5954.

For the first time in 17 years, SBCTC has changed the way it distributes state funds to college districts. The new method better aligns state funding with actual enrollments and increases funding for enrollments in certain high-priority courses – those that fill gaps or provides adult basic education. It also increases how much money districts received based on student performance. The new model took effect FY 2017. Any increase or decrease in funding for a district will be phased in over a 4-year period.

Required Supplementary Information

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Lower Columbia College's Proportionate Share of the Net Pension Liability

Schedule of Lower Columbia College's Share of the Net Public Employees' Retirement System (PERS) Plan 1 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.056804%
College proportionate share of the net pension liability	$	2,861,528
College covered-employee payroll	$	90,540
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		3160.51%
Plan's fiduciary net position as a percentage of the total pension liability		61.19%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Lower Columbia College's Proportionate Share of the Net Pension Liability

Schedule of Lower Columbia College's Share of the Net Public Employees' Retirement System (PERS) Plan 2/3 Measurement Date of June 30	
	2014
College's proportion of the net pension liability	0.070723%
College proportionate share of the net pension liability	$ 1,429,567
College covered-employee payroll	$ 6,105,218
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.42%
Plan's fiduciary net position as a percentage of the total pension liability	93.29%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Lower Columbia College's Proportionate Share of the Net Pension Liability

Schedule of Lower Columbia College's Share of the Net Teachers' Retirement System (TRS) Plan 1 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.006548%
College proportionate share of the net pension liability	$	193,131
College covered-employee payroll	$	-
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		0.00%
Plan's fiduciary net position as a percentage of the total pension liability		68.77%

*These schedules are to be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans

Schedules of Lower Columbia College's Proportionate Share of the Net Pension Liability

Schedule of Lower Columbia College's Share of the Net Teachers' Retirement System (TRS) Plan 2/3 Measurement Date of June 30		
		2014
College's proportion of the net pension liability		0.007061%
College proportionate share of the net pension liability	$	22,806
College covered-employee payroll	$	299,256
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll		7.62%
Plan's fiduciary net position as a percentage of the total pension liability		96.81%

*These schedules are to be built prospectively until they contain 10 years of data.

Pension Plan Information

Cost Sharing Employer Plans

Schedules of Contributions

Schedule of Contributions Public Employees' Retirement System (PERS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 8,339	$ 8,339	$ -	$ 90,540	9.21%
2015	$ 3,227	$ 3,227	$ -	$ 35,040	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Public Emplyees' Retirement System (PERS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 562,291	$ 562,291	$ -	$ 6,105,218	9.21%
2015	$ 610,421	$ 610,421	$ -	$ 6,627,803	9.21%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 1 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 12,948	$ 12,948	$ -	$ -	$ -
2015	$ 16,001	$ 16,001	$ -	$ -	$ -
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.

Cost Sharing Employer Plans
Schedules of Contributions

Schedule of Contributions Teachers' Retirement System (TRS) Plan 2/3 Fiscal Year Ended June 30					
Fiscal Year	Contractually Required Contributions	Contributions in relation to the Contractually Required Contributions	Contribution deficiency (excess)	Covered-employee payroll	Contributions as a percentage of covered–employee payroll
2014	$ 31,093	$ 31,093	$ -	$ 299,256	10.39%
2015	$ 36,704	$ 36,704	$ -	$ 353,259	10.39%
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					

Notes: These schedules will be built prospectively until they contain 10 years of data.