LOWER COLUMBIA COLLEGE
2017 FINANCIAL REPORT



Lower Columbia College
June 30, 2017
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 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, 2016 through June 30, 2017

Published April 2, 2018
Report No. 1021000

Office of the Washington State Auditor
Pat McCarthy

April 2, 2018

Board of Trustees
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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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Lower Columbia College
July 1, 2016 through June 30, 2017

This schedule presents the status of findings reported in prior audit periods.

Audit Period: July 1, 2015 – June 30, 2016	**Report Ref. No.**: 1019948	**Finding Ref. No.**: 2016-001	
Finding Caption: The College's internal controls over financial statement preparation were inadequate to ensure complete and accurate reporting.			
Background: The District's review process for journal entries and financial reporting was not sufficient to ensure financial information was accurate, complete and in compliance with generally accepted accounting principles (GAAP). These deficiencies when taken together, represent a significant deficiency. As a result of the deficiencies, the financial statements contained misstatements and presentation errors. Also, the deficiencies lead to a new GASB standard not being implemented within the statements.			
Status of Corrective Action: (check one)			
✓ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid
Corrective Action Taken: *The errors identified by the auditors were corrected in the College's final financial statements.* *The College experienced some turnover in key positions during the financial statements preparation which impacted the level of oversight over the process. To address the audit recommendations, the College has taken the following actions:* • *As of September 2017, a new Finance Director was hired to continue providing expertise and oversight over the preparation of financial statements.* • *Contracted with a CPA firm to assist with the completion of the fiscal year 2017 financial statements, which include:* • *Performing a review of year-end adjusting journal entries to ensure they are*			

accurate and complete.

- *Conducting a final review of the financial statements to ensure they comply with all applicable Governmental Accounting Standards Board requirements and generally accepted accounting principles.*
- *Providing technical training to the Finance Director and Accounting Manager related to financial statement preparation.*

To prepare for the fiscal year 2018 financial statements cycle, the College has also incorporated outside education and training resources recommended by the auditors into the training program for staff.

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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*

State of Washington
Lower Columbia College
July 1, 2016 through June 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 16, 2018. As discussed in Note 15 to the financial statements, during the year ended June 30, 2017, the College implemented Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

Our report includes a reference to other auditors who audited the financial statements of the Lower Columbia College Foundation (the 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 the 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 Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reproting on internal control over finanical reporting or instances of reportable noncompliance associated with the Foundation.

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, 2017, 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 the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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

State Auditor

Olympia, WA

March 16, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Lower Columbia College
July 1, 2016 through June 30, 2017

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 units of the Lower Columbia College, Cowlitz County, Washington, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed on page 13.

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 (the Foundation), which represents 100 percent of the assets, net position and revenues of the aggregated discretely presented component units. 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 or the 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 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, 2017, 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 15 to the financial statements, in 2017, the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 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, 2017, 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 and required supplementary information listed on page 13 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 REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018 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

March 16, 2018

FINANCIAL SECTION

Lower Columbia College
July 1, 2016 through June 30, 2017

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Management's Discussion and Analysis – 2017

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College Statement of Revenues, Expenses and Changes in Net Position – 2017
College Statement of Cash Flows – 2017
Foundation Statement of Financial Position – 2017
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Total Position Pension Liability and Related Ratios – State Board Retirement Plan and Notes to the Required Supplementary Information – 2017
Schedule of Lower Columbia College's Proportionate Share of the Net Pension Liability – PERS 1 – 2017
Schedule of Lower Columbia College's Proportionate Share of the Net Pension Liability – PERS 2/3 – 2017
Schedule of Lower Columbia College's Proportionate Share of the Net Pension Liability – TERS 1 – 2017
Schedule of Lower Columbia College's Proportionate Share of the Net Pension Liability – TERS 2/3 – 2017
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Schedule of Employer Contributions – TERS 2/3 – 2017

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, 2017 (FY 2017).

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 Lower Columbia College Foundation. 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, 2017. 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.

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 Net Position
As of June 30

	2017	2016
Assets		
Current assets	$ 6,093,909	$ 10,605,995
Capital assets, net	88,129,001	86,131,290
Other noncurrent assets	7,549,534	7,830,364
Total assets	101,772,444	104,567,649
Deferred Outflows	1,912,810	1,331,185
Liabilities		
Current liabilities	4,411,211	5,184,735
Noncurrent liabilities	38,574,866	37,107,326
Total liabilities	42,986,077	42,292,061
Deferred Inflows	622,464	921,081
Net position		
Net investment in capital assets	59,114,001	56,054,040
Restricted		
Expendable	350,154	217,350
Nonexpendable	507,770	750,935
Unrestricted	104,788	5,663,367
Total net position	$ 60,076,713	$ 62,685,692

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 2017 can be attributed to a decrease in cash used for projects completed in FY 2017 including, completion of the Gymnasium/Fitness Center project, Emergency Preparedness projects, Baseball Infield Turf project, and Head Start Memorial Park Renovation project.

Net Capital Assets increased by $2.0 million from FY 2016 to FY 2017. Additions of $4.4 million related to building and other improvements were offset by $2.5 million depreciation expense.

Other Non-Current Assets include long term investments. Changes to long term investments in FY 2017 are due to fair value adjustments.

Deferred outflows of resources increased by $581,625. Deferred outflows 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 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.

Current liabilities include amounts payable 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, pension liabilities and the long-term portion of Certificates of Participation debt. Non-current liabilities increased $1.5 million due to new reporting of the college's portion of the net pension liability related to the State Board Retirement Plan, offset by payments on debt. The College implemented GASB Statement 73 in fiscal year 2017, which requires reporting of pensions not administered in a trust or equivalent arrangement. A change in accounting principal adjustment was recorded in the amount of $2.1 million.

Net position represents the value of the College's assets and deferred outflows after liabilities and deferred inflows 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.

Net investment in capital assets increased by $3.1 million in FY 2017 as capital asset projects were completed and debt was paid down. Unrestricted net position decreased $5.6 million in FY 2017. This was due to cash outflows on capital asset projects and implementation of a new pension accounting standard, which resulted in a $2.1 million dollar change in accounting principle decreasing net position. Restricted net position only decreased slightly during the year.

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 2017. 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, 2017 and 2016 is presented below.

