LOWER COLUMBIA COLLEGE

2014 FINANCIAL REPORT

Lower Columbia College
2014
Financial Report

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

Visit the home page at lowercolumbia.edu.

Trustees and Administrative Officers

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, 2014 (FY 2014). The 2014 report constitutes the college's inaugural audited financial statements. As a result, any comparisons included in this discussion were made with unaudited information for the fiscal year ended June 30, 2013 (FY 2013), where available.

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 6,860 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 105,000 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 its 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 at a moment in time, at year-end. The Statement of Revenue, Expenses and Changes in Net Position and the Statement of Cash flows provide information about operations and activities over a period of time. Together, these statements, along with the accompanying notes, provide a comprehensive way to assess the college's financial health as a whole.

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.

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	**FY2014**
Assets	
Current Assets	$ 14,331,821
Capital Assets, net	76,743,550
Other Assets, non-current	9,395,371
Total Assets	**100,470,742**
Liabilities	
Current Liabilities	3,455,726
Other Liabilities, non-current	30,356,344
Total Liabilities	**33,812,070**
Deferred Inflows/Outflows	**-**
Net Position	**$ 66,658,672**

Current assets consist primarily of cash and cash equivalents, various accounts receivables and inventories. Non-Current assets are comprised of capitalized Property, Plant, and Equipment net of accumulated depreciation and long term investments.

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.

Non-current liabilities primarily consist of the value of vacation and sick leave earned but not yet used by employees and the long-term portion of Certificates of Participation debt. 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:

Non Expendable **–** 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.

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.

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.

Condensed Net Position As of June 30th	**FY 2014**
Net Investment in Capital Assets	$ 55,157,942
Restricted	
Expendable	226,852
Unexpendable	350,154
Non-Restricted	10,923,724
Total Net Position	**$ 66,658,672**

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 2014. 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 is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Revenue, Expenses and Changes in Net Position As of June 30th	**FY 2014**
Operating Revenues	$ 22,380,873
Operating Expenses	(41,652,109)
Net Operating Loss	(19,271,236)
Non-Operating Revenues	19,055,725
Non-Operating Expenses	(1,369,951)
Gain (Loss) Before Other Rev/Exp, Gains/losses	(1,585,462)
Capital Appropriations	4,738,834
Increase (Decrease) in Net Position	**3,153,372**
Net Position, Beginning of the Year	63,505,300
Net Position, End of the Year	$ 66,658,672

