

SOUTHWESTERN OREGON COMMUNITY COLLEGE
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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**SOUTHWESTERN OREGON COMMUNITY COLLEGE
COLLEGE OFFICIALS
JUNE 30, 2017**

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Southwestern Oregon Community College
1988 Newmark Avenue
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INDEPENDENT AUDITORS' REPORT

Board of Education
Southwestern Oregon Community College
Coos Bay, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Southwestern Oregon Community College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 aggregate discretely presented component unit 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position, the business-type activities, and the discretely presented component unit of Southwestern Oregon Community College as of June 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of contributions and schedule of proportionate share of the net pension liability, and schedule of other postemployment benefits (OPEB) funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwestern Oregon Community College's basic financial statements. The balance sheet, schedule of changes in fund balances, and schedule of revenues, expenditures, and changes in fund balance compared with budget listed in the table of contents are presented for purposes of additional analysis and are not required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of revenues, expenditures, and changes in fund balances – budget and actual (non-GAAP budgetary basis) and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018, on our consideration of Southwestern Oregon Community 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion the effectiveness of the Southwestern Oregon Community College's 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 Southwestern Oregon Community College's internal control over financial reporting and compliance.

In accordance with *Minimum Standards for Audits of Oregon Municipal Corporations*, we have also issued our report dated January 10, 2018, on our consideration of Southwestern Oregon Community College's compliance with certain provisions of laws, regulations contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Minimum Standards for Audits of Oregon Municipal Corporations* in considering Southwestern Oregon Community College's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
January 10, 2018



Christopher Knopik, CPA
Principal
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**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Management's discussion and analysis (MD&A) provides a narrative of the financial activities of Southwestern Oregon Community College (the College) for the fiscal year ending June 30, 2017. The MD&A is designed to assist the reader in identifying significant financial changes and provide an overview of the College's financial activities. In order for the reader to obtain a thorough understanding this section should be read in conjunction with the following financial statements and notes in their entirety.

Financial Highlights

Significant events occurring in fiscal year 2017 impacting the College is as follows:

- The State FTE reimbursement support decreased from \$8.8 million in 2016 to \$7.5 million in 2017. This is due to the State's timing of support payments, there are three payments in one year of biennium and five payments in the other year.
- Overall in 2016-17, unduplicated student headcount saw a decrease of 997 students, ending the year at 7,283. This number represents a decrease of 13% as compared to the three-year average of 8,280, while reimbursable full-time equivalent students (FTE) declined from 2,605 in 2016 to 2,474 in 2017, a decline of 5%. The largest decreases in both headcount and FTE were in full-time and non-credit student registrations.
- In fiscal year 2016-17, the College issued Full Faith and Credit Obligation Bonds Series 2016 and 2017 totaling \$8.7 million and \$7.7 million, respectively. The obligations refunded bond series 2010, 2007, and 2006, and 2005. A savings of \$353 thousand from the refunding was reported in the current year. In fiscal year 2016-17 the College also issued a \$5 million bridge loan to provide temporary funding for the starting of construction for the health and science building.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the College's basic financial statements, which are comprised of entity-wide financial statements prepared in accordance with the accrual basis of accounting and notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements. The entity-wide financial statements are designed to provide readers with a broad overview of the College's finances, in a manner similar to a private-sector business. The statements provide both short-term and long-term financial information focusing on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

The statement of net position presents information on all of the College's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between those reported as net position. Over time, increases or decreases in net position are indicators of the improvement or erosion of the College's financial health when considered along with nonfinancial facts such as enrollment levels and the condition of the facilities.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Overview of the Financial Statements (Continued)

The statement of revenues, expenses, and changes in net position presents the revenues earned and the expenses incurred during the year. All changes in net position are reported under the accrual basis of accounting, or as soon as the underlying event giving rise to the change occurs, regardless of the timing when the cash is received or disbursed. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. The utilization of long-lived assets is reflected in the financial statements as depreciation, which amortizes the cost of the capital asset over the expected useful life. Revenues and expenses are reported as either operating or nonoperating, with operating revenues primarily coming from tuition, grants, and contracts. State appropriations, property taxes, and Pell grants for students are classified as nonoperating revenues.

The statement of cash flows presents information on cash flows from operating activities, noncapital financial activities, capital and related financing activities, and investing activities. It provides the net increase or decrease in cash between the beginning and end of the fiscal year. This statement assists in evaluating financial viability and the College's ability to meet financial obligations as they become due.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the entity-wide financial statements.

Analysis of the Statement of Net Position

Total assets and deferred outflows of resources were \$59.2 million in fiscal year 2017, an increase of \$14.8 million over fiscal year 2016. The 18 percent increase is the result of \$5.2 pension activity related to GASB Statement No. 68 increasing deferred outflow of resources. In addition, the College received donations of \$3.3 from Southwestern Oregon Community College Foundation and proceeds of \$6.5 in borrowings, increasing cash.

Total liabilities and deferred inflows of resources increased from \$42.3 million in fiscal year 2016 to \$55.2 million in 2017. The primary increase resulted from a net addition of \$4.8 million in long-term and short-term debt. Also, the College reported an increase in net pension liability of \$7.3 million resulting in an overall addition of \$12.9 million in liabilities and deferred inflows of resources.

The College's net position at June 30, 2017 was \$4 million representing an increase of \$1.7 million from the \$2.3 million reported at 2016. This is the direct result of the Colleges operations ending with a net change of \$1.7 million. However, GASB Statements No. 68 and 71 may cause the College's net position to fluctuate drastically from year to year many times moving into a negative position due to variable annual investment returns and changes in actuarial assumptions of the Pension Plan, even if the College is financially healthy in all funds.

Net position is broken into three parts 1) net investment in capital assets (e.g., land, buildings, and equipment); less any outstanding related debt used to acquire those assets, 2) restricted and 3) unrestricted net position. The College uses these capital assets to provide services to its students; consequently these assets are not available for future spending. Although the College's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Analysis of the Statement of Net Position (Continued)

Statement of Net Position

	2017	2016	Change %
ASSETS			
Current Assets	\$ 7,357,809	\$ 4,397,710	67.3%
Current Assets - Restricted	8,631,576	-	100.0
Capital Assets, Net of Depreciation	36,995,381	38,204,386	(3.2)
Other Noncurrent Assets	6,542	667,633	(99.0)
Deferred Outflows of Resources	6,213,357	1,353,413	359.1
Total Assets and Deferred Outflows	\$ 59,204,665	\$ 44,623,142	32.7
LIABILITIES			
Current Liabilities	\$ 5,865,640	\$ 1,884,440	211.3
Noncurrent Liabilities	48,263,914	39,297,976	22.8
Deferred Inflows of Resources	1,096,678	1,150,316	(4.7)
Total Liabilities and Deferred Inflows	55,226,232	42,332,732	30.5
NET POSITION			
Net Investment in Capital Assets	15,683,461	15,286,579	2.6
Restricted	3,282,348	-	100.0
Unrestricted	(14,987,376)	(12,996,169)	15.3
Total Net Position	\$ 3,978,433	\$ 2,290,410	73.7%

Current assets include pooled cash and investments, accounts receivable, prepaid expenses, and inventory. Current liabilities of the College are comprised of various payables for operation, short-term borrowing, payroll, and unearned revenues.

Non-current assets are comprised of capital assets net of depreciation. Deferred outflows of resources and inflows of resources consist of deferred amounts related to pensions and deferred charges on debt refunding. Non-current liabilities include bonds payable, capital leases, other post-employment benefits, and net pension liability.

Currently, \$15.7 million represents the net investment in capital assets which is an increase of \$0.4 million from the prior year. The unrestricted net position is used for the College's operations.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Analysis of the Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position present the operating results of the College as well as the non-operating revenues and expenses. Annual State appropriations and property taxes, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles (GAAP).

Statement of Revenues, Expenses, and Changes in Net Position

	2017	2016	Change %
OPERATING REVENUES			
Tuition and Fees, Net of Scholarship Allowances)	\$ 3,017,910	\$ 3,185,942	(5.3%)
Federal, State, and Local Grants and Contracts	9,641,447	11,844,306	(18.6)
Auxiliary Enterprises	3,724,798	4,601,035	(19.0)
Donations	3,391,999	18,648	18,089.6
Other Operating Revenue	671,948	1,022,920	(34.3)
Total Operating Revenues	20,448,102	20,672,851	(1.1)
OPERATING EXPENSES			
Instruction	6,338,900	6,063,065	4.5
Instructional Support	2,725,602	2,229,782	22.2
College Support	5,205,654	6,116,006	(14.9)
Student Services	3,736,251	3,608,354	3.5
Plant Operations and Maintenance	1,912,136	-	100.0
Community Services	2,474,213	1,836,510	34.7
Student Financial Aid	2,568,545	2,355,663	9.0
Auxiliary Enterprises	5,228,687	5,760,104	(9.2)
Postemployment and Early Retirement Costs	-	308,785	(100.0)
Depreciation	1,754,930	1,754,152	0.0
Total Operating Expenses	31,944,918	30,032,421	6.4
OPERATING LOSS	(11,496,816)	(9,359,570)	22.8
NONOPERATING REVENUES (EXPENSES)			
State Community College Support	7,467,808	8,841,165	(15.5)
Other State Sources	-	396,770	(100.0)
Property Taxes	5,383,878	5,446,423	(1.1)
Pell Grants	2,961,359	-	100.0
Gain (Loss) on Disposal of Assets	(6,279)	(59,978)	(89.5)
Interest Income	192,208	122,137	57.4
Pension Expense Under GASB Statement No. 68	-	(10,854,472)	(100.0)
Interest Expense	(2,568,614)	(1,735,398)	48.0
Other Nonoperating Expenses	(245,521)	-	100.0
Total Nonoperating Revenues (Expenses), Net	13,184,839	2,156,647	511.4
CHANGES IN NET POSITION	1,688,023	(7,202,923)	(123.4)
Net Position - Beginning of Year	2,290,410	9,493,333	(75.9)
NET POSITION - END OF YEAR	\$ 3,978,433	\$ 2,290,410	73.7%

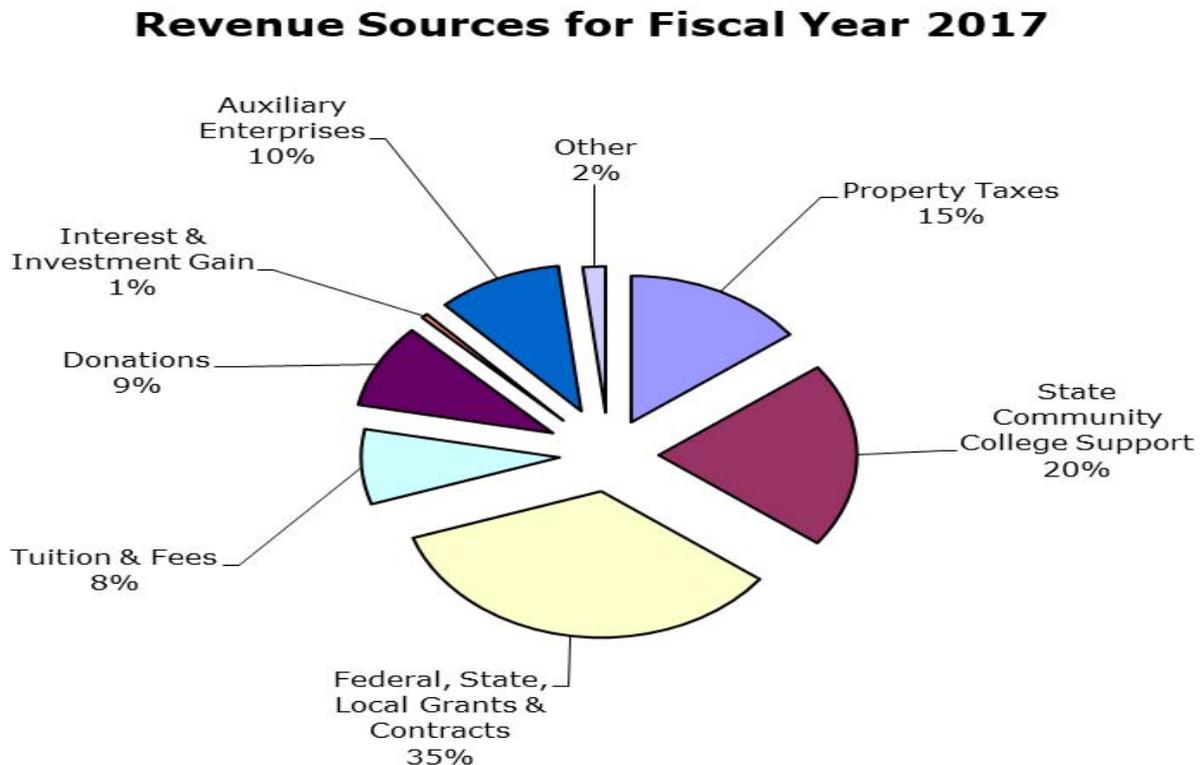
**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (Continued)