Condensed Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30

	2017	2016
Operating revenues	$ 23,352,102	$ 23,862,305
Operating expenses	(44,679,476)	(44,042,255)
Net operating income (loss)	(21,327,374)	(20,179,950)
Non operating revenues and expenses	17,073,093	16,711,562
Loss before capital contributions	(4,254,281)	(3,468,388)
Capital appropriations and contributions	3,990,093	2,967,757
Increase (decrease) in net position	(264,188)	(500,631)
Net position, beginning of year	62,685,692	63,186,323
Change in accounting principle	(2,139,587)	-
Prior period adjustment	(205,204)	-
Net position, end of year	$ 60,076,713	$ 62,685,692

Revenues:

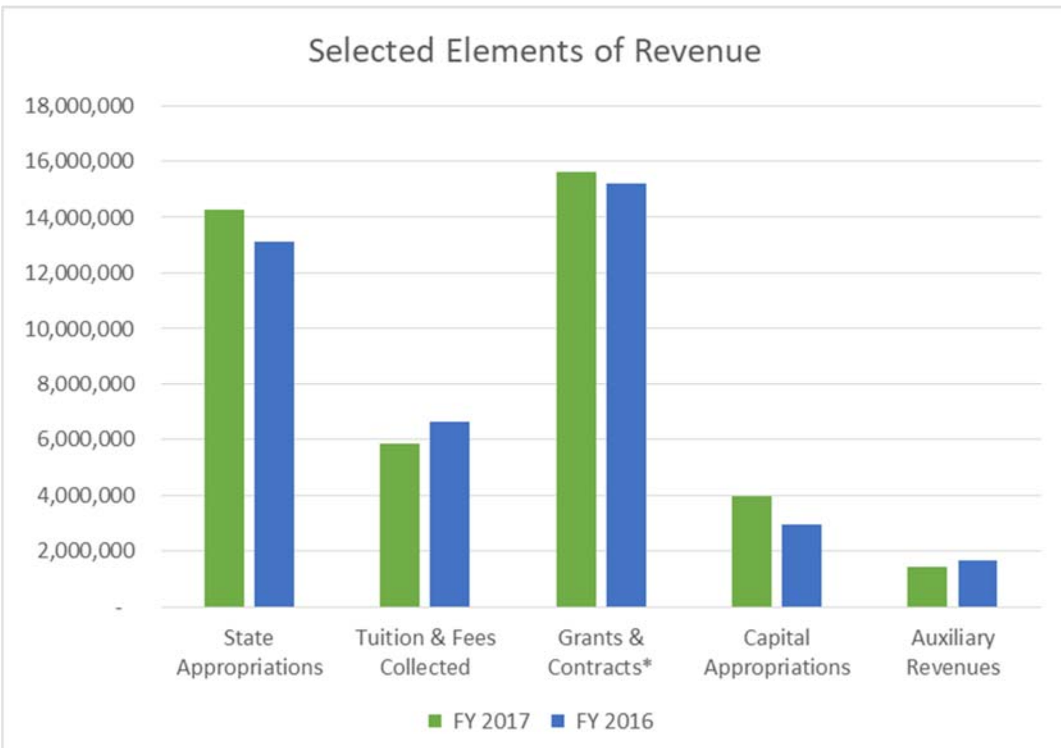
Continuing a trend that began midway through fiscal year 2009, the College's state operating appropriations decreased each fiscal year through FY 2013. The state of Washington appropriates funds to the community college system as a whole. The State Board for Community and Technical Colleges (SBCTC) then 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 2014, the Legislature reinstated a small portion of the previous cuts. However, 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. The increase in state appropriations in FY 2017 of $1.1 million over FY 2016 is mainly due to this change in the SBCTC allocation model.

Over this same period, the Legislature and SBCTC instituted increases in tuition rates to partially offset the reduction in state appropriations. The FY 2017 decrease in tuition and fee revenue is primarily attributable to the College's decrease in enrollments. This reduced the amount of tuition revenue collected by the College. The Legislature did however backfill a portion of this loss attributable to its Affordable Education Act 5% tuition reduction that took effect in FY 2016. The College attempted to keep student fees as stable as possible, resulting in only small changes in these revenues.

Pell grant revenues generally follow enrollment trends. As the College's enrollment softened during FY 2017, so did the College's Pell Grant revenue.

In FY 2017, grant and contract revenues decreased by approximately $75,000 when compared with FY 2016. The College continued to serve students under the terms of 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. The College also contracts with these same high schools to enroll Career Education Opportunities (CEO) students, which allows students to take courses from the College to complete their high school diploma.

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.



* Grants and Contracts exclude any Federal Pell grants and student loans.

Expenses:

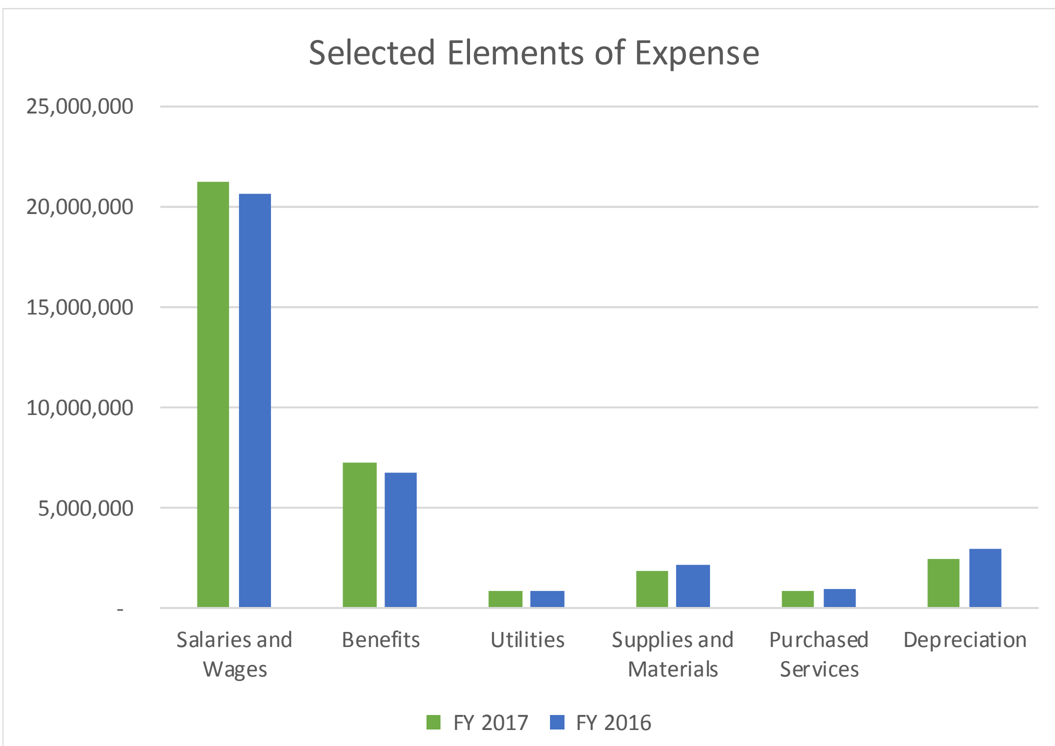
During the Great Recession of 2008 the College saw significant reductions to their state appropriations and that trend has continued throughout the last seven years. Although the College saw a slight increase in FY 2016 and FY 2017, much of that increase was provided to the College as earmarked funds or given as a proviso by the State Legislature. The College's state appropriations have yet to return back to the level they were at before the reductions initially took place. The College has continuously sought opportunities to identify savings and efficiencies. Over time, the College has decreased spending and services and was subject to various state spending freezes and employee salary reductions.

More recently, in FY 2017, salary and benefit costs increased as result of Cost of Living Adjustment (COLA) and health rate changes approved by the state in FY 2016.

Utility costs were relatively steady from FY 2016 to FY 2017 despite rate increases for electricity, natural gas, and water. Supplies and materials and purchased services are lower in FY 2017, primarily as a result of our efforts to realize the savings and efficiencies mentioned above.

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, 2017, the College had invested $88,129,001 in capital assets, net of accumulated depreciation. This represents an increase of $2.0 million from last year, as shown in the table below.