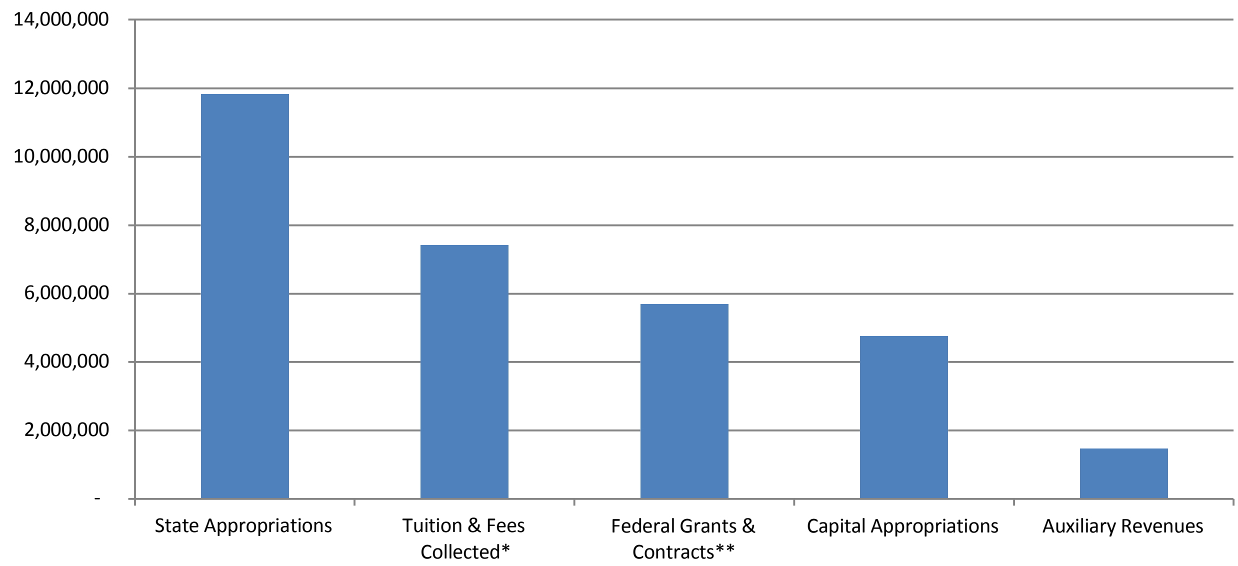
<u>Revenues:</u>

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 2014, 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. Since enrollments increased slightly year-to-year in FY 2014, the College's tuition and fee revenue reflected a slight increase as well. Additionally, the College's enrollment management efforts related primarily to expanding its E-Learning offerings and Rural Outreach efforts contributed to growing revenue. 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 2014, 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
For the Year Ended June 30, 2014



* For purposes of this chart, tuition and fees reflect amounts collected and may include amounts students paid with Pell Grant proceeds
** Federal Grants and Contracts exclude any Federal Pell Grants and Student Loans

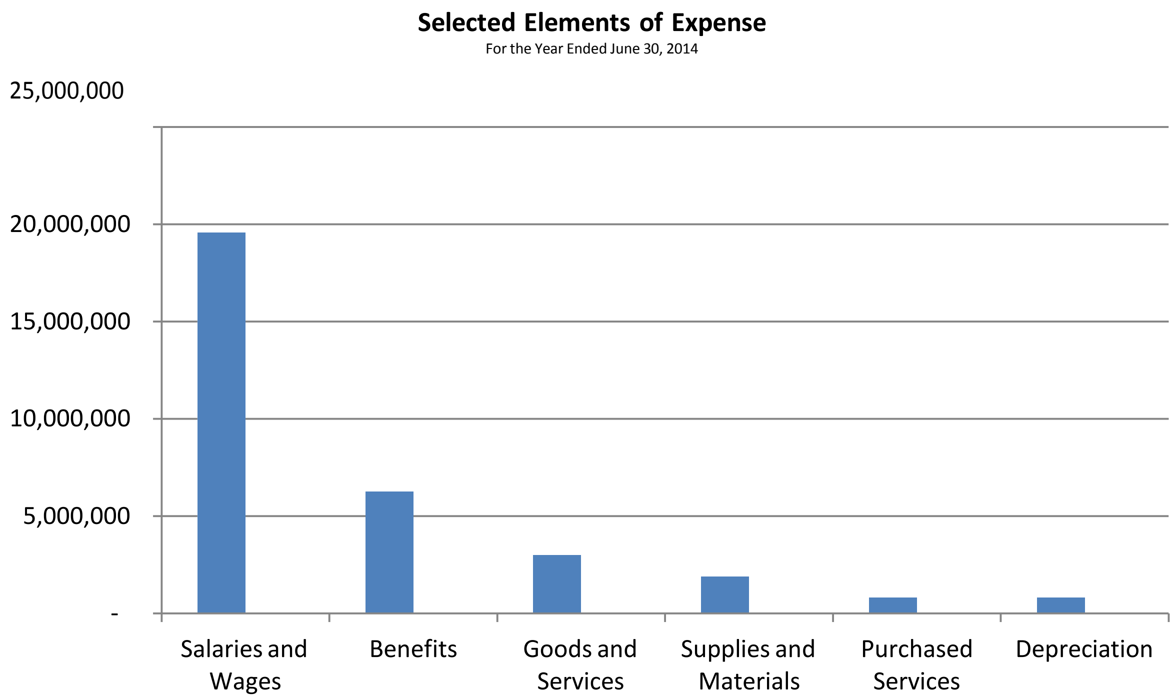
<u>Expenses:</u>

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 (63%) of total operating expenses. In FY 2014, salary and benefit costs increased as 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.