The most significant sources of operating revenues for the College are federal, state, and local grants and contracts. Other significant sources are student tuition and fees and auxiliary services such as Student Housing, Oregon Coast Culinary Institute, Dining Services and the Bookstore. Revenues from grants and contracts during fiscal year 2017 were \$9.6 million this was a reduction of approximately \$2.2 million from the prior year. The reduction is due to reporting the PELL in operating revenue in prior years. Tuition and fees also saw a reduction of \$.2 million as enrollment declined. The \$3.4 million increase in donations was an anomaly that pertained to the fundraising by the College Foundation for the Health and Science building campaign.

Non-operating revenues saw a slight increase of \$1.2 million from \$14.8 million in 2016 to \$16 million in 2017. The increase was the result of changing where PELL grants are reported within the statement. The FTE reimbursement from the State received during the year ended June 30, 2017 was \$7.5 million down \$1.3 million from the prior year. State funding for community colleges has been slowly increasing since the great recession. However, in even numbered fiscal years State reimbursement funding is increased by the State's eighth quarterly payment withheld from the prior year.

The following graph shows the allocation of revenues, both operating and nonoperating, for the College:



Operating expenses include salaries and benefits, materials and services, utilities, scholarships, and depreciation. Instruction and auxiliary enterprises represent the largest portion of operating expenses. The most significant non-operating expense is interest on long-term debt and pension expense.

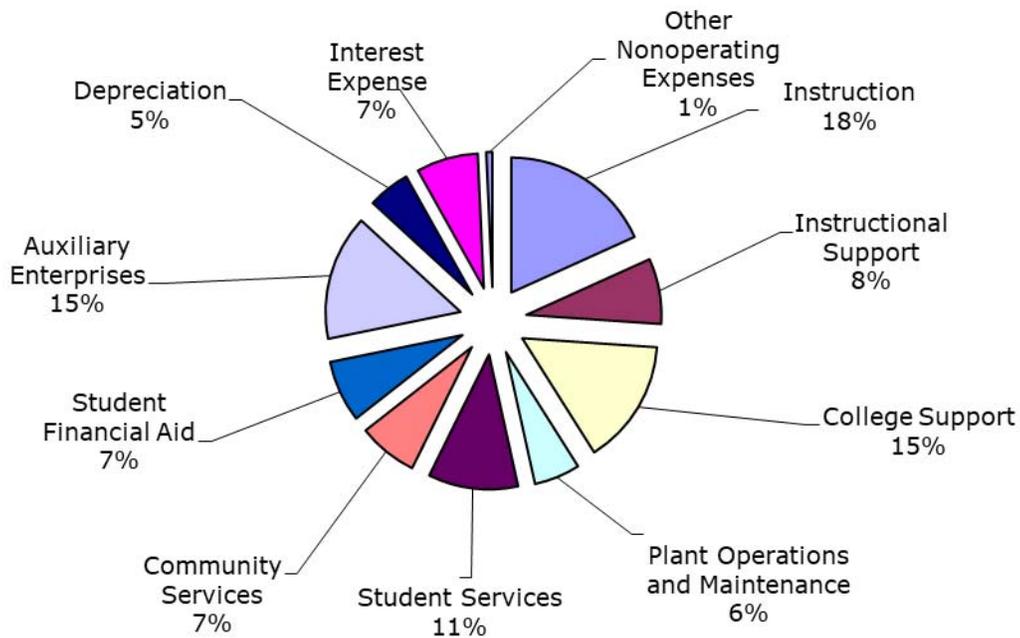
**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Analysis of the Statement of Revenues, Expenses, and Changes in Net Position (Continued)

Operating expenses decreased by \$8.9 million overall. The decrease is due to the PERS and OPEB expense in fiscal year 2016 was \$11.2 million compared to \$1.6 million for fiscal year 2017. The remaining difference between fiscal year 2017 and 2016 is due to increase in instructional support and community services. There was also increased spending related to Federal and state grants. In the prior year college support included plant operations and maintenance. In fiscal year 2017 plant operations and maintenance was segregated to provide the cost of maintaining facilities and grounds. Non-operating revenues and expenses significantly declined \$3 million as a result of state support, coupled with increases in interest expense.

The following graph shows the allocation of expenses, both operating and nonoperating, for the College:

Expenses for Fiscal Year 2017



**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Analysis of the Statement of Cash Flows

The statement of cash flows provides an assessment of the financial health of the college. Its primary purpose is to provide relevant information about the cash receipts and cash payments of the College during a specific period. The statement of cash flows also helps users assess the ability of the College to meet obligations as they become due and the need for external financing.

Statement of Cash Flows

	2017	2016	Change %
Cash Provided by:			
Operating Activities	\$ (7,180,285)	\$ (7,850,548)	(8.5%)
Noncapital Financing Activities	13,896,698	14,648,291	(5.1)
Capital Financing Activities	2,315,392	(5,125,615)	(145.2)
Investing Activities	192,208	122,137	57.4
Net Increase (Decrease)	9,224,013	1,794,265	414.1
Cash - Beginning of Year	2,445,146	650,881	275.7
Cash - End of Year	<u>\$ 11,669,159</u>	<u>\$ 2,445,146</u>	<u>377.2%</u>

The major sources of funds included in operating activities include student tuition and fees, federal/state, grants, and auxiliary enterprises. Major uses were payments made to employees and suppliers, and students for financial aid. Operating activities went down slightly between 2017 and 2016. State FTE reimbursement and property taxes are the primary sources of noncapital financing. Noncapital financing activities also decreased by \$.7 million due to the deferral of the State FTE eighth quarter reimbursement. The GASB accounting standards require that we reflect these sources of revenue as non-operating, even though the College's budget depends on these revenues to continue the current level of operations. The primary financing activities were the payments of principal and interest on short-term and long-term debt.

Budgetary Highlights

The College adopts an annual budget at the fund level, using the modified accrual method of accounting for all funds. After the budget is adopted transfers of appropriations between existing budget categories can be authorized by Board resolution. The most significant changes between the Adopted Budget and the Adjusted Budget included adjustments from transfers to other funds and materials and services to capital outlay and debt service.

Capital Assets and Debt Administration

Capital Assets

The College's investment in capital assets as of June 30, 2017 is reported at \$37.0 million, net of accumulated depreciation. Investment in capital assets (depreciable and nondepreciable) includes land, buildings, improvements, equipment, and art and historical treasures.

Additional information on capital assets can be found in Note 5 of the Basic Financial Statements.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Capital Assets and Debt Administration (Continued)

Long-Term Debt

At the end of the fiscal year, the College had long-term debt instruments with a total outstanding principal of \$37.6 million. Of this amount, \$31.9 million is comprised of debt backed by the full faith and credit of the College (bonds), \$.6 million is in capital leases, and \$5.1 million is note/loan payables to the Foundation and a financial institution.

Oregon Revised Statutes Chapter 341 limits the amount of general obligation bonds which an Oregon community college may have outstanding at any time to 1.5 percent of the true cash value of the taxable property within the community college. The College has no general obligation bonds outstanding at this time. However, subject to voter approval, the College could issue approximately \$159 million of general obligation bonds and stay within the limit. Obligations secured by lease payments and other non-general obligations are not subject to the debt limitations described in this section.

Additional information on the College long-term debt can be found in Note 6, 7, and 9 of the Notes to the Basic Financial Statements.

Component Unit

Included in this financial report is information for the discretely presented component unit, Southwestern Oregon Community College Foundation (the Foundation). The Foundation was incorporated on January 3, 1962, and registered as a separate not-for-profit corporation with the State of Oregon. Their Articles of Incorporation establish the purpose of the Foundation is to support the College. The Foundation has a 501 (c) 3 status under the provisions of the Internal Revenue Code, and is exempt from Federal Income Tax. Contributions to the Foundation are tax deductible as defined by the IRS regulations. Bylaws govern the internal affairs of the Foundation. The Board of Directors sets policies for Foundation operations.

The Foundation operates within a written agreement with the College that clearly defines Foundation activities and establishes College support of the Foundation. It receives, administers, and disposes of property donated for the benefit of the College, coordinates fundraising efforts, and assists in promoting and marketing the College. Financial information for the component unit is found in the entity-wide financial statements within the component unit column.

Summary component unit information follows

	<u>2017</u>		<u>2017</u>
Current Assets	\$ 792,098	Operating Revenues	\$ 2,872,198
Noncurrent Assets	<u>4,114,964</u>	Operating Expenses	<u>2,719,627</u>
Total Assets	<u>\$ 4,907,062</u>	Operating Gain (Loss)	152,571
Current Liabilities	\$ 726	Nonoperating Revenue	<u>377,452</u>
Restricted Net Position	3,246,015	Change in Net Position	<u>530,023</u>
Unrestricted Net Position	<u>1,660,321</u>	Net Position - Beginning of Year	<u>4,376,313</u>
Total Current Liabilities and Net Position	<u>\$ 4,907,062</u>	Net Position - End of Year	<u>\$ 4,906,336</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Economic Factors and Next Year's Budget

The financial position of the College is primarily dependent on three factors; 1) the economic and financial condition of the State and its appropriation for community colleges 2) economic condition of the College community, impacting new construction levels and property values related to property tax revenue, and 3) enrollment levels. The College continues to aggressively manage its financial position by developing new programs, strengthening retention, and ensuring student success.

In 2015-16 Oregon's economy was on a full-throttle growth. Consequently, the State's Community College Support Fund (CCSF) had also experienced growth. The legislature approved CCSF at \$450 million for the 2013-2015 biennium and then in the fall of 2013 in a special session added \$15 million. For the 2015-2017 biennium the Oregon Legislature appropriated \$550 million to the CCSF fund. However, with increasing costs in insurance, minimum wage rates, and the uncertainty of PERS the CCSF remains underfunded.

Enrollment has slight fluctuations from year to year at Southwestern Oregon Community College. Because FTE is a factor in the formula used to determine the distribution of the funds from the State Support Fund the College's proportion of the CCSF is not expected to increase. Budgeting challenges continue to be exacerbated by unstable and unpredictable funding from the Community College Support Fund.

In an effort to grow enrollment at Southwestern Oregon Community College the College continues to establish new programs for jobs that are in demand locally. The medical career is one of those jobs that is in high demand in Coos, Curry, and west Douglas counties as baby boomers are entering retirement. In order to meet this demand the College successfully secured funding to build a new state of the art health and science building on their Coos campus. The new building will house nursing programs, EMT, geology, chemistry, and other related science programs.