Asset Type	June 30, 2017	June 30, 2016	Change
Land	$ 6,016,176	$ 5,846,698	$ 169,478
Construction in Progress	987,773	1,335,291	(347,518)
Buildings, net	75,490,985	75,172,687	318,298
Other Improvements and Infrastructure, net	3,133,622	2,043,994	1,089,628
Equipment, net	2,400,845	1,679,339	721,506
Library Resources, net	99,600	53,281	46,319
Total Capital Assets, Net	**$ 88,129,001**	**$ 86,131,290**	**$ 1,997,711**

Additional information on capital assets can be found in Note 4 of the Notes to the Financial Statements.

At June 30, 2017, the College had $29,015,000 in outstanding debt, all of this in the form of two Certificate of Participation issued by the State Treasurers Office. The first COP was issued in December, 2012 in lieu of a Capital Appropriation for the construction of the Health & Science building. The second COP was issued September, 2015 for the remodel of the College Fitness Center building.

Debt, Short and Long-Term	June 30, 2017	June 30, 2016	Change
Certificates of Participation	$ 29,015,000	$ 30,240,000	$ (1,225,000)
Total	**$ 29,015,000**	**$ 30,240,000**	**$ (1,225,000)**

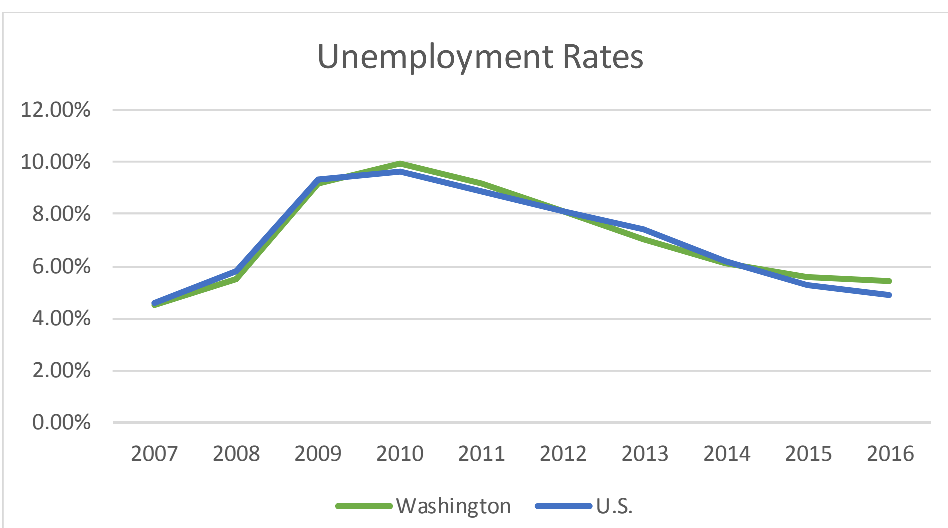
Additional information of notes payable, long term debt, and debt service schedules can be found in Note 10 and 11 of the Notes to the Financial Statements.

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 2016. Beginning FY 2016, the Legislature enacted the Affordable Education Act, which reduced tuition by 5% at the College. This will further reduce the amount of tuition collected by the College. The Legislature did however backfill a portion this loss. In FY 2017, the State Board for Community and Technical College's implemented a new allocation model, changing how the state allocated funds are distributed to each college. The new model is based on performance in several key indicators, from general enrollments to enrollments in high cost programs, as well as student completion and achievement points. The model is based on a three-year rolling average of enrollments and completions, comparative to other institutions in the state. Although the College continues to see a decrease in enrollment, when comparing enrollment to the other Colleges in the system, we anticipate a small increase in state operating appropriations in the next few fiscal years. However, 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 such as the McCleary Act.

Washington's Economic and Revenue Forecast Council prepares independent forecasts quarterly throughout the year. In its November 2017 forecast, the Council observed that the Washington economy is expanding at a rapid pace. Historical estimates of personal income were revised significantly higher. Employment has also been revised higher and growth has exceeded expectations. Washington employment is expected to grow 3.0% this year, up from 2.9% in the September forecast. We expect employment growth to average 1.6% per year in 2018 through 2021. Lower unemployment rates, rising wages and a steady housing market suggested potential upside risks to the Washington 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. This pattern is particularly notable in the Washington's rural counties, including Cowlitz and Wahkiakum (which comprise the service district for Lower Columbia College). For LCC specifically, the unemployment rate is the strongest single statistical predictor of enrollment change. Because economic recovery from the 2008 recession lagged the state in both Cowlitz and Wahkiakum Counties, enrollment at LCC stayed higher relatively than the rest of the system in 2017. Moderate declines in enrollment, related to falling unemployment rates, were expected in 2017 and possibly 2018 as well before eventual stabilization.



Statement of Net Position

Lower Columbia College

As of June 30, 2017

		2017
ASSETS		
Current assets		
Cash and cash equivalents	$	3,104,362
Restricted cash		400,782
Accounts receivable, net		2,128,672
Inventories		405,161
Prepaid Expenses		54,932
Total current assets		6,093,909
Non-current assets		
Long-term investments		7,549,534
Depreciable Capital assets, net		81,125,052
Non-depreciable assets		7,003,949
Total non-current assets		95,678,535
Total assets		101,772,444
DEFERRED OUTFLOWS OF RESOURCES - Pensions		1,912,810
LIABILITIES		
Current liabilities		
Accounts payable		585,889
Accrued liabilities		1,833,121
Compensated absences		175,280
Interest payable		108,844
Deposits payable		8,411
Unearned revenue		384,666
Certificates of participation payable		1,315,000
Total current liabilities		4,411,211
Noncurrent liabilities		
Compensated absences		1,752,889
Pension liability		9,121,977
Certificates of participation payable		27,700,000
Total noncurrent liabilities		38,574,866
Total liabilities		42,986,077
DEFERRED INFLOWS OF RESOURCES - Pensions		622,464
NET POSITION		
Net investment in capital assets		59,114,001
Restricted for:		
Expendable		350,154
Nonexpendable		507,770
Unrestricted		104,788
Total net position	$	60,076,713

The accompanying notes are an integral part of these financial statements

Statement of Revenues, Expenses and Changes in Net Position

Lower Columbia College

For the Year Ended June 30, 2017

		2017
Operating revenues		
Student tuition and fees, net	$	5,880,825
Auxiliary enterprise sales		1,460,380
State and local grants and contracts		11,317,387
Federal grants and contracts		4,303,966
Other operating revenues		389,544
Total operating revenue		23,352,102
Operating expenses		
General Administrative		3,599,854
Salaries and wages		21,276,288
Benefits		7,324,762
Scholarships and fellowships, net		6,146,286
Supplies and materials		1,990,700
Depreciation		2,493,870
Purchased services		908,661
Utilities		913,185
Total operating expenses		44,653,606
Operating income (loss)		(21,301,504)
Non-operating revenues		
State appropriations		14,252,542
Federal Pell grant revenue		4,985,658
Investment income, gains and losses		51,909
Building fee remittance		(692,207)
Innovation fund remittance		(169,474)
Interest on indebtedness		(1,355,335)
Loss on disposal of capital assets		(25,870)
Total non-operating revenues (expenses)		17,047,223
Income before capital contributions		(4,254,281)
Capital Revenues		
Capital appropriations		3,990,093
Increase (decrease) in net position		(264,188)
Net position		
Net position, beginning of year		62,685,692
Change in accounting principle		(2,139,587)
Prior period adjustment		(205,204)
Net position, end of year	$	60,076,713