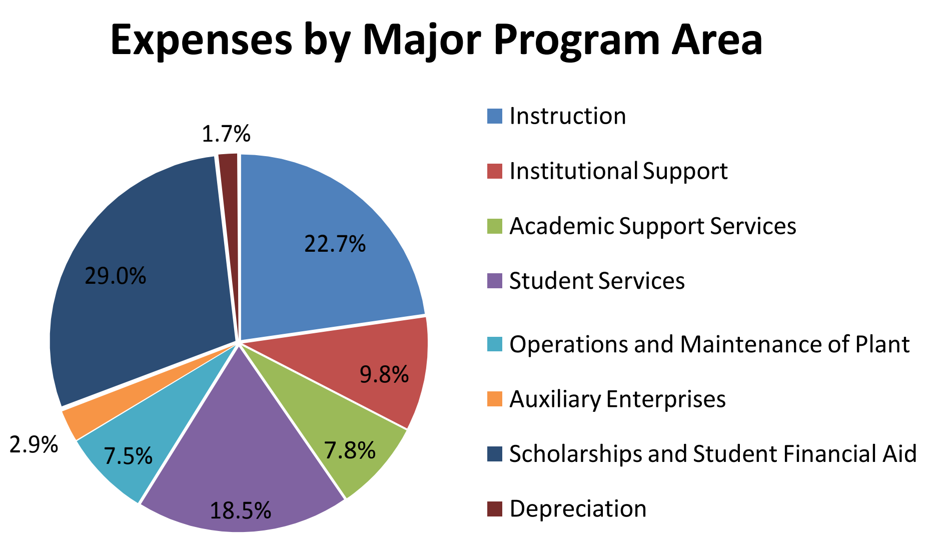
Comparison of Selected Operating Expenses by Function

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



Operating Expenses by Function

The chart below shows the percentage of each functional area of operating expenses for FY 2014.



Statement of Cash Flows

The Statement of Cash Flows gives a general picture of where the College obtains and spends its cash and cash equivalents. The statement gives detailed information about cash flows related to four different types of activities within the institution.

The first section shows cash received and spent on the operations of the college. Since tuition and fees and other operating revenue alone do not normally cover the operating costs of a public higher education institution, this section can be expected to show more cash used than provided.

The second section shows cash received and spent on non-capital financing activities of the College. Here the college reports cash from state appropriations and cash related to federally-funded Pell grants. This section also includes any activity that cannot be reported in one of the other sections.

The third section shows cash received and spent on capital and related financing activities. This includes state capital appropriations for major projects, minor works and repairs. It also includes cash proceeds, loan origination costs, interest and principal payments related to Certificates of Participation. Since colleges periodically use local funds to supplement these sources, it is not unusual for this section to show more cash used than provided.

The fourth section shows cash received and spent on investing activities, including the purchase and sale of investment instruments, interest earnings and realized gains or losses from investments.

Next the statement shows how the current year's change in cash combined with the prior year's cash balance results in the ending cash and cash equivalents balance shown on the College's Statement of Net Position. Finally, the statement includes a detailed reconciliation of operating activity only, between the operating loss shown as a subtotal on the Statement of Revenues, Expenses and Changes in Net Position and the net cash used by operating activities shown on the Cash Flow Statement.

A condensed statement of cash flows is presented below. A single year is presented as part of this inaugural set of financial statements. Future years will include comparative information.

Condensed Statement of Cash Flows As of June 30th	**FY 2014**
Operating Activities	$ (18,499,237)
Non-Capital Financing Activities	19,603,621
Capital Financing Activities	(3,989,053)
Investing Activities	(772,079)
Net Change in Cash	**(3,656,748)**
Cash, Beginning of Year	8,385,188
Cash, End of Year	$ 4,728,440

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, 2014, the College had invested $ 76,743,550 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, 2014
Land	$ 5,842,316
Construction in Progress	34,356,757
Buildings, net	34,480,641
Other Improvements and Infrastructure, net	667,592
Equipment, net	1,351,566
Library Resources, net	44,678
Total Capital Assets, Net	**$ 76,743,550**

In addition, the College Fitness Center project was underway on June 30, 2014 and is also reflected in the increase in Construction-in-progress balance. In FY 2014, the College applied the retroactive infrastructure reporting requirements of Government Accounting Standards Board Statement Number 34 for the first time.

At June 30, 2014, the College had $ 29,600,014 in outstanding debt, all of this in the form of three Certificates of Participation issued by the State Treasurers Office. The initial COP's was issued in June, 2003 to fund an energy conservation project; the second COP was issued in June, 2012 to finance Machine Shop and Nursing program equipment. The third, and most significant COP was issued in December, 2012 in lieu of a Capital Appropriation for the construction of the Health & Science building.