Increases in tuition, fees, and housing continue to increase in an effort to cover ever rising costs. Tuition in 2017-2018 will increase from \$91 to \$92 per credit, per credit fees increase from \$29 to \$30, distance education per course surcharge increase from \$34 to \$35, and per course fees remain at from \$30. Tuition for the culinary program remains at \$25,200. Finally housing rates remain constant in 17-18.

Request for Information

This financial report is designed to provide an overview of Southwestern Oregon Community College's financial status. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to:

Director of Business Services
Southwestern Oregon Community College
1988 Newmark Avenue
Coos Bay OR 97420

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS	<u>Primary Government</u>	<u>Component Unit</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,031,041	\$ 447,723
Restricted Cash and Cash Equivalents	349,228	-
Restricted Cash and Cash Equivalents - Health and Science Building	8,282,348	-
Receivables:		
Accounts, Net	3,290,756	-
Property Taxes	547,874	-
Pledges	-	344,375
Prepaid Expenses	310,837	-
Inventory	177,301	-
Total Current Assets	<u>15,989,385</u>	<u>792,098</u>
NONCURRENT ASSETS		
Restricted Cash - Pension and Refunding Bonds	6,542	-
Pledges Receivable	-	560,348
Long-Term Investments	-	3,393,214
Loan to Primary Government	-	151,052
Nondepreciable Capital Assets	1,320,246	10,350
Capital Assets, Net of Accumulated Depreciation	<u>35,675,135</u>	<u>-</u>
Total Noncurrent Assets	<u>37,001,923</u>	<u>4,114,964</u>
 Total Assets	 <u>\$ 52,991,308</u>	 <u>\$ 4,907,062</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	\$ 5,989,885	\$ -
Deferred Charge on Refunding	223,472	-
Total Deferred Outflows of Resources	<u>\$ 6,213,357</u>	<u>\$ -</u>

See accompanying Notes to Basic Financial Statements.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2017

	Primary Government	Component Unit
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 1,013,622	\$ 726
Accrued Payroll and Payroll Liabilities	689,775	-
Accrued Interest Payable	100,833	-
Deposits Payable	179,103	-
Short-Term Borrowing	1,500,000	-
Unearned Revenues	302,207	-
Current Portion of Long-term Debt:		
Bonds Payable	1,630,000	-
Capital Leases Payable	206,322	-
Loan Payable to Component Unit	47,439	-
Sick Leave Payable (Stipend)	196,339	-
Total Current Liabilities	5,865,640	726
NONCURRENT LIABILITIES		
Bonds Payable	28,950,001	-
Loans Payable	5,000,000	-
Capital Leases Payable	362,981	-
Loan Payable to Component Unit	103,604	-
Unamortized Bond Discounts and Premiums	1,287,617	-
Net Pension Liability	11,528,202	-
Compensated Absences Payable	466,148	-
Sick Leave Payable (Stipend)	217,538	-
Other Postemployment Benefits	347,823	-
Total Noncurrent Liabilities	48,263,914	-
 Total Liabilities	 \$ 54,129,554	 \$ 726
DEFERRED INFLOW OF RESOURCES		
Deferred Amounts Related to Pensions	\$ 409,319	\$ -
Deferred Gain on Refunding	687,359	-
Deferred Amounts Related to Pensions	\$ 1,096,678	\$ -
NET POSITION		
Net Investment in Capital Assets	\$ 15,683,461	\$ -
Restricted:		
Temporarily Restricted for Scholarships	-	2,344,273
Restricted - Nonexpendable	-	901,742
Restricted - Expendable	3,282,348	-
Unrestricted	(14,987,376)	1,660,321
 Total Net Position	 \$ 3,978,433	 \$ 4,906,336

See accompanying Notes to Basic Financial Statements.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

	Primary Government	Component Unit
OPERATING REVENUES		
Student Tuition and Fees, Net of Scholarship Allowances	\$ 3,017,910	\$ -
Federal Grants and Contracts	6,806,255	-
State and Local Government Grants and Contracts	2,321,992	-
Nongovernment Grants, Contracts, and Special Fees	513,200	-
Auxiliary Enterprises, Including Tuition and Fees:		
Food Services	948,157	-
Bookstore, Net of Scholarship Allowances	368,753	-
Student Housing, Net of Scholarship Allowances	998,022	-
Newmark Center	335,135	-
Conferences	106,659	-
Culinary Arts, Net of Scholarship Allowances	944,072	-
Other Auxiliary Enterprises	24,000	-
Donations	3,391,999	2,835,787
Other Operating Revenues	671,948	36,411
Total Operating Revenues	20,448,102	2,872,198
OPERATING EXPENSES		
Education and General:		
Instruction	6,338,900	-
Instructional Support	2,725,602	-
College Support	5,205,654	-
Other Support Services:		
Student Services	3,736,251	-
Plant Maintenance	1,912,136	-
Community Services	2,474,213	-
Student Financial Aid	2,568,545	-
Auxiliary Enterprises:		
Food Services	1,079,725	-
Bookstore	714,049	-
Student Housing	1,378,388	-
Newmark Center	132,719	-
Conferences	71,747	-
Culinary Arts	1,852,058	-
Depreciation Expense	1,754,930	-
Foundation Operating Expenses	-	2,719,627
Total Operating Expenses	31,944,918	2,719,627
OPERATING INCOME (LOSS)	(11,496,816)	152,571

See accompanying Notes to Basic Financial Statements.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	Primary Government	Component Unit
NONOPERATING REVENUES (EXPENSES)		
State Community College Support	\$ 7,467,808	\$ -
Property Taxes	5,383,878	-
Pell Grants	2,961,359	-
Loss on Disposal of Assets	(6,279)	-
Interest and Net Investment Income (Loss)	192,208	377,452
Interest Expense	(2,568,614)	-
Other Nonoperating Expenses	(245,521)	-
Total Nonoperating Revenues (Expenses)	13,184,839	377,452
CHANGES IN NET POSITION	1,688,023	530,023
Net Position - Beginning of Year	2,290,410	4,376,313
NET POSITION - END OF YEAR	\$ 3,978,433	\$ 4,906,336

See accompanying Notes to Basic Financial Statements.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 2,861,642
Grants and Contracts	9,559,000
Payments to Suppliers for Goods and Services	(645,062)
Payments to Employees	(19,532,600)
Paid to Students	(2,568,545)
Donations	3,391,999
Other Operating Revenues	618,919
Auxiliary Enterprises	(865,638)
Net Cash Used by Operating Activities	(7,180,285)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Local Property Taxes	5,563,618
State Community College Support	5,617,240
Nonoperating Grants	2,961,359
Other Local Expense	(245,519)
Net Cash Provided by Noncapital Financing Activities	13,896,698

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(314,161)
Loan Proceeds	25,280,990
Loan Principal Paid	(20,093,236)
Loan Interest Paid	(2,558,201)
Net Cash Provided by Capital and Related Financing Activities	2,315,392

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	192,208
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NET INCREASE IN CASH AND CASH EQUIVALENTS

9,224,013

Cash and Cash Equivalents - Beginning of Year (Including Restricted Cash of \$3,707)

2,445,146

CASH AND CASH EQUIVALENTS - END OF YEAR

(Including Restricted Cash of \$6,542)

\$ 11,669,159

RECONCILIATION TO AMOUNTS SHOWN ON STATEMENT OF NET ASSETS

Unrestricted Cash and Cash Equivalents	\$ 3,031,041
Restricted Cash and Cash Equivalents	8,638,118
Total Cash and Cash Equivalents	\$ 11,669,159

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**RECONCILIATION OF NET INCOME TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (11,496,816)
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:	
Depreciation and Amortization	1,967,977
Change in OPEB Liability	143,731
Changes in Assets and Liabilities:	
Accounts Receivables	(54,434)
Prepaid Expenses	22,989
Inventories	(4,298)
Accounts Payable	691,732
Accrued Payroll and Payroll Liabilities	30,010
Unearned Revenues	143,604
Other Current Liabilities	(8,511)
Pension Expense Changes Related to NPL	1,383,731
Net Cash Used by Operating Activities	<u>\$ (7,180,285)</u>

See accompanying Notes to Basic Financial Statements.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Southwestern Oregon Community College (the College), the primary government and municipal corporation, is a post-secondary institution which was established in 1961 to provide educational courses and programs to citizens on the south coast of Oregon. The College currently serves all of Coos County, western Douglas County, and Curry County.

In evaluating how to define the College for financial reporting purposes, management has considered all potential component units. The accompanying financial statements present the government and its component unit entity for which the government is considered to be financially accountable.

Discretely Presented Component Unit

In May 2002, the Government Accounting Standards Board (GASB) issued Statement No. 39, "Determining Whether Certain Organizations are Component Units." This statement amends Statement No. 14, "The Financial Reporting Entity", to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship with the College.

As defined by accounting principles generally accepted in the United States of America (GAAP), the College includes one discretely presented component unit in its financial statements: the Southwestern Oregon Community College Foundation (hereinafter referred to as "the Foundation"). The Foundation is a nonprofit, nongovernmental organization, whose purpose is to provide support for scholarships and programs for the College. The Foundation had an audit for the fiscal year ended June 30, 2017. Separate financial statements for Southwestern Oregon Community College Foundation may be obtained through request of the Foundation Executive Director located at the Southwestern Oregon Community College Coos Bay campus.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities – an Amendment of GASB 34*, modified by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The College follows the "business-type activities" reporting requirements of GASB Statement No. 35 that provides a comprehensive one-column look at the College's financial activities. As a general rule, the effect of internal transactions between the College's functions has been eliminated.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The basic financial statements are accounted for on the flow of economic resources measurement focus and are prepared on the accrual basis of accounting. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Property taxes are recognized as revenues in the years for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the grantor have been met.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, the State of Oregon Treasurer's Local Government Investment Pool (LGIP), and short-term investments with original maturities of three months or less from the date of acquisition. The LGIP is part of the Oregon Short-Term Fund (OSTF) and is stated at cost, which approximates fair value.

The Foundation considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents held as part of the Foundation's investment portfolio, and where management's intention is to use the cash to acquire investments to be held long-term, are classified as investments.

Restricted Cash

Current restricted cash for the College consists of funds for other grant projects and student clubs and organizations \$349,228 and \$6,542 for bond related activity. Current restricted cash for the College also includes \$8,282,348 in contributions and note proceeds which are externally restricted by agreements construction of the Health and Science Building.

Investments

State statutes authorize the College to invest in banker's acceptances; time certificates of deposits; repurchase agreements; obligations of the U.S. Treasury and its agencies; the agencies and instrumentalities of the United States and the States of Oregon, Washington, Idaho, and California; the Oregon State Treasury's Local Government Investment Pool; demand deposits; and fixed or variable life insurance or annuity contracts for funding deferred compensation. As of June 30, 2017, all investments were held with the OSTF and considered cash and cash equivalents.

Investments are valued at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Unrealized and realized gains and losses are allocated to the unrestricted and temporarily restricted net position based upon the restrictions in the underlying investments. Unrealized losses are allocated to temporarily restricted net position only up to the point of previously recognized unrealized gains.

Receivables

All accounts, student loans, grants, and property taxes receivable are shown net of an allowance for uncollectible accounts.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

Student receivables are recorded as tuition is assessed or as amounts are advanced to students under various federal student financial assistance programs.

Unreimbursed expenses qualified from grantor agencies are reflected in the basic financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenses are incurred. Grant funds received prior to the occurrence of qualifying expenses are recorded as unearned revenues.

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the retail cost method for the Bookstore and first-in/first-out method for all inventory.