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows
Lower Columbia College
For the Year Ended June 30, 2017

		2017
Cash flow from operating activities		
Student tuition and fees	$	5,931,081
Grants and contracts		15,784,336
Payments to vendors		(2,299,754)
Payments for utilities		(1,051,096)
Payments to employees		(21,276,288)
Payments for benefits		(7,361,816)
Auxiliary enterprise sales		1,460,856
Payments for scholarships and fellowships		(5,810,359)
Other receipts		389,544
Other payments		(3,854,722)
Net cash used by operating activities		(18,088,217)
Cash flow from noncapital financing activities		
State appropriations		12,441,973
Pell grants		4,985,658
Building fee remittance		(691,276)
Innovation fund remittance		(169,222)
Net cash provided by noncapital financing activities		16,567,133
Cash flow from capital and related financing activities		
Capital appropriations		3,898,561
Purchases of capital assets		(4,386,847)
Principal paid on capital debt		(1,225,000)
Interest paid		(1,485,467)
Net cash provided by financing activities		(3,198,753)
Cash flow from investing activities		
Proceeds from sales and maturities of investments		234,001
Income from investments		332,876
Net cash provided by investing activities		566,877
Increase (Decrease) in cash and cash equivalents		(4,152,960)
Cash and cash equivalents at the beginning of the year		7,658,104
Cash and cash equivalents at the end of the year	$	3,505,144

The accompanying notes are an integral part of these financial statements

Statement of Cash Flows, continued

Lower Columbia College

For the Year Ended June 30, 2017

		2017
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$	(21,301,504)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation/amortization		2,493,870
(Increase) decrease in accounts receivable		883,064
(Increase) decrease in prepaid items		(5,309)
Increase (decrease) in warrants payables		2,239
Increase (decrease) in customer deposits		1,338
Increase (decrease) in inventory		(46,110)
Increase (decrease) in unearned revenue		(53,770)
Increase (decrease) in compensated absences		(146,949)
Increase (decrease) in pensions		84,913
Net cash used by operating activities		(18,088,217)

The accompanying notes are an integral part of these financial statements

Foundation Statement of Financial Position

Lower Columbia College Foundation

As of June 30, 2017

ASSETS		
Cash and cash equivalents	$	1,471,630
Marketable securities		13,799,248
Pledges receivable		115,879
Prepaid Expenses		1,746
Fixtures and Equipment		36,760
Land held for sale		260,900
Total Assets		15,686,163
LIABILITIES		
Accrued Expenses		42,902
Amounts held in trust of Lower Columbia College		-
Annuity payment liability		2,655
Total Liabilities		45,557
NET ASSETS		
Unrestricted		2,905,132
Temporarily restricted		4,380,101
Permanently restricted		8,355,373
Total Net Assets	$	15,640,606

The accompanying notes are an integral part of these financial statements

Foundation Statement of Activities & Changes in Net Position

Lower Columbia College Foundation

For the Year Ended June 30, 2017

REVENUES, GAINS AND OTHER SUPPORT	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Contributions	$ 33,986	$ 392,438	$ 575,416	$ 1,001,840
Investment earnings (losses)	22,205	1,502,174	-	1,524,379
Vending maching revneue	34,918			34,918
Other revenues and gains	(733)	2,070	-	1,337
In-kind contributions	276,619	-	-	276,619
Impairment of land value				-
Special event revenue, gross		84,250		84,250
Reclassifications of net assets				
Satisfication of program restrictions	637,063	(637,063)	-	-
Interfund transfer	38,444	(46,149)	7,705	-
Total revenues, gains and other support	1,042,502	1,297,720	583,121	2,923,343
EXPENSES				
Program services	939,828	-	-	939,828
General and administrative expenses	166,221	-	-	166,221
Fundraising expenses	109,027	-	-	109,027
Total expenses	1,215,076	-	-	1,215,076
Change in net assets	(172,574)	1,297,720	583,121	1,708,267
Net Assets, beginning of Year	3,077,706	3,082,381	7,772,252	13,932,339
Net Assets, end of year	$ 2,905,132	$ 4,380,101	$ 8,355,373	$ 15,640,606

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

The financial statements of the Lower Columbia College (the College) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the significant accounting policies for the College.

Financial Reporting Entity

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 component unit based on the criteria contained in Governmental Accounting Standards Board (GASB) Statements. 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 generally accepted accounting principles. 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, 2017, the Foundation distributed approximately $865,909 to the College for restricted and unrestricted purposes, which includes student scholarships in the amount of $253,857, program support in the amount of $377,391, grants in the amount of $39,509 and other purposes in the amount of $195,152. 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 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. For the financial statements, intra-agency 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.

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.

The preparation of financial statements 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.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, bank demand and time deposits. Cash resources are invested directly into government securities with interest accruing for the benefit of the College. Cash and cash equivalents that are held with the intent to fund College operations are classified as current assets on the statement of net position.

Cash in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. Endowment investments are classified as noncurrent assets on the statement of net position.

Certain investments are reported at fair value in accordance with GASB statement No. 72, *Fair Value Measurement and Application.* Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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 twelve 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.

Land, buildings and equipment are recorded at cost, or if acquired by gift, at acquisition value at the date of the gift. 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 20 to 50 years for buildings and improvements, 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, 2017, 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. Unearned revenues also include tuition and fees paid with financial aid funds. 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 Washington State Department of Retirement Systems and State Board Retirement Plan, and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by Washington State Department of Retirement Systems and State Board Retirement Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. In FY17, the College also reports its share of the pension liability for the State Board Retirement Plan in accordance with GASB 73 *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB 68 (Accounting and Financial Reporting for Pensions).* The reporting requirements are similar to GASB68 but use current fiscal yearend as the measurement date for reporting the pension liabilities.

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. Deferred outflows and inflows of resources reported by the College relate to pensions.

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, investment income and Pell Grants received from the federal government.

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, 2017 are $2,966,757.

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

As of June 30, 2017, the College cash, cash equivalents, and investments, as reported on the Statement of Net Position as restricted in accordance with RCW 28 B.15.820, are as follows:

	June 30, 2017
Cash and cash equivalents	$ 3,505,144
Local government bonds	5,716,975
US government agencies and sponsored entities	1,832,559
Total Cash and investments	$ 11,054,678

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned. The College's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the College's deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Investments

Lower Columbia College's Investments Policy 532 states that LCC shall invest funds in a manner which provides maximum security with the highest investment return, while meeting the daily cash flow demands of the College and conforming to all state laws governing the investment of public funds. The Chief Financial Officer shall invest district funds and is responsible for the investment program. The Chief Financial Officer will take necessary actions to ensure the prudent investment of district funds and shall provide consistent periodic reporting to the President.

Statutes authorize the College to invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities, banker's acceptances, repurchase agreements, and the state treasurer's investment pool.

Investments Measured at Fair Value

The investment portfolio consists of individual issues of US government-sponsored enterprises and municipal bonds, diversified by type, locale, and maturity date which are held by custodian U.S. Bank N.A. Treasury Division. The College measures and records its investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;

- Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3: Unobservable inputs for an asset or liability, to the extent observable inputs are not available

As of June 30, 2017, the College had the following recurring fair value measurements.