	June 30, 2014
Certificates of Participation	$ 29,600,014
Total	**$ 29,600,014**

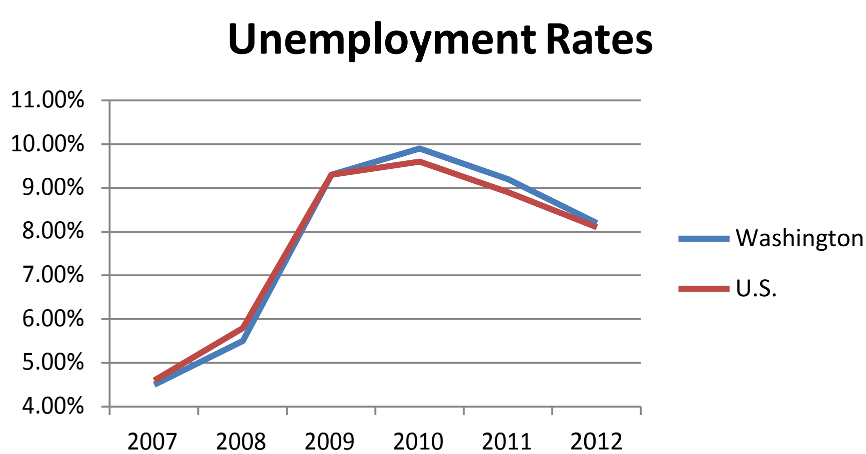
Economic Factors That Will Affect the Future

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 2014 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 2014), 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.



INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lower Columbia College
July 1, 2013 through June 30, 2014

Board of Trustees
Lower Columbia College
Longview, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 financial statements were audited by other auditors whose report thereon 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 from 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 unit of the Lower Columbia College, as of June 30, 2014, 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, 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 unit. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2014, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

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 Executive 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2016 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.

TROY KELLEY

STATE AUDITOR

OLYMPIA, WA

January 15, 2016

College Statement of Net Position

Lower Columbia College

June 30, 2014

ASSETS	
Current assets	
Cash and cash equivalents	$ 4,728,440
Restricted Investments for COP Proceeds	8,014,406
Accounts Receivable, net	1,076,787
Interest Receivable	10,756
Inventories	451,080
Prepaid Expenses	50,352
Total current assets	14,331,821
Non-Current Assets	
Long-term investments	9,395,371
Capital assets, net of depreciation	76,743,550
Total non-current assets	86,138,921
Total assets	**100,470,742**
LIABILITIES	
Current Liabilities	
Accounts Payable	679,043
Accrued Liabilities	1,206,070
Compensated absences	609
Deposits Payable	8,095
Unearned Revenue	406,895
Certificates of Participation Payable	1,155,014
Total current liabilities	3,455,726
Noncurrent Liabilities	
Compensated Absences	1,911,344
Certificates of Participation Payable	28,445,000
Total non-current liabilities	30,356,344
Total liabilities	**33,812,070**
NET POSITION	
Net Investment in Capital Assets	55,157,942
Restricted for:	
Nonexpendable	350,154
Expendable	226,852
Unrestricted	10,923,724
Total Net Position	**66,658,672**
Total Liabilities and Net Position	**$ 100,470,742**

College Statement of Revenues, Expenses and Changes in Net Position

Lower Columbia College

For the Year Ended June 30, 2014

Operating Revenues	
Student tuition and fees, net	$ 7,405,505
Auxiliary enterprise sales	1,482,882
State and local grants and contracts	7,522,359
Federal grants and contracts	5,696,966
Other operating revenues	273,162
Total operating revenue	22,380,873
Operating Expenses	
General Administrative	3,541,647
Salaries and wages	19,592,926
Benefits	6,263,955
Scholarships and fellowships, net	7,966,957
Supplies and materials	1,894,815
Depreciation	815,997
Purchased services	834,229
Utilities	741,584
Total operating expenses	41,652,109
Operating income (loss)	(19,271,236)
Non-Operating Revenues	
State appropriations	11,842,530
Federal Pell grant revenue	6,962,158
Investment income, gains and losses	251,037
Net non-operating revenues	**19,055,725**
Non-Operating Expenses	
Interest on indebtedness	1,369,951
Net non-operating expenses	**1,369,951**
Income or (loss) before other revenues, expenses, gains, or losses	(1,585,462)
Capital Revenues	
Capital appropriations	4,738,834
Increase (Decrease) in net position	3,153,372
Net Position	
Net position, beginning of year	63,505,300
Net position, end of year	$ 66,658,672