Capital Assets

Capital assets include land and land improvements, buildings and building improvements; equipment, vehicles, and machinery; works of art and historical treasures; infrastructure, which includes utility systems; leasehold improvements; and construction in progress. The College has defined capital assets as having an initial value or cost of at least \$5,000 and an initial life extending beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Library books are capitalized. Donated capital assets are recorded at fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value or functionality of the assets' lives are not capitalized, but are expensed as incurred.

Buildings, equipment, vehicles, machinery, leasehold improvements, and land improvements of the College are depreciated using the straight-line method over the following lives:

Buildings and Building Improvements	20 – 60 Years
Equipment, Vehicles, and Machinery	7 – 25 Years
Land Improvements	10 – 30 Years
Library Books	43 Years

Accrued Wages and Payroll Costs

Contracts for faculty begin in September and end in mid-June. All other employee agreements begin July 1 for the ensuing fiscal year and end June 30. All salaries are paid over 12 months. The salary amounts due for payment in July and August are included in accrued liabilities. Benefit payments for July and August are not accrued but rather expensed as paid. The accrued wages at June 30, 2017 were \$469,226.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

It is the College's policy to permit employees to accumulate earned but unused vacation pay. Unused vacation pay is recognized as an expense and accrued when earned. Accumulated but unused sick leave is eligible for payout under certain conditions. The total accumulated vacation liability is included in payroll liabilities on the statement of net position and was \$467,463 at June 30, 2017. The total accumulated sick liability is included as both long-term and current liabilities totals \$413,877 at June 30, 2017.

Tuition and Fees and Unearned Revenue

Tuition and fees include all assessments to students for educational and general purposes. It is stated net of institutional aid provided to students. The College's fiscal year begins with summer term and ends with spring term. Tuition and fees received prior to July 1, 2017 for the College's 2017-2018 summer and fall terms are recorded as unearned revenue. Unearned revenue from tuition and fees was \$5,766,639 at June 30, 2017.

Retirement Plans

The College contributes to the Oregon State Public Employees Retirement System (PERS). The expense and liability for contributions to OPERS are recorded in accordance with GASB 68 *Accounting and Financial Reporting for Pensions*.

Other Postemployment Benefits Obligation

The College participates in the Oregon Educators Benefits Board (OEBB), a statewide agent multi-employer benefit plan as defined in GASB Statement No. 45, to provide a post-retirement health benefits program. The net OPEB obligation is recognized as a noncurrent liability in the statement of net position. See Note 19 for more details.

Deferred Outflows and Inflows

Deferred outflows of resources represent the consumption of net position in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows relate to PERS and loss on refunding. Deferred inflows relate to PERS.

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 accumulated depreciation and related debt.

Restricted – This includes resources that the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

Unrestricted – This includes resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

Budgetary Basis

The financial operations of the various funds of the College on a budgetary basis are presented in individual schedules of revenues, expenditures, and changes in fund balance compared with budget, in the supplemental information section of the financial statements.

Federal Financial Assistance Programs

The College participates in federally funded programs, including primarily Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Federal Family Education Loans, and TRIO Programs.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed costs may constitute a liability of the applicable funds. Such amounts, if any, cannot be determined at this time and, accordingly, no liability is reflected in the financial statements.

Classification of Revenues

Operating revenue includes activities that have the characteristics of exchange transactions such as (1) student tuition and fees, and (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions (a transaction in which the College receives value without directly giving equal value in return). This includes (1) local property taxes, (2) state appropriations, (3) most federal, state, and local grants and contracts and federal appropriations, and (4) gifts and contributions.

Classification of Expenses

Operating expenses include the costs of faculty, administration, sales, and services for food services, student housing, and bookstore operations and depreciation. All other revenues, including state educational support, and expenses not meeting this definition are reported as nonoperating revenues and expenses.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Scholarship Allowances

Financial aid to students is reported in the basic financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as grants, loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the basic financial statements as operating expense, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid computed on a college-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Use of Estimates

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

In accordance with Oregon Revised Statutes, the College adopts annual budgets and makes appropriations on a fund basis using the modified accrual basis of accounting.

A budget is prepared for all College funds in the main categories required by Oregon Local Budget Law on an object class basis – personnel services, materials and services, capital outlay, debt service, transfers, and contingency. The College's legal spending authority is defined by a resolution passed by the Board of Education making the appropriations and adopting the budget on an object class basis.

The College begins its budget process each year with the establishment of the budget committee. Recommendations are developed through early spring and the budget committee approves the budget in late spring. Public notices of the budget committee meetings and the public hearing prior to adoption are published in accordance with Oregon Local Budget Law. The Board of Education may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than 10 percent. The budget is then adopted, appropriations are made, and the tax levy is declared no later than June 30.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Expenditures cannot legally exceed the appropriation levels, which are adopted by Board resolution. The Board of Education can change the budget throughout the year by appropriation transfers between levels of control and supplemental budgets as authorized by Oregon Revised Statutes. The budget basis financial schedules reflect the original budget plus all approved supplemental appropriations and appropriation transfers. Annual appropriations lapse at fiscal year-end on June 30.

NOTE 3 CASH AND INVESTMENTS

Total cash and investments at June 30, 2017 were comprised of the following:

	Total Primary Government	Component Unit
Cash and Cash Equivalents:		
Cash on Hand	\$ 4,750	\$ -
Deposits	11,489,010	447,723
Investments	175,399	3,393,214
Total	\$ 11,669,159	\$ 3,259,073

The College's deposits were held with banks and investments were held in custody with the Oregon State Treasury (State Treasury). These invested assets are managed through a commingled investment pool by the State Treasury. The underlying investment pool has an investment policy and set of objectives identifying risk and return parameters for the investment pool.

Custodial Credit Risk – Deposits

Current State statutes (ORS Chapter 295) require that all bank deposits in excess of FDIC and FSLIC insurance (currently \$250,000) be collateralized through the Oregon State Treasurer's Public Funds Collateralization Program (PFCP). ORS 295 created a shared liability structure for participating depositories though not guaranteeing that all funds are 100% protected. The College was in compliance with this statutory requirement throughout the year, and none of the College's June 30, 2017 bank balance was exposed to custodial credit risk because it was adequately insured and collateralized. The state provides a list of qualified depositories, and the College Board approves a list of depositories from this list in July each year. The cash balances held on deposit at the State Treasury are invested continuously, therefore, custodial credit risk exposure to the State Treasury is low.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with State Local Government Investment Pool

The College maintains the majority of its cash balances on deposit with the State Treasury. These deposits at the State Treasury are held on a pooled basis as described above, in the Oregon Short-Term Fund (OSTF). The State Treasurer of the state of Oregon maintains the OSTF, of which the LGIP is a part. The OSTF is a cash and investment pool available for use by all state funds and eligible local governments. The State Treasury invests these deposits in high-grade short-term investment securities. The OSTF is managed by the

Investment Division of the Oregon State Treasury within the guidelines established in the OSTF Portfolio Rules. The LGIP is an open-ended, no-load diversified portfolio offered to eligible participants who by law are made custodian of, or have control over, any public funds. At the fiscal year ended June 30, 2017, the College cash and cash equivalents on deposit at State Treasury were \$175,399. At June 30, 2017, the fair value of College deposits with LGIP approximates cost.

For full disclosure regarding cash and investments held in the State Treasury, a copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350, Winter St. NE, Suite 100, Salem, OR 9701-3896 or via the internet at: www.oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx.

Policies

The College makes investments in accordance with the Oregon Revised Statutes.

Concentration of Credit Risk

College investments are entirely maintained in the local government investment pool (LGIP). OSTF follows their rules on the maximum that may be invested in any one issuer, as a percentage of the OSTF's total investments. On June 30, 2017, they were within the required limits.

Foreign Currency Risk

OSTF rules prohibit investments that are not U.S. dollar-denominated; therefore, it is not exposed to this risk.

Fair Value of Financial Instruments

Accounting standards provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Fair Value of Financial Instruments (Continued)

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

At June 30, 2017, all of the OSTF investments were considered Level 2 investments.

Foundation Investments

The Foundation's investments are all considered Level 1 investments and are recorded at fair value. Foundation investments consisted of the following at June 30, 2017:

Corporate Stocks	\$ 1,440,007
Exchange-Traded, Closed-Ended Funds	952,301
Large-Cap Funds	408,998
International Funds	142,472
Small Mid-Cap Funds	55,854
High-Yield Funds	40,152
Fixed-Income Funds	34,985
Emerging Market Funds	30,784
	<hr/>
	3,105,553
Cash Equivalents	287,661
	<hr/>
Total Investments	<u>\$ 3,393,214</u>

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation methodologies used at June 30, 2017.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 RECEIVABLES

Receivables at the end of the year are as follows:

Current:	
Accounts Receivable	\$ 809,712
Governmental Receivables	<u>2,481,044</u>
 Total	 <u><u>\$ 3,290,756</u></u>

Intergovernmental receivables are considered to be fully collectible. Accounts receivable includes student receivables of \$808,807, which are net of an allowance for uncollectible accounts for tuition and fees of \$686,628. The remaining accounts receivable was intergovernmental.

Property taxes are assessed and attach as an enforceable lien on property as of July 1. Taxes are levied on July 1 and are payable on November 15. They may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by the County of Coos, County of Douglas, and County of Curry and remittance to the College is made at periodic intervals. For fiscal year 2017 - 2016, the College imposed a tax rate of \$.7017 per \$1,000 of assessed value. This resulted in a net levy of \$5,610,822 after reduction for compression loss due to constitutional limits, and after increases due to additional taxes, penalties, and other adjustments.

Property taxes are recorded on the accrual basis in the basic financial statements. No allowance for uncollectible property taxes is shown in the financial statements since unpaid property taxes are a permanent lien and the amount of property taxes ultimately not collected is immaterial. Interest on delinquent property taxes is recognized when received.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 1,018,939	\$ -	\$ -	\$ 1,018,939
Construction in Progress	-	156,307	-	156,307
Art Works Collection	145,000	-	-	145,000
Total Capital Assets Not Being Depreciated	1,163,939	156,307	-	1,320,246
Capital Assets Being Depreciated:				
Buildings	52,497,033	29,331	-	52,526,364
Equipment and Vehicles	8,708,780	366,568	(22,186)	9,053,162
Total Capital Assets Being Depreciated	61,205,813	395,899	(22,186)	61,579,526
Less Accumulated Depreciation for:				
Buildings	(18,356,232)	(1,185,448)	-	(19,541,680)
Equipment and Vehicles	(5,809,137)	(569,482)	15,908	(6,362,711)
Total Accumulated Depreciation	(24,165,369)	(1,754,930)	15,908	(25,904,391)
Total Capital Assets Being Depreciated, Net	37,040,444	(1,359,031)	(6,278)	35,675,135
Total Capital Assets, Net	<u>\$ 38,204,383</u>	<u>\$ (1,202,724)</u>	<u>\$ (6,278)</u>	<u>\$ 36,995,381</u>

NOTE 6 LONG-TERM DEBT

Limited Tax Bonds

The College issues limited tax bonds. Limited tax bonds include limited tax revenue bonds, full faith and credit obligations, and limited tax pension bonds.

The limited tax bonds financed the following:

Pension Bonds – The College issued limited tax pension bonds in February 2004 (the Pension Bonds). Net proceeds of the Pension Bonds were deposited into a lump sum payment account at PERS for the benefit of the College. This Pension Bond was issued as part of a larger pool of pension obligations. The College's Pension Bonds refinanced a portion of the Unfunded Actuarial Liability allocated to the College in the Oregon Public Employees Retirement System (see "Pension System" herein). The Pension Bonds were issued in the principal amount of \$13,075,000. Such lump sum payment reduced the College's current payroll contribution rates (see "Pension System" herein), and, if returns on the account exceed the cost of the borrowing, will result in a net benefit to the College. Payments are due semi-annually and mature in June 2028. Interest rates range from 3.35% to 5.53%.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Limited Tax Bonds (Continued)

Pension Bonds (Continued) – Limited tax pension bonds financed a portion of the estimated unfunded actuarial liability with the Oregon Public Employees Retirement System. All limited tax bonds are backed by the full faith and credit of the College, within the limitations of Article XI of the Oregon Constitution, and are to be repaid from existing revenue sources.