		Fair Value Measurements Using		
Investments by fair value level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities				
Local government issues	$ 5,716,975	$ -	$ 5,716,975	$ -
US government-sponsored enterprises	1,832,559	-	1,832,559	-
Federal Home Loan Bank	-		-	-
US Treasury Strips	-		-	-
Total Debt Securities	7,549,534	-	7,549,534	-
Total Investments by Fair Value Level	$ 7,549,534	$ -	$ 7,549,534	$ -

Interest rate risk. College policy limits investment maturities as a means to manage its exposure to fair value losses arising from increasing interest rates. The College's intent is to purchase investments that may be held until maturity. 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 College manages its exposure to interest rate risk by limiting the duration of investment and structuring the maturity of investments to mature at various points in the year. The goal of the overall portfolio is to balance cash flow requirements, safety, liquidity, and yield. Interest rate risk is measured using the specific identification method. Investment maturities at June 30, 2017 is as follows:

	Market Value	2018-2022	2023-2027	2028-2032	2033-2034
Municipal Bonds	$ 5,716,975	$ 3,014,562	1,004,775	1,238,802	458,836
Farm Credit Bank	1,613,407	1,093,599	-	519,808	-
Federal Home Loan Mortgage Corp	219,152	219,152	-	-	-
Total Investments	$ 7,549,534	$ 4,327,313	$ 1,004,775	$ 1,758,610	$ 458,836

	Maturity Date		Market Value
Federal Farm Credit Bank	02/22/19	$	1,093,599
Federal Home Loan MTG Corp	08/01/19		219,152
Port Anacortes WA GO LTD A1 Moody	09/01/19		415,692
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM A S&P	12/01/19		491,364
Grant County WA PUD#2 Revenue - Priest Rapids Hydro AA Moody	01/01/20		503,050
Burien WA GO LTD, BLD AM 121265CS9 A1 Moody	12/01/20		110,045
Mason Co. WA Pub Hosp DSY #001 GO, BLD AM A S&P	12/01/20		521,740
Lewis Co. WA Pub Fac Dist Sls Tax Rev, BLD AM A1 Moody	12/01/20		225,660
Centralia, WA Elec Revenue A+ S&P	12/01/20		420,200
Multnomah County OR GO LTD AA1 Moody	12/01/21		209,442
Longview, WA GO LTD Quality Energy Consrv A1 Moody	12/01/21		117,369
Pasco WA Wtr & Swr Rev Bond US#702571MB3 callable 5/19 AAAe S&P	05/01/24		127,512
Port of Vancouver GO Ref AA3 Moody	12/01/24		51,099
Port of Vancouver GO Ref AA3 Moody	12/01/24		306,594
Burien WA GO LTD, BLD AM 121265CT7 A1 Moody	12/01/25		519,570
Georgia St GO UNLTD TXBL SERIES E Aaa Moody	02/01/29		233,006
El Paso TX GO LTD TXBL airport CTFD AA S&P	08/15/29		314,686
Federal Farm Credit Bank	06/20/31		519,808
Santa Ana CA UNIF SD GO UNLTD ELECT 1999 SR B ZERO COUP A3 Moody	08/01/31		691,111
North Monterey CNTY CA GO UNTD UNION SD ELECT SER A+ S&P	05/01/34		458,836
Total Investments Exposed to Custodial Risk		$	7,549,534

Credit risk. Credit risk is the risk that an issuer or related party will not fulfill its obligations. As required by state law, all investments of the College's funds are obligations of the U.S. government, U.S. agency issues, obligations of the State of Washington, general obligations of Washington State municipalities, bankers' acceptances, or certificates of deposit with Washington State banks and savings and loan institutions. College investments are in US government bonds and municipal bonds, which have zero to low risk of default because of the capability of local and state governments to increase taxes to cover their debts. All municipal bonds held are rated on the Moody's and/or S&P ratings scale of A1 and/or A or higher.

Concentration of credit risk. Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. College policy does not limit the amount the College may invest in any one issuer. Endowment assets, totaling $433,619 are also included in the total amount held for the benefit of Lower Columbia College, which are exposed to concentration of credit risk. The investments held at year-end are listed below along with their percentage of the government's total investment:

Investment Type		Fair Value	% of Portfolio
Local government issue bonds	$	5,716,975	76%
Federal Farm Credit Bank		1,613,407	21%
Federal Home Loan Mortgage Corp.		219,152	3%
	$	7,549,534	100%

Custodial credit risk (investments). Custodial risk is the risk that, in the event of a failure of the counterparty, the government will not be able to recover its investments that are in the possession of an outside party. The College uses U.S. Bank N.A., Treasury Division as the custodial agent for safekeeping of the College's investments. U.S. Bank N.A., Treasury Division provides monthly reports on the College's securities, all of which are held in the College's name. The investments held by the College at year-end are all book-entry, registered securities.

Total cash and investments are stated at $11,088,357. This includes cash held in a fiduciary capacity. There is additional cash held in College accounts due to "float" of outstanding checks, which have not cleared the bank as of June 30, 2017. The total cash and investments held by the College per the bank account, including the uncleared checks, total $3,697,695. The College invests all temporarily idle funds. Investment income for the College is shown net of investment expenses.

3. Accounts Receivable

At June 30, 2017, accounts receivable were as follows.

		FY17
Student Tuition and Fees	$	1,300,132
Due from the Federal Government		888,411
Due from Other State Agencies		936,256
Auxilary Enterprises		2,751
Other		138,030
Subtotal		3,265,580
Less Allowance for Uncollectible Accounts*		(1,136,908)
Accounts Receivable, net	$	2,128,672

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

4. Capital Assets

A summary of the changes in capital assets for the year ended June 30, 2017 is presented as follows. The current year depreciation expense was $ 2,493,870.

	Beginning Balance	Additions/ Transfers	Retirements / Adjustments	Ending Balance
Nondepreciable capital assets				
Land	$ 5,846,698	$ 169,478	$ -	$ 6,016,176
Construction in progress	1,335,291	875,571	1,223,089	987,773
Total nondepreciable capital assets	7,181,989	1,045,049	1,223,089	7,003,949
Depreciable capital assets				
Buildings	99,239,780	2,203,301	-	101,443,081
Other improvements and infrastructure	4,258,160	1,220,937	-	5,479,097
Equipment	5,513,471	1,185,006	143,372	6,555,105
Library resources	1,614,617	60,377	-	1,674,994
Subtotal depreciable capital assets	110,626,028	4,669,621	143,372	115,152,277
Less accumulated depreciation				
Buildings	24,067,093	1,885,003	-	25,952,096
Other improvements and infrastructure	2,214,166	131,309	-	2,345,475
Equipment	3,834,132	463,500	143,372	4,154,260
Library resources	1,561,336	14,058	-	1,575,394
Total accumulated depreciation	31,676,727	2,493,870	143,372	34,027,225
Total depreciable capital assets	78,949,301	2,175,751	-	81,125,052
Capital assets, net of accumulated depreciation	$ 86,131,290	$ 3,220,800	$ 1,223,089	$ 88,129,001

5. Accrued Liabilities

At June 30, 2017, accrued liabilities are the following.