College Statement of Cash Flows

Lower Columbia College

For the Year Ended June 30, 2014

Cash flow from operating activities	
Student tuition and fees	$ 7,332,073
Grants and contracts	13,466,631
Payments to vendors	(2,937,968)
Payments for utilities	(472,738)
Payments to employees	(19,618,010)
Payments for benefits	(6,271,067)
Auxiliary enterprise sales	1,488,651
Payments for scholarships and fellowships	(7,966,957)
Other receipts (payments)	(3,519,853)
Net cash used by operating activities	(18,499,237)
Cash flow from noncapital financing activities	
State appropriations	12,641,463
Pell grants	6,962,158
Net cash provided by noncapital financing activities	19,603,621
Cash flow from capital and related financing activities	
Capital appropriations	2,991,299
Proceeds of capital debt	13,059,327
Purchases of capital assets	(17,534,592)
Principal paid on capital debt	(1,135,137)
Interest paid	(1,369,951)
Net cash used by capital and related financing activities	(3,989,053)
Cash flow from investing activities	
Purchase of investments	(1,023,115)
Income of investments	251,037
Net cash provided by investing activities	(772,079)
Increase (Decrease) in cash and cash equivalents	(3,656,748)
Cash and cash equivalents at the beginning of the year	8,385,188
Cash and cash equivalents at the end of the year	$ 4,728,440
Reconciliation of Operating Loss to Net Cash used by Operating Activities	
Operating Loss	$ (19,271,236)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	815,997
Changes in assets and liabilities	
Receivables , net	(123,969)
Inventories	(64,758)
Other assets	(2,091)
Accounts payable	280,069
Accrued liabilities	(188,834)
Deferred revenue	53,540
Compensated absences	1,249
Deposits payable	796
Net cash used by operating activities	$ (18,499,237

Foundation Statement of Financial Position

Lower Columbia College Foundation

For the Year Ended June 30, 2014

ASSETS	**FY 2014**
Cash & cash equivalents	$ 518,332
Marketable Securities	14,357,270
Pledges and grants receivable	85,910
Prepaid Expenses	746
Fixtures and equipment	15,950
Total Assets	**14,978,208**
LIABILITIES AND NET ASSETS	
Accrued Expenses	62,975
Amounts held in trust for Lower Columbia College	61,370
Annuity Payment Liability	3,666
Total Liabilities	**128,011**
Net Assets	**14,850,197**
Total Liabilities and Net Assets Position	**$ 14,978,208**

Foundation Statement of Activities and Changes in Net Position

Lower Columbia College Foundation
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Combined Total 2014
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	$ 211,925	$ 352,911	$ 214,698	$ 779,534
Investment earnings	454,404	1,376,585	-	1,830,989
Fund-raising events (net of expenses)	-	-	-	-
Other revenues and gains	1,060	3,638	-	4,698
In-kind contributions	18,000	-	-	18,000
Reclassifications of net assets	-	-	-	-
Satisfaction of program restrictions	657,431	(657,431)	-	-
Total revenues, gains and other support	1,342,820	1,075,703	214,698	2,633,221
EXPENSES				
Program services	969,626	-	-	969,626
General and Administrative expenses	182,484	-	-	182,484
Fund raising expenses	217,034	-	-	217,034
Total expenses	1,369,144	-	-	1,369,144
CHANGE IN NET ASSETS	(26,324)	1,075,703	214,698	1,264,077
Net assets at beginning of year	3,255,954	3,286,877	7,043,289	13,586,120
Net assets at end of year	$ 3,229,630	$ 4,362,580	$ 7,257,987	$ 14,850,197

Notes to the Financial Statements

June 30, 2014
These notes form an integral part of the financial statements.

1. Summary of Significant Accounting Policies

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. 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, 2014, the Foundation distributed approximately $ 270,974 to the College for restricted and unrestricted purposes. 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 college follows all GASB pronouncements. 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.

New Accounting Pronouncements

Beginning in fiscal year 2012-13, the college adopted the provisions of GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (GASB 60), which improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The college has no significant arrangements allowing external parties to operate college capital assets.

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.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which improves recognition, measurement and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. GASB 70 is effective for fiscal years beginning after June 15, 2013. The college did not make any changes as a result of this pronouncement.