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 540,000	\$ 609,657	\$ 1,149,657
2019	630,000	581,593	1,211,593
2020	725,000	547,321	1,272,321
2021	825,000	507,881	1,332,881
2022	935,000	463,001	1,398,001
2023-2027	6,705,000	1,403,666	8,108,666
2028	765,000	42,305	807,305
Total	<u>\$ 11,125,000</u>	<u>\$ 4,155,424</u>	<u>\$ 15,280,424</u>

Other Limited Tax Obligations – The College originally issued other Full Faith and Credit Obligations for a variety of projects as described below:

In March 2005, the College issued \$4,800,000 of Full Faith and Credit Obligations Series 2005 for the purpose of financing capital construction and improvements, including designing, constructing, equipping, and furnishing student housing and facilities, and paying issuance costs. The College expects to make the financing payments through rent derived from the housing units. Interest rates range from 3.00% to 5.00%. The balance in this bond was \$1,305,000 at June 30, 2016. It was fully refunded in 2017 as part of the 2016 Refunding Bond.

In September 2006, the College issued \$2,500,000 of Full Faith and Credit Obligations Series 2006 for the purpose of financing capital construction and improvements, including completion of a student housing center and a student recreation center, reimbursing the College for costs of acquisition of the existing Neighborhood Facility Building, and payment of the costs of issuance of these series 2006 obligations. The College's payments are secured by, and payable from, general revenues and other funds that may be available for that purpose. Interest rates range from 4.00% to 4.20%. The balance in this bond was \$1,760,000 at June 30, 2016. It was fully refunded in 2017 as part of the 2016 Refunding Bond.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Limited Tax Bonds (Continued)

In June 2010, the College issued \$6,115,000 of Full Faith and Credit Obligations Series 2010 for the purpose of financing capital construction of the Curry Campus Project including designing, constructing, equipping, and furnishing of an approximate 27,000 sq. ft. building and related facilities. Classroom and community-use rooms were equipped with smart boards and other meeting amenities. No principal is due until the fiscal year ending June 30, 2017. Interest rate is 3.36%. The balance in this bond was \$6,115,000 at June 30, 2016. It was fully refunded in 2017 as part of the 2016 Refunding Bond.

On December 2, 2016, the College issued \$8,660,000 Full Faith and Credit Refunding Obligations Series 2016 for the purpose of refunding certain portions of the Full Faith and Credit Obligations Series 2005, the Full Faith and Credit Obligations Series 2006, and the Full Faith and Credit Obligations Series, 2010 and to pay the costs of issuance related to the sale and delivery of the obligation. These bonds have an interest rate of 4.00%. The refunding of these bonds results in addition debt service expense of \$1,659,379 with a net present value of \$68,853.

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 346,400	\$ 346,400
2019	-	346,400	346,400
2020	-	346,400	346,400
2021	-	346,400	346,400
2022	-	346,400	346,400
2023-2027	1,970,000	1,713,800	3,683,800
2028-2031	6,690,000	682,000	7,372,000
Total	<u>\$ 8,660,000</u>	<u>\$ 4,127,800</u>	<u>\$ 12,787,800</u>

In September 2007, the College issued, at a premium, \$9,995,000 Series 2007 of limited tax full faith and credit refunding obligation bonds to refinance all or part of previously issued obligation bonds. Interest rates range from 4.50% to 5.40%. The balance in this bond was \$8,900,000 at June 30, 2016. It was fully refunded in 2017 as part of the 2017 Refunding Bond.

In March 2017, the College issued \$7,690,000 Full Faith and Credit Refunding Obligations Series 2017 for the purpose of refunding certain portions of the Full Faith and Credit Refunding Obligation Series 2007 and to pay the costs of issuance related to the sale and delivery of the obligation. These bonds have interest rates of 3.00% - 4.00%. The refunding of these bonds results in a cash savings of \$1,334,936 with a net present value of \$679,803.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Limited Tax Bonds (Continued)

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 330,000	\$ 299,350	\$ 629,350
2019	495,000	289,450	784,450
2020	775,000	274,600	1,049,600
2021	805,000	243,600	1,048,600
2022	840,000	211,400	1,051,400
2023-2027	4,445,000	438,400	4,883,400
Total	<u>\$ 7,690,000</u>	<u>\$ 1,756,800</u>	<u>\$ 9,446,800</u>

In August 2013, the College issued, at a premium, \$6,625,000 Series 2013 of limited tax full faith and credit refunding obligation bonds to refinance all or part of previously issued obligation bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$453,556. This amount is being netted against the new debt and amortized over the life of the new debt issued. This refunding was undertaken to reduce the total debt service payments over the subsequent eleven years by \$567,573 and resulted in an economic gain of \$508,034. Interest rates range from 3.00% to 4.00%.

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 760,000	\$ 95,850	\$ 855,850
2019	625,000	73,050	698,050
2020	380,000	54,300	434,300
2021	390,000	45,750	435,750
2022	395,000	34,050	429,050
2023-2025	555,000	45,000	600,000
Total	<u>\$ 3,105,000</u>	<u>\$ 348,000</u>	<u>\$ 3,453,000</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Note Payable

On November 1, 2007, the College borrowed \$300,000 from the Southwestern Oregon Community College Foundation, its discretely presented component unit, for the purpose of acquiring vacant real property. Total cost of the property was \$495,000, including all fees. This 4% annual interest loan was to be repaid at a rate of \$100,000 per year, plus accrued interest, over the next three fiscal periods, beginning November 1, 2008. The note was not discounted due to immaterial results. The payment due November 1, 2008 was made November 1, 2009. In April 2010, the Foundation agreed to delay the payment due November 1, 2010 indefinitely, and this note was therefore classified as noncurrent on the Statement of Net Position. On May 1, 2013, the Foundation agreed to delay all payments until November 1, 2015, at which time all amounts owing would be due. The interest rate was reduced from 4% to 3.25%. In June 2015, the Foundation renegotiated the loan. In lieu of paying debt service on the note, the College will increase its support of the salary and benefits of the Foundation director position by approximately \$4,200 per month, and the note will be reduced by \$4,200 per month, beginning July 1, 2015 and until the note, plus accrued interest, has been paid in full. The balance of unpaid principal and accrued interest was \$158,605 at June 30, 2017. Principal and interest payments of \$43,088 and \$4,469 were made respectively during the fiscal year ending June 30, 2017.

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 47,439	\$ 4,127	\$ 51,566
2019	49,868	2,550	52,418
2020	53,736	885	54,621
Total	<u>\$ 151,043</u>	<u>\$ 7,562</u>	<u>\$ 158,605</u>

In March 2017, the College issued a \$5,000,000 note with Umpqua Bank to provide financing for the College's new Health and Science Building. The note has 2.90% interest due quarterly and due on January 5, 2020. The note does not have any prepayment penalties and anticipated to be refunding with longer term financing once the Health and Science building is completed.

The future debt maturity requirements are as follows at June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 145,000	\$ 145,000
2019	-	145,000	145,000
2020	5,000,000	108,750	5,108,750
Total	<u>\$ 5,000,000</u>	<u>\$ 398,750</u>	<u>\$ 5,398,750</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Short-Term Borrowings

2010 Tax and Revenue Anticipation Note (TRAN) - On March 1, 2010, the College entered into a short-term borrowing program Series 2010 for operating advances not to exceed \$4,860,000 of principal in total, with the principal amount outstanding at any time not to exceed \$4,000,000. TRAN advances are to assist in cash flows until property tax revenues are received and the TRAN is secured by the College's ad valorem property taxes. Interest on the TRAN is payable quarterly at prime rate plus 1.00% or 4.50% per annum, whichever is greater. The TRAN has been renewed annually on the same terms, and the current obligation matures on June 30, 2018.

Activity for the fiscal year is as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Short-Term Borrowing	\$ -	\$ 2,000,000	\$ 500,000	\$ 1,500,000	\$ 1,500,000

NOTE 7 LEASES – PRIMARY GOVERNMENT

Capital Leases

On March 2, 2015, the College entered into a capital lease arrangement to acquire athletic and fitness equipment for the student recreation center in the amount of \$39,434. The net capitalized cost and accumulated depreciation of the equipment was \$39,434 and \$11,830, respectively, as of June 30, 2017. Payments are due monthly in the amount of \$1,249. The interest rate is 9.79%.

The present value of future net minimum lease payments at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,681	\$ 437	\$ 11,118

On September 18, 2013, the College entered into a capital lease agreement with Cisco Leasing to acquire computer network equipment in the amount of \$444,846. The net capitalized cost and accumulated depreciation of the equipment was \$444,846 and \$177,939, respectively, as of June 30, 2017. Payments are due annually in the amount of \$95,470. The interest rate is 2.17%.

The present value of future net minimum lease payments at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 93,157	\$ 2,313	\$ 95,470
2019	31,638	185	31,823
Total	\$ 124,795	\$ 2,498	\$ 127,293

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 LEASES – PRIMARY GOVERNMENT (CONTINUED)

Capital Leases (Continued)

On April 27, 2016, the College entered into a capital lease agreement with the Ford Motor Company to acquire two 2016 15 Passenger Vans in the amount of \$78,200, or \$39,100 each. The net capitalized cost and accumulated depreciation of the vans was \$78,200 and \$15,640, respectively, as of June 30, 2017. Payments are due semi-annually in the amount of \$21,544, or \$10,772 each. The interest rate is 5.75%.

The present value of future net minimum lease payments for the two vans combined at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 18,966	\$ 2,578	\$ 21,544
2019	20,072	1,472	21,544
2021	10,470	301	10,771
Total	<u>\$ 49,508</u>	<u>\$ 4,351</u>	<u>\$ 53,859</u>

On March 11, 2016, the College entered into a capital lease agreement with De Lage Landen Public Finance LLC to acquire servers, other computer equipment, and maintenance in the amount of \$231,250. The net capitalized cost and accumulated depreciation of the capitalized equipment was \$176,942 and \$50,555, respectively, as of June 30, 2017. Payments are due annually in the amount of \$35,000. The interest rate is 4.43%.

The present value of future net minimum lease payments for the equipment at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 27,365	\$ 7,635	\$ 35,000
2019	88,077	6,423	94,500
2020	56,976	2,524	59,500
Total	<u>\$ 172,418</u>	<u>\$ 16,582</u>	<u>\$ 189,000</u>

On January 6, 2017, the College entered into a capital lease agreement with Key Government Finance, Inc. to purchase a 52-passenger bus in the amount of \$160,000. The net capitalized cost and accumulated depreciation of the capitalized equipment was \$160,000 and \$16,000, respectively, as of June 30, 2017. Payments are due monthly in the amount of \$3,626. The interest rate is 2.95%.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 LEASES – PRIMARY GOVERNMENT (CONTINUED)

Capital Leases (Continued)

The present value of future net minimum lease payments for the equipment at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 38,186	\$ 5,329	\$ 43,515
2019	39,817	3,698	43,515
2020	41,518	1,997	43,515
2021	25,034	351	25,385
Total	<u>\$ 144,555</u>	<u>\$ 11,375</u>	<u>\$ 155,930</u>

On March 9, 2017, the College entered into a capital lease agreement with the Ford Motor Company to acquire two 2017 15 Passenger Vans in the amount of \$81,500, or \$40,750 each. The net capitalized cost and accumulated depreciation of the vans was \$81,500 and \$7,750, respectively, as of June 30, 2017. Payments are due semi-annually in the amount of \$21,396, or \$10,698 each. The interest rate is 5.45%.