	Amount
Amounts Owed to Employees	$ 1,473,405
Amounts Held for Others	359,716
Total accrued liabilities	$ 1,833,121

6. Unearned Revenue

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

	Amount
Summer Quarter Tuition & Fees	$ 344,291
Auxilary Enterprises	39,975
Grants & Contracts	400
Total Unearned Revenue	$ 384,666

7. Risk Management

The College is exposed to various risk of loss related to tort liability, injuries to employees, errors and omissions, theft of, damage to, and destruction of assets, and natural disasters. The College purchases insurance to mitigate these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks.

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, 2016 through June 30, 2017, were $31,721. Cash Reserves for unemployment compensation for all employees as June 30, 2017, were $62,000.

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. In addition, the College purchases insurance from the Washington State Department of Enterprise Services. These policies cover such areas as property, buildings, athletics and medical malpractice liabilities.

8. 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 $956,385, accrued sick leave totaled $971,783, and the accrued compensatory leave totaled $0 at June 30, 2017.

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

9. 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.

In December of 2015, the college obtained financing in order to fund the renovation of the College's Fitness Center certificates of participation (COP), issued by the Washington Office of State Treasurer (OST) in the amount of $ 2,910,000. The interest rate charged is 3.42129% for a term of twenty years. The Fitness Center COP will be paid for by student fees as approved by the ASLCC.

10. Annual Debt Services Requirements

Future debt service requirements at June 30, 2017 are as follows.

Certificates of Participation						
Fiscal year		Principal		Interest		Total
2018	$	1,315,000	$	1,303,631	$	2,618,631
2019		1,380,000		1,243,831		2,623,831
2020		1,450,000		1,174,706		2,624,706
2021		1,525,000		1,102,081		2,627,081
2022		1,600,000		1,025,706		2,625,706
2023-2027		9,340,000		3,851,309		13,191,309
2028-2032		11,630,000		1,545,544		13,175,544
2033-2036		775,000		58,756		833,756
Total	$	29,015,000	$	11,305,565	$	40,320,565

11. Schedule of Long Term Liabilities

		Balance outstanding 6/30/16		Additions		Reductions		Balance outstanding 6/30/17		Current portion
Certificates of participation	$	30,240,000	$	-	$	1,225,000	$	29,015,000	$	1,315,000
Compensated absences		2,075,118		-		146,949		1,928,169		175,280
Net pension obligation		8,156,822		965,155		-		9,121,977		-
Total long-term debt	$	40,471,940	$	965,155	$	1,371,949	$	40,065,146	$	1,490,280

The Net pension obligation balance at 6/30/2016 was increased by $2,139,587 to present the State Board Retirement Plan (SBRP) pension liability recognized under GASB 73.

12. Retirement Plans

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 defined contribution single employer pension plan with a supplemental payment when required. SBRP is administered by the State Board for Community and Technical Colleges (SBCTC) and available to faculty, exempt administrative and professional staff of the state's public community and technical colleges. The College reports its proportionate share of the total pension liability as it is a part of the college system.

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 State Board Retirement Plan, they are administered in a way equivalent to pension trust arrangements as defined by GASB. In accordance with the Statement No. 68, the College has elected to use the prior fiscal year end as the measurement date for reporting net pension liabilities related to PERS and TRS, to align with the State CAFR.

For the State Board Retirement Plan, the College has elected to use the current fiscal year end as the measurement date for reporting net pension liabilities for the State Board Retirement Plan in alignment 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.

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.

Deferred outflows 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 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.

Deferred inflows 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 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 table represents the aggregate pension amounts for all plans subject to GASB requirements for Lower Columbia College, for reported year June 30, 2017:

Pension liabilities	$ (9,121,977)
Deferred outflows of resources related to pensions	1,912,810
Deferred inflows of resources related to pensions	(622,464)
Pension expense/expenditures	101,222

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 composed 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 Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

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

Retirement Plans

PERS

Plan Description. The Legislature established the PERS Plan in 1947. PERS Plan 1 provides retirement and disability benefits and minimum benefit increases to eligible nonacademic plan members hired prior to October 1, 1977. Entrance to PERS Plan 1 is closed to new employees. 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 ten years of eligible service.

PERS participants joining the system on or after March 1, 2002, for state and higher education employees, or September 1, 2002, for local government employees, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

Benefits Provided. PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

PERS Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service. This is reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC. Plan 1 members may elect to receive an optional COLA amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. PERS Plan 2 members have the option to retire early with reduced benefits.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Plan 3 members have the option to retire early with reduced benefits. PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

TRS

<u>Plan Description</u>. The Legislature established the TRS Plan in 1938. TRS Plans 1 and 2 are defined benefit plans. TRS Plan 1 was closed to new entrants on September 30, 1977. Employees currently have a choice of entering TRS Plan 2 or 3. TRS Plan 2 and 3 provide retirement benefits to certain eligible faculty hired on or after October 1, 1977. TRS Plan 3 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. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

Legislation passed in 2007 gives TRS members hired on or after July 1, 2007, 90 days to make an irrevocable choice to become a member of TRS Plan 2 or Plan 3. At the end of 90 days, any member who has not made a choice becomes a member of Plan 3.

<u>Benefits Provided</u>. TRS plans provide retirement, disability, and death benefits to eligible members.

TRS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) for each year of service credit, up to a maximum of 60 percent. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two.

TRS Plan 1 members may elect to receive an optional cost of living allowance (COLA) amount based on the Consumer Price Index, capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

TRS Plan 2 retirement benefits are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. A COLA is granted based on the Consumer Price Index, capped at 3 percent annually. TRS Plan 2 members have the option to retire early with reduced benefits. The AFC is the average of the member's 60 highest paid consecutive months.

The defined benefit portion of TRS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months.

TRS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44; or after five service credit years earned in TRS Plan 2 by July 1, 1996. Plan 3 members are immediately vested in the defined contribution portion of their plan. TRS Plan 3 members have the option to retire early with reduced benefits. TRS members meeting specific eligibility requirements, have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

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. 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.

The authority to establish and amend benefit provisions resides with the legislature.

Contribution Rates and Required Contributions. The College's contribution rates and required contributions for the above retirement plans for the years ending June 30, 2017, 2016, and 2015 are as follows:

Contribution Rates at June 30

	FY2015		FY2016		FY2017	
	Employee	College	Employee	College	Employee	College
PERS						
Plan 1	6.00%	9.21%	6.00%	11.18%	6.00%	11.18%
Plan 2	4.92%	9.21%	6.12%	11.18%	6.12%	11.18%
Plan 3	5 - 15%	9.21%	5 - 15%	11.18%	5 - 15%	11.18%
TRS						
Plan 1	6.00%	10.39%	6.00%	13.13%	0.00%	13.13%
Plan 3	5-15%	10.39%	5-15%	13.13%	0.00%	13.13%

	Required Contributions
PERS 1	$ 365,811
PERS 2/3	474,922
TRS 1	36,244
TRS 2/3	38,741

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.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2007-2012 Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- Inflation 3.00%
- Salary Increases 3.75%

- Investment rate of return 7.50%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Discount Rate

There were minor changes in methods and assumptions since the last valuation:

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent. To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' 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 7.5 percent was used to determine the total liability

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
Total	100%	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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	3,860,815	3,201,606	2,634,317
PERS Plan 2/3	7,005,857	3,805,091	(1,980,770)
TRS Plan 1	345,424	280,992	225,492
TRS Plan 2/3	261,939	115,741	(134,457)

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities, Expense and Deferred Outflows and Inflows of Resources Related to Pensions

At June 30, 2017, the College reported a total pension liability of $7,403,430 for its proportionate share of the net pension liabilities in the PERS as follows:

PERS 1	$	3,201,606
PERS 2/3		3,805,091
TRS 1		280,992
TRS 2/3		115,741
Total	$	7,403,430

Changes in Proportionate Shares of Pension Liabilities
The changes to the College's proportionate share of pension liabilities from 2015 to 2016 for each retirement plan are listed below:

Plan Name	2015	2016	Change
PERS 1	0.05848%	0.05962%	0.00113%
PER 2/3	0.07467%	0.07557%	0.00091%
TRS 1	0.00715%	0.00823%	0.00108%
TRS 2/3	0.00757%	0.00843%	0.00086%

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.