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 and bank demand deposits. 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. Endowment investments are classified as noncurrent assets. The College records all cash, cash equivalents, and investments at amortized cost, which approximates fair value.

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. 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. As this is the first institution-level financial statement prepared by the college, 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, only fixed assets with a unit cost of $5,000 or greater are capitalized. Depreciation is computed using the straight line method over the estimated useful lives of the assets as defined by the State of Washington's Office of Financial Management. Useful lives are generally 15 to 50 years for buildings and improvements, 20 to 25 years for improvements other than buildings, 7 years for library resources and 5 to 7 years for 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, 2014, 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 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.
- *Unrestricted*. These represent resources derived from student tuition and fees, and sales and services of educational departments and auxiliary enterprises.

Classification of Revenues

The College has classified its revenues 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.

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.

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, 2014 are $ 3,233,945.

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.

Operating Expenses

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

All other revenue and expenses of the College are reported as non-operating revenues and expenses including state general appropriations, Federal Pell grant revenues, investment income and interest expense.

2. Cash and Investments

Cash and cash equivalents include both bank demand deposits and petty cash held at the College. Currently, the college does not utilize the Local Government Investment Pool (LGIP), or other money market fund for its short term investments. 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, 2014, the carrying amount of the College's cash and equivalents was $ 4,728,440 as represented in the table below.

Table 1: Cash and Cash Equivalents	**June 30, 2014**
Petty Cash and Change Funds	$ 46,720
Bank Demand and Time Deposits	4,681,720
Total Cash and Cash Equivalents	**$ 4,728,440**

The investment portfolio consists of 28 individual issues of Municipal Bonds, diversified by type, locale, and maturity date which are held by custodian U.S. Bank N.A. Treasury Division.

Table 2: Investment Maturities	**Amortized Cost**	**2016-2020**	**2021-2025**	**2026-2030**	**2031-2034**
Municipal Bonds	$ 9,395,371	$ 3,217,507	$ 2,728,096	$ 1,935,350	$ 1,514,418
Total Investments	**$9,395,371**	**$3,217,507**	**$2,728,096**	**$1,935,350**	**$1,514,418**

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, 2014, short and long term investments totaling $9,395,371 are held by U.S. Bank N.A., Treasury Division as custodial agent for the benefit of the College. Endowment assets, totaling $ 135,636 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.

Table 3: Investments Exposed to Custodial Risk	**Maturity Date**	**Amortized Cost**
Port of Bellingham,WA Revenue	12/01/16	$ 291,020
Lane Community College OR GO UNLTD	12/01/16	201,361
Clark County NV GO LTD	07/01/17	278,991
Longview,WA Ltd Tax GO	12/01/17	121,166
North Las Vegas NV GO Ltd Ref-Limited Tax	06/01/18	252,206
Pierce Co. WA Sewer Rev, BLD AM	08/01/18	449,833
Lane Community College OR GO UNLTD	12/01/18	202,319
WA St Health Facil.Auth 5% Rev Bond US#93978E6D9	01/01/19	504,282
Port Anacortes WA GO LTD	09/01/19	433,920
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM	12/01/19	482,409
Grant County WA PUD#2 Revenue - Priest Rapids Hydro	01/01/20	504,528
Burien WA GO LTD, BLD AM 121265CS9	12/01/20	106,418
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM	12/01/20	509,093
Lewis Co. WA Pub Fac Dist Sls Tax Rev, BLD AM	12/01/20	218,060
Centralia, WA Elec Revenue	12/01/20	404,227
Multnomah County OR GO LTD	12/01/21	197,741
Longview, WA GO LTD Quality Energy Consrv	12/01/21	115,976
WA St Health Facil.Auth 5.25%Rev Bond US#93978E6F4	01/01/24	191,437
Pasco WA Wtr & Swr Rev Bond US#702571MB3 callable 5/19	05/01/24	119,153
Port of Vancouver GO Ref	12/01/24	361,463
Burlingame CA Elem School Dist GO	08/01/25	486,601
Burlingame CA Elem School Dist GO	08/01/25	404,618
Burien WA GO LTD, BLD AM 121265CT7	12/01/25	507,914
Georgia St GO UNLTD TXBL SERIES E	02/01/29	226,925
El Paso TX GO LTD TXBL airport CTFD	08/15/29	309,291
Bremerton WA GO LTD REF LTDTAX BAM TCRS	07/01/31	489,101
Santa Ana CA UNIF SD GO UNLTD ELECT 1999 SR B ZERO COUP	08/01/31	575,544
North Monterey CNTY CA GO UNTD UNION SD ELECT SER A	05/01/34	449,773
Total Investments Exposed to Custodial Risk		**$ 9,395,371**

Investment Expenses

Under implementation of GASB 35, investment income for the College is shown net of investment expenses. The investment expenses incurred for the fiscal year ended June 30, 2014 were $ 0.00.