The present value of future net minimum lease payments for the two vans combined at June 30, 2017 is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 17,967	\$ 3,429	\$ 21,396
2019	18,959	2,436	21,395
2020	20,007	1,389	21,396
2021	10,414	284	10,698
Total	<u>\$ 67,347</u>	<u>\$ 7,538</u>	<u>\$ 74,885</u>

NOTE 8 OPERATING LEASES (COLLEGE AS LESSOR)

The College leases office and common space facilities (of which the total base monthly lease amounts currently include a payment for utilities and custodial fees) to a state of Oregon agency. The agreement continues through December 2016 and includes the following future rent schedule:

<u>Fiscal Year Ending June 30,</u>	<u>Net Rents</u>	<u>Base Expenses</u>	<u>Total Base Rents</u>
2018	<u>\$ 103,857</u>	<u>\$ 9,321</u>	<u>\$ 113,178</u>

During the fiscal year ended June 30, 2017, total rental income of \$327,894 was recognized by the College, as lessor, under this arrangement. If lessee is not in default at the end of the above lease term, options exist for one five-year renewal with adjusted rent schedules.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 CHANGES IN LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2017, the following changes occurred in the amounts reported in long-term liabilities:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Full Faith and Credit Obligations					
Capital Leases:					
Two 15-Passenger Vans	\$ 67,428	\$ -	\$ 17,920	\$ 49,508	\$ 18,966
Title III Computer Equipment	197,133	-	24,715	172,418	27,365
Classic Pianos	4,250	-	4,250	-	-
Rec Center Equipment Lease	15,988	-	15,988	-	-
Jenzabar Software Lease	92,327	-	92,327	-	-
Cisco Network Equipment Lease	215,373	-	90,578	124,795	93,157
Rec Center Equipment Lease	23,908	-	13,227	10,681	10,681
2 to 15 Passenger Van	-	78,045	10,698	67,347	17,967
52 Passenger Bus	-	160,000	15,445	144,555	38,186
Pension Bonds (PERS)	11,585,000	-	460,000	11,125,000	540,000
Curry Campus Bonds	6,115,000	-	6,115,000	-	-
Curry Campus Bonds - 2016 Refinancing	-	5,768,617	-	5,768,617	-
Loan Payable - Foundation	194,131	-	43,088	151,043	47,439
Heath & Science Building Match - Umpqua	-	5,000,000	-	5,000,000	5,000,000
2005 Issue - Student Housing	1,305,000	-	1,305,000	-	-
2006 Issue:					
Student Housing	281,600	-	281,600	-	-
Neighborhood Facility Building	211,200	-	211,200	-	-
Student Recreation Center	1,267,200	-	1,267,200	-	-
2007 Refunding:					
Performing Arts Center	102,713	-	102,713	-	-
Dryvit Project	266,109	-	266,109	-	-
Student Recreation Center	3,835,629	-	3,835,629	-	-
Student Housing	2,490,838	-	2,490,838	-	-
Culinary Institute	2,204,711	-	2,204,711	-	-
Refunding - 2013:					
Student Housing	2,060,956	-	391,500	1,669,456	410,400
Institute	453,074	-	87,000	366,074	91,200
Performing Arts Center	527,740	-	101,500	426,240	106,400
Student Recreation Center	788,230	-	145,000	643,230	152,000
Refunding - 2016:					
Student Housing	-	1,496,727	-	1,496,727	-
Neighborhood Facility Building	-	199,237	-	199,237	-
Student Recreation Center	-	1,195,419	-	1,195,419	-
Refunding - 2017:					
Student Housing	-	2,152,200	-	2,152,200	92,357
Culinary Institute	-	1,904,967	-	1,904,967	81,748
Performing Arts Center	-	88,743	-	88,743	3,808
Student Recreation Center	-	3,314,159	-	3,314,159	142,220
Dryvit Project	-	229,931	-	229,931	9,867
Total Debt	<u>34,305,538</u>	<u>21,588,045</u>	<u>19,593,236</u>	<u>36,300,347</u>	<u>6,883,761</u>
Deferred Discounts and Premiums	197,269	1,209,183	118,835	1,287,617	-
Total	<u>\$ 34,502,807</u>	<u>\$ 22,797,228</u>	<u>\$ 19,712,071</u>	<u>\$ 37,587,964</u>	<u>\$ 6,883,761</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 CHANGES IN LONG-TERM LIABILITIES (CONTINUED)

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Compensated Absences	\$ 475,340	\$ -	\$ 9,192	\$ 466,148	\$ -
Sick Leave Payable (Stipend)	358,557	55,320	-	413,877	196,339
OPEB	617,969	-	270,146	347,823	-
Total	<u>\$ 1,451,866</u>	<u>\$ 55,320</u>	<u>\$ 279,338</u>	<u>\$ 1,227,848</u>	<u>\$ 196,339</u>

NOTE 10 RESTRICTED NET POSITION

Southwestern Oregon Community College Foundation

Restricted net position – expendable of \$2.4 million and restricted net position – unexpendable of \$901,742 in the Foundation are primarily for scholarships, program support, and the Health & Science Technology building.

NOTE 11 CONTINGENT LIABILITIES

The amounts of grant revenue reflected in the financial statements are subject to audit and adjustment by grantor agencies, principally the federal government. Any costs which are questioned or recommended to be disallowed claims may become a liability of the College. Various claims are pending against the College. In the opinion of the College management, after consultation with legal counsel, potential loss on these claims will not materially affect the College's financial position.

NOTE 12 RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the College carries commercial insurance. Worker's compensation insurance is also provided through a commercial carrier. There has been no significant reduction in insurance coverage from the prior year and the College has not been required to pay any settlements in excess of insurance coverage during the past three fiscal years.

NOTE 13 CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The College's operations are concentrated in Coos, Douglas, and Curry Counties within Oregon. These counties have economic conditions, including unemployment, worse than average in Oregon. In addition, a significant portion of the College's revenues for continuing operations are from federal, state, and local government agencies. In the normal course of operations, the College receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 RELATED PARTY

A College Board of Education Member is a principal in the insurance agency that is the College's Insurance Agent of Record. However, the member declares a potential conflict of interest and abstains from College decision-making involvement in that regard. For the fiscal year ended June 30, 2017, amounts paid directly to the Insurance Agency totaled \$3,212, and payments to other carriers for various insurance premiums, coverages, and commissions totaled \$198,036. No amounts were owed as of June 30, 2017.

NOTE 15 SCHOLARSHIP ALLOWANCES

Scholarship allowances represent the portion of financial aid computed on a college-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid. Scholarship allowances eliminate the double counting of revenue that results from receipt of outside aid. They are applied against revenue on a pro-rata basis as shown below:

Scholarship Allowances Applied to:

Student Tuition and Fees	\$ 2,826,363
Bookstore Charges	371,217
Student Housing Charges	1,577,045
Culinary Arts Tuition and Fees	992,014
Total	<u>\$ 5,766,639</u>

NOTE 16 EMPLOYEE RETIREMENT SYSTEM

Public Employee Retirement System (PERS)

College employees participate in one or more Oregon PERS plans (OPERS) that provide pension, death, disability, and postemployment health care benefits to members or their beneficiaries. The pension plan is a multiple-employer cost-sharing plan. In 1995, the Legislature enacted a second level or "tier" of PERS benefits for persons who established PERS membership on or after January 1, 1996. These Tier Two members do not have the Tier One assumed earnings rate guarantee, and have a higher normal retirement age of 60, compared to 58 for Tier One. Employer contributions to PERS are required by state statute and are made at actuarially determined rates as adopted by the Public Employment Retirement Board (PERB).

PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasurer has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the State of Oregon Comprehensive Annual Financial Report.

PERS is administered under Oregon Revised Statutes (ORS) Chapter 238. ORS 238.620 establishes the PERB as the governing body of PERS. PERS issues a publicly available financial report, which can be obtained by writing to PERS, PO Box 23700, Tigard, Oregon 97281-3700 or by calling 503-598-7377.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Public Employee Retirement System (PERS) (Continued)

Copies of the Oregon Public Employees Retirement System's Comprehensive Annual Financial Report and Actuarial Valuations may be obtained from the Oregon PERS website at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Summary of Significant Accounting Policies

Employers participating in the Plan are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

The requirements of this Statement incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

Basis of Accounting

Contributions for employers are recognized on the accrual basis of accounting. Employer contributions to PERS are calculated based on creditable compensation for active members reported by employers. Employer contributions are accrued when due pursuant to legal requirements. These are amounts normally included in the employer statements cut off as of the fifth of the following month.

Proportionate Share Allocation Methodology

The basis for the employer's proportion is actuarially determined by comparing the employer's projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. The contribution rate for every employer has at least two major components; Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

Changes in Plan Provisions

Since the December 31, 2013 actuarial valuation, the system-wide actuarially accrued liability has increased primarily due to the *Moro* decision and assumption changes, along with interest on the liability as current active members get closer to retirement. The Oregon Supreme Court decision in *Moro v. State of Oregon*, issued on April 30, 2015, reversed a significant portion of the reductions the 2013 Oregon Legislature made to future system Cost of Living Adjustments (COLA) through Senate Bills 822 and 861. This reversal increased the benefits projected to be paid by Employers compared to those developed in the prior actuarial valuation, and consequently increased plan liabilities. The employers' projected long-term contribution effort has been adjusted for the estimated impact of the *Moro* decision. In accordance with statute, a biennial review of actuarial methods and assumptions was completed in 2015 to be used for the December 31, 2014 actuarial valuation. After completion of this review and subsequent to the measurement date, the PERS Board adopted several assumption changes, including lowering the investment return assumption to 7.50%, which will be effective January 1, 2016.

(Source: June 30, 2016, OPERS CAFR, table 29, p. 65)

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Pension Plan Liability

The components of the Plan's collective net pension liability as of the measurement date of June 30, 2016 are as follows (dollars in millions):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 540,000	\$ 609,657	\$ 1,149,657
2019	630,000	581,593	1,211,593
2020	725,000	547,321	1,272,321
2021	825,000	507,881	1,332,881
2022	935,000	463,001	1,398,001
2023-2027	6,705,000	1,403,666	8,108,666
2028	765,000	42,305	807,305
Total	<u>\$ 11,125,000</u>	<u>\$ 4,155,424</u>	<u>\$ 15,280,424</u>

(Source: June 30, 2016, OPERS CAFR, table 28, p. 62)

Plan Benefits

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A.

Tier One/Tier Two Retirement Benefit (Chapter 238)

Tier One/Tier Two Retirement Benefit plan is closed to new members hired on or after August 29, 2003.

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0% for police and fire employees, 1.67% for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General Service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Benefit Changes After Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360, monthly benefits are adjusted annually through cost-of-living changes. As a result of the Moro Decision, the cap on the COLA will be restored to 2.0% for fiscal years 2016 and beyond (see Changes in Plan Provision section).

Oregon Public Service Retirement Plan (OPSRP) is a hybrid retirement plan with two components: a defined benefit pension plan and a defined contribution pension plan.

1. The defined benefit pension plan is provided to members who were hired on or after August 29, 2003. Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the PERB. The annual required contribution rate for the OPSRP defined benefit pension plan at June 30, 2015 is 3.72%, adjusted for the side account rate relief (11.02%).
2. The defined contribution pension plan (called the Individual Account Program) (IAP) is provided to all members or their beneficiaries who are PERS or OPSRP eligible. State statutes require covered employees to contribute 6% of their annual covered salary to the IAP plan effective January 1, 2004. Plan members of PERS retain their existing PERS accounts, but member contributions beginning in 2004 will be deposited in the member's IAP, not into the member's PERS account.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

OPSRP Pension Program (OPSRP DB)

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003.