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
FY16 Pension Expense	$ 187,258	$ 519,092	$ 18,044	$ 31,558	$ 755,952
Deferred Outflows (FY 2017 contributions)	(365,811)	(474,922)	(36,244)	(38,741)	(915,718)
Amortization of change in proportionate liability	62,620	68,454	36,748	6,181	174,003
Total Pension Expense	$ (115,933)	$ 112,624	$ 18,548	$ (1,002)	$ 14,237

The following represent the components of the College's deferred outflows and inflows of resources as reflected on the Statement of Net Position, for the year ended June 30, 2017:

	PERS 1		PERS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ -	$ 202,618	$ 125,612
Difference between expected and actual earnings of pension plan investments	80,611	-	465,633	-
Changes of Assumptions	-	-	39,329	-
Changes in College's proportionate share of pension liabilities	-	-	151,493	-
Contributions to pension plans after measurement date	365,811	-	474,922	-
	$ 446,422	$ -	$ 1,333,996	$ 125,612

	TRS 1		TRS 2/3	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ -	$ -	$ 8,756	$ 5,136
Difference between expected and actual earnings of pension plan investments	8,913	-	18,631	-
Changes of Assumptions	-	-	1,179	-
Changes in College's proportionate share of pension liabilities	-	-	19,928	-
Contributions to pension plans after measurement date	36,244	-	38,741	-
	$ 45,157	$ -	$ 87,235	$ 5,136

The $915,718 reported as deferred outflows of resources related to contributions the College made subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

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

	PERS 1	PERS 2/3	TRS 1	TRS 2/3	Total
2018	$ (19,848)	$ 71,082	$ (2,303)	$ 5,839	$ 54,770
2019	(19,848)	59,990	(2,303)	5,839	43,677
2020	74,033	379,914	8,338	20,037	482,322
2021	46,275	222,475	5,182	11,346	285,277
2022	-	-	-	298	298
Total	$ 80,611	$ 733,461	$ 8,913	$ 43,359	$ 866,344

State Board Retirement Plan (SBRP) – Supplemental Defined Benefits Plans

<u>Plan Description</u>.
The State Board Retirement Plan is a privately administered single-employer defined contribution plans with a supplemental defined benefit plan component which guarantees a minimum retirement benefit based upon a one-time calculation at each employee’s retirement date. The supplemental component is financed on a pay-as-you-go basis. Lower Columbia College participates in this plan as authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements.

<u>Contributions</u>. 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, 2017 were each $865,558.

Benefits Provided. The State Board Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members.

As of July 1, 2011, all the Supplemental Retirement Plans were closed to new entrants.

Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is the one-twelfth of 2 percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of fifty percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution Retirement Plan benefit in the first month of retirement had they invested all employer and member contributions equally between a fixed income and variable income annuity investment.

Plan members have the option to retire early with reduced benefits.

The SBRP supplemental pension benefits are unfunded. For the year ended June 30, 2017, supplemental benefits were paid by the SBCTC on behalf of the College in the amount of $902,000. The College's share of this amount was $16,309. 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 2017, the College paid into this fund at a rate of 0.5% of covered salaries, totaling $865,558. This amount was not used as a part of GASB73 calculations as its status as an asset has not been determined by the Legislature. As of June 30, 2017, the Community and Technical College system accounted for $13,280,150 of the fund balance.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to the June 30, 2017, measurement date using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25%-6.25%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most actuarial assumptions used in the June 30, 2016, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the State Board Retirement Plan.

Material assumption changes during the measurement period include the discount rate increase from 2.85 percent to 3.58 percent and the variable income investment return assumption dropping from 6.75 percent to 6.25 percent.

Discount Rate
The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017, measurement date.

Pension Expense
For the year ended June 30, 2017, Lower Columbia College reported $86,985 for pension expense in the State Board Retirement Plan.

Proportionate Shares of Pension Liabilities
The College's proportionate share of pension liabilities in the State Board Retirement Plan for fiscal year ending June 30, 2017 was 1.81%. 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 College's, actuarially determined.

Plan Membership
Membership of the State Board Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

Number of Participating Members				
Plan	Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
State Board for Community and Technical Colleges (SBCTC)	13	0	114	127

Change in Total Pension Liability/ (Asset)
The following table presents the change in total pension liability/(asset) of State Board Retirement Plan at June 30, 2017, the latest measurement date for all plans:

Change in Total Pension Liability (Asset)		Amount
Service cost	$	97,942
Interest		63,535
Changes of benefit terms		-
Differences between expected and actual experience		(458,086)
Changes of assumptions		(108,121)
Benefit payments		(16,309)
Other		-
Net change in total pension liability		(421,040)
Total pension liability - beginning		2,139,587
Total pension liability - ending	$	1,718,547

Sensitivity of the Total Pension Liability/ (Asset) to Changes in the Discount Rate
The following table presents the total pension liability/(asset), calculated using the discount rate of 3.58 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate:

Total Pension Liability (Asset)	1% Decrease	Current Discount Rate	1% Increase
State Board for Community and Technical Colleges (SBCTC)	1,974,368	1,718,547	1,506,680

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the State Board Retirement Plan reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

State Board for Community and Technical Colleges (SBCTC)	Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$ -	$ 397,824
Changes of Assumptions	-	93,892
Transactions subsequent to the measurement date	-	-
Total	$ -	$ 491,716

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the fiscal years ended June 30:

State Board for Community and Technical Colleges (SBCTC)	
2018	74,510
2019	74,510
2020	74,510
2021	74,510
2022	74,510
Thereafter	119,168

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 $13,015,284 with an annual required contribution (ARC) of $1,172,704. The ARC represents the amortization of the liability for fiscal year 2017 plus the current expense for active employees, which is reduced by the current contributions of approximately $251,616. The College's net OPEB obligation (NOO) at June 30, 2017 was approximately $3,430,588. This amount is not included in the College's financial statements.