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, 2014, accounts receivable were as follows.

Table 4: Accounts Receivable	Amount
Due from State Agencies	$ 341,192
Return to Title IV Repayments	863,902
Due from Federal/Local Govt Agencies	462,416
Other Operating/Foundation/Misc	111,561
Student Tuition and Fees	45,865
Interest Receivable	10,756
Subtotal	1,835,692
Less Allowance for Uncollectible Accounts*	(748,149)
Accounts Receivable, net	**$ 1,087,543**

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

4. Inventories

Inventories, stated at cost, consisted of the following as of June 30, 2014.

Table 5: Inventories	Amount
Book Store Merchandise	$ 428,725
Auto Parts Consumables	11,758
Food Services Inventory	10,597
Inventories	**$ 451,080**

5. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2014 is presented as follows. The current year depreciation expense was $ 819,637.

Table 6: Capital Assets	Beginning Balance	Additions/ Transfers	Retirements	Ending Balance
Nondepreciable capital assets				
Land	$ 5,714,698	$ 127,618	$ -	$ 5,842,316
Construction in progress	17,531,793	16,824,963	-	34,356,757
Total nondepreciable capital assets	$ 23,246,491	$ 16,952,581	$ -	$ 40,199,073
Depreciable capital assets				
Buildings	$ 53,965,505	$ 1,219,428	$ -	$ 55,184,933
Other improvements and infrastructure	3,597,449	-	(881,154)	2,716,295
Equipment	5,728,832	123,020	-	5,851,852
Library resources	1,604,486	-	(19,418)	1,585,068
Subtotal depreciable capital assets	$ 64,896,272	$ 1,342,448	$ (900,572)	$ 65,338,148
Less accumulated depreciation				
Buildings	$ 20,350,026	$ 354,266	$ -	$ 20,704,292
Other improvements and infrastructure	2,048,703	-	-	2,048,703
Equipment	4,045,851	454,435	-	4,500,286
Library resources	1,533,094	7,296	-	1,540,390
Total accumulated depreciation	$ 27,977,673	$ 815,997	$ -	$ 28,793,670
Total depreciable capital assets	$ 36,918,599	$ 526,451	$ (900,572)	$ 36,544,477
Capital assets, net of accumulated depreciation	**$ 60,165,090**	**$ 17,479,032**	**$ (900,572)**	**$ 76,743,550**

6. Accounts Payable and Accrued Liabilities

At June 30, 2014, accrued liabilities are the following.

Table 7: Accounts Payable and Accrued Liabilities	Amount
Amounts Owed to Employees	$ 897,883
Accounts Payable	679,043
Other Accrued Liabilities	308,796
Total	**$ 1,885,722**

7. Unearned Revenue

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

Table 8: Unearned Revenue	Amount
Summer Quarter Tuition & Fees	$ 406,895
Tuition Deposits	8,095
Total Unearned Revenue	$ 414,990

8. 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, 2014, were $ 77,781.

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.

9. Compensated Absences

At termination of employment, employees may receive cash payments for all accumulated vacation and compensatory time. Employees who retire get 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 $ 936,981, and accrued sick leave totaled $ 974,363 at June 30, 2014.

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.

10. Leases Payable

The College has annual operating leases (with terms of one year or less) for rental and maintenance of office equipment (primarily copiers) with various vendors. As of June 30, 2014, the minimum operating lease payments is $ 88,842.

11. Notes Payable

In June 2003, the College obtained financing in order to fund an Energy Conservation project to replace existing lighting fixtures across campus with more energy efficient replacements through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $ 307,855. The interest rate charged is 4.52% for a twelve year term.

In June 2012, the College obtained financing in order to purchase two new HAAS CNC Machines for the Vo-Tech Machine Shop as well as one iStan Patient Simulator w/ MUSE software for the Nursing program through certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $ 203,538. The interest rate charged is 1.05% for a three year term.