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

General Service: 1.5% is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP Pension Program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50% of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45% of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25% on the first \$60,000 of annual benefit and 0.15% on annual benefits above \$60,000.

Pension Plan Contributions

PERS and OPSRP employee contribution requirements are established by ORS 238.200 and ORS 238A.330, respectively, and are credited to an employee's account in the IAP and maybe amended by an act of the Oregon Legislature. The College requires members of PERS to contribute 6% of their salary covered under the plan. In addition, the College is required to contribute at an actuarially determined rate. The rate at June 30, 2017 is 9.31% for PERS Tier One/Two and 3.76% for OPSRP.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Pension Plan Contributions (Continued)

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates for the fiscal year ended June 30, 2017 were based on the December 31, 2014 actuarial valuation as subsequently modified by the Moro Decision. The rates first became effective July 1, 2016. The rates based on a percentage of payroll, first became effective July 1, 2015. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2017 were \$624,041, excluding amounts to fund employer specific liabilities.

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

Pension expense for the year ended June 30, 2017 was \$2,007,773. At June 30, 2017, the College reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 381,403	\$ -
Changes in Assumptions	2,458,689	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,277,489	-
Changes in Proportionate Share	248,263	-
Differences Between Employer Contributions and Proportionate Share of System Contributions	-	409,319
Total (Prior to Post Measurement Date Contributions)	5,365,844	409,319
Contributions Subsequent to the Measurement Date	624,041	-
Total	<u>\$ 5,989,885</u>	<u>\$ 409,319</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Pension Asset, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Of the amount reported as deferred outflows of resources, \$624,041 are related to contributions subsequent to the measurement date and will be recognized as reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 869,842
2019	869,842
2020	1,714,071
2021	1,316,174
2022	186,596
Total	<u>\$ 4,956,525</u>

Actuarial Valuations

The employer contribution rates effective July 1, 2013 through June 30, 2016 were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), and (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), and (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Actuarial Assumptions (Continued)

Actuarial methods and assumptions used in developing total pension liability:

Valuation Date	December 31, 2014
Experience Study Report	2014, Published September, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier I/Tier II UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Inflation Rate	2.50% (Reduced from 2.75%)
Long-Term Expected rate of Return	7.50% (Reduced from 7.75%)
Discount Rate	7.50% (Reduced from 7.75%)
Projected Salary Increases	3.50% (Reduced from 3.75%)
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blended based on service.
Mortality	<p><i>Healthy Retirees and Beneficiaries:</i> RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p><i>Active Members:</i> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><i>Disabled Retirees:</i> Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 sex-distinct, generational per Scale BB, disabled mortality table.</p>

(Source: June 30, 2016 PERS CAFR; p. 63)

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even-numbered years. The methods and assumptions shown above are based on the 2014 Experience Study, which reviewed experience for the four-year period ending on December 31, 2014.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection

GASB 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Depletion Date Projection (Continued)

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

(Source: June 30, 2016 PERS CAFR; p. 63)

Assumed Asset Allocation

<u>Asset Class/Strategy</u>	<u>Low Range</u>	<u>High Range</u>	<u>Target Range</u>
Cash	-	3.0 %	-
Debt Securities	15.0	25.0	20.0
Public Equity	32.5	42.5	37.5
Real Estate	9.5	15.5	12.5
Private Equity	13.5	21.5	17.5
Alternative Equity	-	12.5	12.5
Opportunity Portfolio	-	3.0	-
Total			<u>100.0 %</u>

(Source: June 30, 2016 PERS CAFR; p. 86)

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 16 EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Compound Annual Return (Geometric)</u>
Core Fixed Income	8.00%	4.00%
Short-Term Bonds	8.00	3.61
Bank/Leveraged Loans	3.00	5.42
High Yield Bonds	1.00	6.20
Large/Mid Cap US Equities	15.75	6.70
Small Cap US Equities	1.31	6.99
Micro Cap US Equities	1.31	7.01
Developed Foreign Equities	13.13	6.73
Emerging Market Equities	4.12	7.25
Non-U.S. Small Cap Equities	1.88	7.22
Private Equity	17.50	7.97
Real Estate (Property)	10.00	5.84
Real Estate (REITS)	2.50	6.69
Hedge Fund - Diversified	2.50	4.64
Hedge Fund - Event-Driven	0.63	6.72
Timber	1.88	5.85
Farmland	1.88	6.37
Infrastructure	3.75	7.13
Commodities	1.88	4.58
Assumed Inflation – Mean		2.50%

(Source: June 30, 2016 PERS CAFR; p. 66)

Sensitivity Analysis

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Proportionate Share of the Net Pension Liability (Asset)	\$ 18,614,203	\$ 11,528,202	\$ 5,605,546

The above is an analysis of the College's proportionate share of the net pension asset to changes in the discount rate. It presents the College's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.50% as well as what the College's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (Source: June 30, 2016 PERS CAFR; p. 65).

Plan Fiduciary Net Position as a Percentage of Total Pension Liability

See Schedule of Changes in Net Pension (Asset) Liability on page 69 of the PERS June 30, 2016 CAFR.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
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NOTE 17 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The OPEB Plan is comprised of two agreements between the College and separate groups of employees. The first agreement covers those employees hired before March 1, 2002 (the 1997 Plan), and the second agreement covers all other employees (the 2002 Plan).

OPEB Plan Description

The College participates in the Oregon Educators Benefits Board (OEBB), a statewide agent multi-employer benefit plan as defined in GASB Statement No. 45, to provide a post-retirement health benefits program. This program covers all full-time certified, classified, and eligible administrative personnel of the College. This program was established in accordance with ORS 243.303, which requires that all eligible retirees be allowed to continue receiving health insurance benefits, at their cost, until age 65 or they become otherwise eligible for Medicare. The statutory requirement under ORS 243.303 can result in an “implicit subsidy” (the difference between expected early retiree claim costs and the premium paid for the retiree) requiring additional cost and liability recognition under GASB Statement No. 45. In OEBB, the individual employer health plans are rated collectively, rather than individually by employer, and the same blended premium rate is charged to all active employees and non-Medicare-eligible retirees. In situations like OEBB, GASB Statement No. 45 allows “smaller” employers to use the blended premium rate for actuarial projections as opposed to using age-adjusted premiums for the projections. The blended premiums are used for the GASB Statement No. 45 actuarial projections and the College does not have an implicit employer OPEB subsidy. There are currently 246 people enrolled in this program. The College does not issue a stand-alone report for this plan.

OPEB Funding Policy

OPEB Funding Policy. The College finances both plans on a “pay as you go” basis and pays for all the benefits. For the year ended June 30, 2017, the College recognized \$150,007 in expenditures in the fund financial statements for the amount paid, and \$150,007 in the full accrual statement of revenues, expenses, and changes in net position for the postemployment healthcare benefits.

The Plan is established pursuant to two early retirement policies: the 1997 Plan and the 2002 Plan. Each policy stipulates a cap limiting the total amount of early retiree healthcare benefits the College will pay each year. Annual healthcare benefits for the 1997 Plan shall not exceed \$150,000. Similarly, annual healthcare benefits for the 2002 Plan are capped at \$250,000. Benefits paid for sick leave hours are not counted toward Plan caps. Requests for early retirement under an early retirement policy will not be granted if the total annual healthcare benefits are expected to exceed the policy’s cap in the next academic year. Requests are considered in order based on years of service.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 17 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Funding Policy (Continued)

1997 Plan - \$150,000 Annual Cap on Healthcare Benefits

- Eligibility** For employees hired prior to July 1, 1997
- Age 55 with 10 years of employment with the College at 0.5 FTE or more; and
 - Eligible to retire under PERS

- For employees hired between July 1, 1997 and March 1, 2002
- Age 58 with 20 years of full-time employment with the College; and
 - Eligible to retire under PERS

Medical Benefits Benefits before age 65
Payment for full medical, dental, and vision for retiree, spouse, and eligible children until retiree turns 65 or dies. Payment limited to 75% of cost if hired after July 1, 1997.

Benefit after age 65
Payments up to \$62 each per month for retiree and spouse until age 70 or retiree's death. Retiree and spouse must show proof of Medicare Supplemental insurance. All benefits to the spouse end upon the retiree's death. The spouse may continue coverage on a self-pay basis.

2002 Plan - \$250,000 Annual Cap on Healthcare Benefits

- Eligibility**
- Hired on or after March 1, 2002; and
 - Age 58 with 20 years of full-time employment with the College; or
 - 30 years of full-time employment with the College

Medical Benefits Benefit before age 65
Contribution toward family medical and vision insurance until retiree turns age 65 or dies. Contribution amounts below are as of the 2002 Calendar year. Contribution amounts are increased each year on January 1 by 3% or the July-June Portland Consumer Price Index, whichever is less.

Requirement	Contribution
20-25 YOS or 41,600-51,999 Hours	\$250/Month
25-30 YOS or 52,000-62,399 Hours	\$300/Month
30+ YOS or 62,400+ Hours	\$350/Month

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 17 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Funding Policy (Continued)

2002 Plan - \$250,000 Annual Cap on Healthcare Benefits (Continued)

Benefit after age 65

Payment of up to \$62 per month until retiree turns 70 or dies.
Retiree must show proof of Medicare Supplemental insurance.

Annual OPEB Cost and Net OPEB Obligation

The College's annual OPEB costs are reflected on the Statement of Net Position on the accrual basis, and are calculated on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the College's annual OPEB cost for the year ending June 30, 2017, the amount actually contributed to the plan, and changes in the College's net OPEB obligations.

Normal Cost at Year-End	\$ 96,484
Amortization of UAAL	2,598,297
Annual Required Contribution	<u>\$ 225,186</u>
ARC - Explicit Medical - 1997 Plan	\$ 103,796
ARC - Explicit Medical - 2002 Plan	36,889
ARC - Implicit Medical	84,501
	<u>225,186</u>
Interest on Prior Year Net OPEB Obligation	10,442
Adjustment to ARC for Net OPEB Obligation	(17,241)
Annual OPEB Cost	<u>218,387</u>
Expected Contributions (Explicit Medical)	(162,856)
Expected Contributions (Implicit Medical)	(55,769)
Increase (decrease) in Net OPEB Obligation	<u>(238)</u>
Net OPEB Obligation - Beginning of Year	348,061
Net OPEB Obligation - End of Year	<u>\$ 347,823</u>

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Funding Policy (Continued)

Actuarial Assumptions for OPEB Plans

Part of the long-term assumption regarding the future cost of the retiree health plan is that it will retain its current relationship to the cost of the active plan, and that the active plan cost will maintain a reasonable relationship to direct compensation. Key assumptions include the following:

1. Investment Return Assumption (Interest Discount): 3.0%.
2. Medical Premium Annual Trend Rate: 8% initial increase, reducing to 5.0% over 6 years.
3. Dental Premium Annual Trend Rate: 2.0% initial increase, increasing to 3.0% over 2 years.
4. Vision Premium Annual Trend Rate: 4.0% initial increase, reducing to 3.0% over 2 years.
5. Annual Cost-of-living Increase: 2.5%.

The investment return assumption is the estimated long-term investment yield on the assets that are expected to be used to finance the payment of benefits. Since the Plan is currently unfunded, the investment return assumption is set equal to the expected long-term return on the College's own investment funds. The assumption is that 3.0% is a reasonable proxy for that investment return over the long-term.

Disability Rates Disability rates are assumed to be immaterial for purpose of this OPEB actuarial valuation.