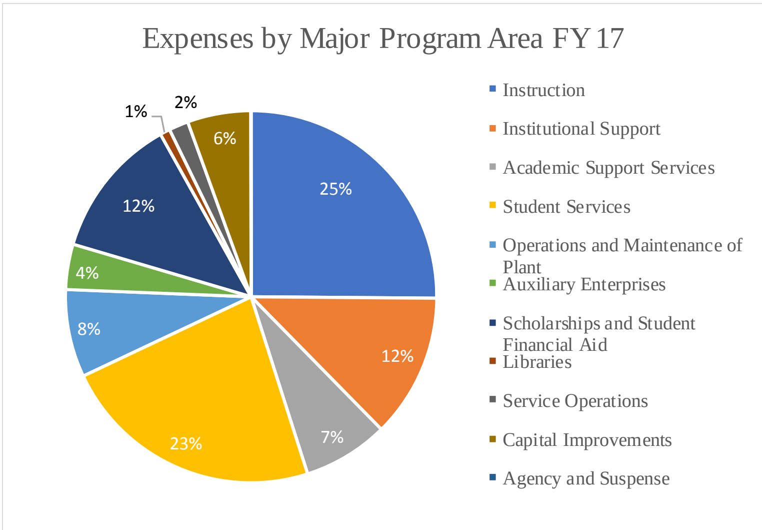
The College paid $3,719,070 for healthcare expenses in fiscal year 2017, which included its pay-as-you-go portion of the OPEB liability.

13. Operating Expenses by Program

In the Statement of Revenues, Expenses and Changes in Net 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. The following table lists operating expenses by program for the year ending June 30, 2017:

Instruction	$ 11,171,577	25%
Institutional Support	5,302,549	12%
Academic Support Services	3,308,202	7%
Student Services	10,189,539	23%
Operations and Maintenance of Plant	3,508,934	8%
Auxiliary Enterprises	1,748,096	4%
Scholarships and Student Financial Aid	5,819,303	13%
Libraries	387,347	1%
Service Operations	751,792	2%
Capital Improvements	2,454,729	5%
Agency and Suspense	11,538	0%
Total	$ 44,653,606	

The following chart shows operating expenses by program for the year ending June 30, 2017.



14. Commitments and Contingencies

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 of $2,275,030 for various capital improvement projects that include construction and completion of new buildings and renovations of existing buildings.

15. <u>Change in Accounting Principle</u>

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This Statement is intended to improve financial reporting of governments whose employees are provided with pensions that are not within the scope of Statement No. 68, improve the usefulness of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions not within the scope of Statement No. 68, and to clarify the application of certain provisions of Statements No. 67 and 68. In addition, it establishes requirements for defined contribution plans that are not within the scope of Statement 68. GASB 73 is effective for fiscal years beginning after June 15, 2016. The College has implemented this pronouncement during the 2017 fiscal year. The College recorded a beginning balance adjustment to long-term obligations of $2,139,587 as a result of the implementation of GASB Statement No. 73.

16. Prior Period Adjustment

A prior period adjustment in the amount of ($99,724) was made for an error in the fiscal year 2016 interagency payables. A prior period adjustment for $7,985 was also made to correct capital assets. Another prior period adjustment of ($113,465) was made for a missed interest payable accrual from the prior year.

Required Supplementary Information

Pension Plan Information

State Board Supplemental Defined Benefit Plans
Schedule of Changes in the Total Pension Liability and Related Ratios

SBRP
As of June 30
One Fiscal Year

Change in Total Pension Liability (Asset)		2017
Service cost	$	97,942
Interest		63,535
Changes of benefit terms		-
Differences between expected and actual experience		(458,086)
Changes of assumptions		(108,121)
Benefit payments		(16,309)
Other		-
Net change in total pension liability		(421,040)
Total pension liability - beginning		2,139,587
Total pension liability - ending	$	1,718,547
College's proportion of pension liability		1.80800%
Covered-employee payroll		$ 10,493,138
Total pension liability as a percent of covered payroll		16.38%

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

SBRP
As of June 30
One Fiscal Year

Change in Total Pension Liability (Asset)		2017
Service cost	$	97,942
Interest		63,535
Changes of benefit terms		-
Differences between expected and actual experience		(458,086)
Changes of assumptions		(108,121)
Benefit payments		(16,309)
Other		-
Net change in total pension liability		(421,040)
Total pension liability - beginning		2,139,587
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College's proportion of pension liability		1.80800%
Covered-employee payroll		$ 10,493,138
Total pension liability as a percent of covered payroll		16.38%

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

State Board Supplemental Defined Benefit Plans
Notes to Required Supplementary Information

The State Board Supplemental Retirement Plans are financed on a pay-as-you-go basis. State Board makes direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals, no assets are accumulated in trusts or equivalent arrangements. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, salary growth and the variable income investment return.

Cost Sharing Employer Plans
Schedule of Proportionate Share of the Net Pension Liability

PERS 1
As of June 30
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.059615%	$ 3,201,606	$ 7,088,864	45.16%	57.03%
2015	0.058480%	3,059,048	6,659,738	45.93%	59.10%
2014	0.056804%	2,861,528	6,141,255	46.60%	61.19%

PERS 2/3
As of June 30
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee	Plan fiduciary net position as a percentage of the total pension liability
2016	0.075574%	$ 3,805,091	$ 7,052,812	53.95%	85.82%
2015	0.074665%	2,667,824	6,624,698	40.27%	89.20%
2014	0.070723%	1,429,567	6,048,603	23.63%	93.29%

TRS 1
As of June 30
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of	Plan fiduciary net position as a percentage of the total pension
2016	0.008230%	$ 280,992	$ 418,067	67.21%	62.07%
2015	0.007150%	226,522	353,651	64.05%	65.70%
2014	0.006548%	193,131	311,323	62.04%	68.77%

TRS 2/3
As of June 30
Last 3 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Employer's covered employee payroll	Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.008428%	$ 115,741	$ 418,067	27.68%	88.72%
2015	0.007566%	63,842	353,651	18.05%	92.48%
2014	0.007061%	22,806	311,323	7.33%	96.81%

Cost Sharing Employer Plans
Schedule of Employer Contributions

PERS 1
As of June
Last 4 Fiscal Years

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 365,811	$ (365,811)	$ -	$ 7,534,020	4.86%
2016	338,077	(338,077)	-	7,088,864	4.77%
2015	268,776	(268,776)	-	6,659,738	4.04%
2014	251,435	(251,435)	-	6,141,255	4.09%

PERS 2/3
As of June 30
Last 4 Fiscal Years

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 474,922	$ (474,922)	$ -	$ 7,497,276	6.33%
2016	436,283	(436,283)	-	7,052,812	6.19%
2015	332,598	(332,598)	-	6,624,698	5.02%
2014	298,762	(298,762)	-	6,048,603	4.94%

TRS 1
As of June 30
Last 4 Fiscal Years

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 36,244	$ (36,244)	$ -	$ 573,979	6.31%
2016	18,729	(18,729)	-	418,067	4.48%
2015	16,001	(16,001)	-	353,651	4.52%
2014	12,948	(12,948)	-	311,323	4.16%

TRS 2/3
As of June 30
Last 4 Fiscal Years

Year Ended June 30,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contributio n deficiency (excess)	Covered employer payroll	Contributions as a percentage of covered employee payroll
2017	$ 38,741	$ (38,741)	$ -	$ 573,979	6.75%
2016	33,794	(33,794)	-	418,067	8.08%
2015	20,107	(20,107)	-	353,651	5.69%
2014	17,326	(17,326)	-	311,323	5.57%

Notes to Required Supplemental Information - State Sponsored Pension

As of June 30
Last Four Fiscal Years

Note 1: Information Provided

GASB 68 was implemented for the year ended June 30, 2014, therefore there is no data available for years prior to 2014.

Note 2: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.