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.

Table 9. Schedule of Long Term Debt	**Balance outstanding 6/30/13**	**Additions**	**Reductions**	**Balance outstanding 6/30/14**	**Current portion**
Certificates of Participation	**$ 30,735,151**	**$ -**	**$ 1,135,137**	**$ 29,600,014**	**$1,155,014**

The College's debt service requirements at June 30, 2014 for this (these) note agreement(s) for the next five years and thereafter are as follows:

Table 10. Annual Debt Service Requirements			
Certificates of Participation			
Fiscal year	**Principal**	**Interest**	**Total**
2015	$ 1,155,014	$ 1,335,080	$ 2,490,094
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	**$ 29,600,014**	**$ 14,062,241**	**$ 43,662,255**

12. **Pension Plans**

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 FY2013-14, the payroll for the College's employees was $ 6,195,758 for PERS, $ 299,256 for TRS, and $ 10,160,982 for SBRP. Total covered payroll was $ 19, 612,457.

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, 2014, 2013, and 2012 are as follows.

Table 11. Contribution Rates at June 30						
	FY2012		**FY2013**		**FY2014**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	7.08%	6.00%	7.21%	6.00%	9.21%
Plan 2	4.64%	7.08%	4.64%	7.21%	4.92%	9.21%
Plan 3	5 - 15%	7.08%	5 - 15%	7.21%	5 - 15%	9.21%
TRS						
Plan 1	6.00%	8.04%	6.00%	8.05%	6.00%	10.39%
Plan 3	5-15%	8.04%	5-15%	8.05%	5-15%	10.39%

Table 12. Required Contributions						
	FY2012		**FY2013**		**FY2014**	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	$ 12,136.24	$ 20,167.67	$ 7,381.31	$ 14,375.12	$ 5,432.40	$ 8,338.73
Plan 2	$ 178,626.00	$ 363,588.45	$ 174,690.46	$ 349,338.47	$ 201,014.66	$ 376,761.45
Plan 3	$ 111,955.13	$ 161,241.48	$ 118,741.10	$ 173,980.09	$ 127,346.58	$ 185,529.15
TRS						
Plan 1	$ -	$ -	$ -	$ -	$ -	$ -
Plan 3	$ 3,209.39	$ 5,336.97	$ 13,567.87	$ 23,173.02	$ 18,637.40	$ 31,092.66

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, 2014 were each $ 842,057.32.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2014, supplemental benefits were paid by the SBCTC on behalf of the college in the amount of $ 53,822. 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 2014, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $ 10,160,982.12. As of June 30, 2014, the Community and Technical College system accounted for $5,008,355 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 $ 10,585,873 with an annual required contribution (ARC) of $ 1,034,245. The ARC represents the amortization of the liability for fiscal year 2014 plus the current expense for active employees, which is reduced by the current contributions of approximately $ 194,597. The College's net OPEB obligation (NOO) at June 30, 2014 was approximately $ 839,648. This amount is not included in the College's financial statements.

The College paid $ 3,177,110 for healthcare expenses in 2014, which included its pay-as-you-go portion of the OPEB liability.

13. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net Position, 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. The following table lists operating expenses by program for the year ending June 30, 2014.

Table 13. Expenses by Functional Classification	
Instruction	$ 10,841,099
Academic Support Services	3,733,502
Student Services	8,800,567
Institutional Support	4,689,780
Operations and Maintenance of Plant	3,591,239
Scholarships and Other Student Financial Aid	13,837,595
Auxiliary enterprises	1,373,657
Depreciation	819,637
Total operating & non-operating expenses	**$ 47,687,077**

14. Commitments and Contingencies

There is a class action filed against the State of Washington 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. Potentially, the state could assess the College with a material share of any amount paid in the event of a settlement or judgment. Due to the status of the lawsuit, the impact upon the College cannot be assessed with reasonable certainty at present.

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, 2014 commitments for the Health and Science Building and Fitness Center totaled $6,000,000 and $4,000,000, respectively.

15. <u>Subsequent Events</u>

In September of 2015 the College obtained a $3,000,000 COP for improvements to the Fitness Center. The Fitness Center COP will be paid for by student fees as approved by the ASLCC. The COP carries interest rates of 3.42129% with annual debt payments ranging from $210,994 to $212,688 through 12/01/2035.