Covered Spouse 45% of future retirees are assumed to cover a spouse, and male spouses are assumed to be 3 years older than female spouses when date of birth is not provided.

Sick Leave Accrual Employees are assumed to use 50% of the sick leave that they accrue each year.

Entry Age Normal Method

The Entry Age Normal Level Percent of Pay Cost Method (EAN) is used to determine the Actuarial Accrued Liability and the Normal Cost.

Under this method, the actuarial present value of the projected benefits of each active employee included in the valuation is allocated on a level dollar basis over the service of the active employee between assumed entry age (date of hire) and assumed exit age(s). The portion of this actuarial present value allocated to the valuation year is called the normal cost for that active employee. The sum of these individual normal costs is the Plan's Normal Cost for the valuation year.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 17 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB Funding Policy (Continued)

Entry Age Normal Method (Continued)

The present value of benefits for current retirees plus the accumulated value of all prior Normal Costs is the Actuarial Accrued Liability. The excess of the Actuarial Accrued Liability over Plan Assets is the Unfunded Accrued Actuarial Liability (UAAL). The UAAL for the OPEB Plan is amortized over a 30-year open amortization period.

Under this method, the actuarial gains (losses), as they occur, reduce (increase) the Unfunded Accrued Actuarial Liability while leaving the Normal Cost unchanged.

Actuarial Method, Funding, and Expense

The EAN method is used to develop an annual required contribution (ARC) in accordance with accepted actuarial methods.

The ARC is the basic building block of cost recognition and is equal to the sum of the Normal Cost and a payment to amortize the Unfunded Actuarial Accrued Liability over a period not to exceed 30 years. Total annual contributions may or may not be equal to the Annual Required Contribution in any given year. In the event that the College contributes more or less than the Annual OPEB/Pension Cost in any year, a credit or debit is made to an interest bearing OPEB/Pension funding account. The balance in the funding account is either a net asset or a net liability on the College's balance sheet and amortized through a corresponding increase or decrease to the ARC in the following valuation. An "unfunded liability" is calculated as the excess of the Actuarial Accrued Liability over Plan Assets.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts, such as the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. The schedule of funding progress presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of funding progress is required to report the last three actuarial valuations. They were done for June 30, 2011, June 30, 2013, and June 30, 2015. The June 30, 2011 valuation utilized an actuarial roll-forward of the valuation information for June 30, 2012. The June 30, 2013 valuation utilized an actuarial roll-forward of the valuation information for June 30, 2014. The June 30, 2015 valuation utilized an actuarial roll-forward of the valuation information for June 30, 2016.

NOTE 18 SUBSEQUENT EVENTS

Subsequent to year end, the College entered into a contract in the amount of \$250,000 for the heating system repairs in Tioga Hall. The College also entered into an agreement for architectural design services for the Health Science Technology Building project in the amount of \$738,395.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2017**

Year Ended June 30,	Proportion of the Net Pension Liability (Asset) (a)	District's Proportionate Share of the Net Pension Liability (Asset) (b)	District's Covered Payroll (c)	Net Pension Liability/Asset as a Percentage of its Covered Payroll (b/c)	Net Position as a Percentage of Total Pension Liability
2014	0.070422%	\$ 3,593,726	\$ 10,382,627	(34.61%)	92.00%
2015	0.070422%	(1,596,261)	10,557,954	15.12	103.60
2016	0.072755%	4,177,200	10,469,817	(39.90)	91.90
2017	0.076792%	11,528,202	10,825,012	(106.50)	80.53

**SCHEDULE OF CONTRIBUTIONS OF NET PENSION LIABILITY
YEAR ENDED JUNE 20, 2017**

Year Ended June 30,	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percent of Covered Payroll (b/c)
2014	\$ 639,625	\$ 639,625	\$ -	\$ 10,382,627	6.16%
2015	630,552	630,552	-	10,557,954	5.97
2016	627,343	627,343	-	10,469,817	5.99
2017	624,041	624,041	-	10,825,012	5.76

The amounts presented for each fiscal year were actuarially determined at December 31, and rolled forward to the measurement date.

*This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR OTHER POSTEMPLOYMENT BENEFITS
JUNE 30, 2017**

Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Actuarial Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
OPEB Plan:						
6/30/11	\$ -	\$ 2,456,308	\$ 2,456,308	-	\$ 12,634,787	19.44%
6/30/13	-	2,100,397	2,100,397	-	11,457,508	18.33
6/30/15	-	2,123,851	2,123,851	-	11,620,211	18.28
6/30/17	-	2,598,297	2,598,297	-	12,247,310	21.22

Employer Contributions

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
OPEB Plan:			
6/30/13	\$ 153,395	89.76%	\$ 293,080
6/30/14	153,088	92.41	304,705
6/30/15	164,506	82.53	333,438
6/30/16	164,333	91.10	348,061

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

GENERAL FUND

The general fund is used to account for and report resources and activities directly associated with carrying out those operations related to the College's basic educational objectives. Included are all resources and activities which are not accounted for in another fund.

Resources are primarily from state operational support, local property taxes, and student tuition and fees. The majority of general fund expenditures are salaries, fringe benefits, and supplies used to provide student instruction, instructional support, and general operations for the College.

SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local Support	\$ 5,407,036	\$ 5,407,036	\$ 5,555,376	\$ 148,340
State Support	7,443,497	7,443,497	7,467,808	24,311
Federal Support	11,500	11,500	15,664	4,164
Tuition and Fees	6,195,688	6,195,688	5,577,321	(618,367)
Other	328,772	328,772	403,210	74,438
Total Revenues	<u>19,386,493</u>	<u>19,386,493</u>	<u>19,019,379</u>	<u>(367,114)</u>
EXPENDITURES				
Personnel Services	14,741,333	14,552,823	13,515,540	1,037,283
Materials and Services	3,700,199	3,660,199	3,220,676	439,523
Debt Service	4,235,000	4,235,000	503,825	3,731,175
Capital Outlay	30,000	97,620	42,295	55,325
Total Expenditures	<u>22,706,532</u>	<u>22,545,642</u>	<u>17,282,336</u>	<u>5,263,306</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(3,320,039)	(3,159,149)	1,737,043	4,896,192
OTHER FINANCING SOURCES (USES)				
Transfers In	807,739	619,229	35,000	(584,229)
Transfers Out	(2,087,700)	(2,060,080)	(1,781,050)	279,030
Issuance of Debt, Short-Term	4,200,000	4,200,000	2,000,000	(2,200,000)
Total Other Financing Sources (Uses)	<u>2,920,039</u>	<u>2,759,149</u>	<u>253,950</u>	<u>(2,505,199)</u>
NET CHANGE IN FUND BALANCE	(400,000)	(400,000)	1,990,993	2,390,993
Fund Balance - Beginning of Year	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,141,249</u>	<u>(58,751)</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>	<u>\$ 4,132,242</u>	<u>\$ 2,332,242</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2017**

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report resources and activities that are required legally or by sound financial management to be accounted for in separate funds.

DESCRIPTION OF FUNDS

Financial Aid – This fund is used to account for and report federal and state loans, grants, stipends, or other aid to enrolled students. Pell grants, Direct Loans, SEOG funds, and FWS funds are the primary revenue sources.

Special Projects – This fund is used to account for and report proceeds of specific revenue sources that are legally restricted to specific purposes other than direct student financial aid. Special projects, grants, and other contracts for designated purposes are the primary revenue sources. Expenditures are restricted to those items designated or stipulated for in the agreements by each grant, project, or contract.

Insurance Reserve – This fund is used to account for and report resources set aside to provide additional protection for the College in case of uninsured losses. Earnings on investments and transfers from other funds are the primary revenue sources.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FINANCIAL AID FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
State Support	\$ 2,000,000	\$ 2,000,000	\$ 1,168,118	\$ (831,882)
Federal Support	11,844,000	11,844,000	6,938,449	(4,905,551)
Other	450,000	450,000	220,669	(229,331)
Total Revenues	<u>14,294,000</u>	<u>14,294,000</u>	<u>8,327,236</u>	<u>(5,966,764)</u>
EXPENDITURES				
Personnel Services	94,000	94,000	71,830	22,170
Materials and Services	14,200,000	14,200,000	8,255,406	5,944,594
Total Expenditures	<u>14,294,000</u>	<u>14,294,000</u>	<u>8,327,236</u>	<u>5,966,764</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SPECIAL PROJECTS FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
State Support	\$ 1,393,067	\$ 1,393,067	\$ 1,083,324	\$ (309,743)
Federal Support	3,478,903	3,478,903	2,813,501	(665,402)
Tuition and Fees	278,000	278,000	268,448	(9,552)
Other	1,359,643	1,359,643	904,147	(455,496)
Total Revenues	<u>6,509,613</u>	<u>6,509,613</u>	<u>5,069,420</u>	<u>(1,440,193)</u>
EXPENDITURES				
Personnel Services	4,560,025	4,560,025	3,278,648	1,281,377
Materials and Services	2,179,752	2,179,752	1,583,944	595,808
Capital Outlay	302,174	302,174	61,663	240,511
Total Expenditures	<u>7,041,951</u>	<u>7,041,951</u>	<u>4,924,255</u>	<u>2,117,696</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(532,338)	(532,338)	145,165	677,503
OTHER FINANCING SOURCES (USES)				
Transfers In	42,000	42,000	42,000	-
Transfers Out	(63,234)	(63,234)	(35,000)	28,234
Total Other Financing Sources (Uses)	<u>(21,234)</u>	<u>(21,234)</u>	<u>7,000</u>	<u>28,234</u>
NET CHANGE IN FUND BALANCE	(553,572)	(553,572)	152,165	705,737
Fund Balance - Beginning of Year	<u>553,572</u>	<u>553,572</u>	<u>1,031,814</u>	<u>478,242</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,183,979</u>	<u>\$ 1,183,979</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
INSURANCE RESERVE FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other	\$ 27,000	\$ 27,000	\$ 25,002	\$ (1,998)
EXPENDITURES				
Personnel Services	15,000	15,000	-	15,000
Materials and Services	459,000	459,000	192,066	266,934
Capital Outlay	200,000	200,000	-	200,000
Total Expenditures	674,000	674,000	192,066	481,934
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(647,000)	(647,000)	(167,064)	479,936
OTHER FINANCING SOURCES (USES)				
Transfers In	10,000	10,000	10,000	-
NET CHANGE IN FUND BALANCE	(637,000)	(637,000)	(157,064)	479,936
Fund Balance - Beginning of Year	637,000	637,000	589,388	(47,612)
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 432,324</u>	<u>\$ 432,324</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017**

DEBT SERVICE FUND

Debt service funds are used to account for the accumulation of resources and payment of general long-term debt principal and interest.

DESCRIPTION OF FUND

Bonded Debt – This fund is used to account for principal and interest on lease and bond indebtedness. The primary sources of revenue are transfers from the General Fund, the PERS intercept portion of State school support, and the federal government interest subsidy on federally taxable recovery zone development obligations.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
State Support	\$ -	\$ -	\$ 1,089,834	\$ 1,089,834
Federal Support	149,254	149,254	-	(149,254)
Other Income	1,093,103	1,093,103	6,209	(1,086,894)
Total Revenues	<u>1,242,357</u>	<u>1,242,357</u>	<u>1,096,043</u>	<u>(146,314)</u>
EXPENDITURES				
Debt Service	<u>2,957,982</u>	<u>2,930,362</u>	<u>2,644,756</u>	<u>285,606</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(1,715,625)	(1,688,005)	(1,548,713)	139,292
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>1,715,625</u>	<u>1,688,005</u>	<u>1,541,518</u>	<u>(146,487)</u>
NET CHANGE IN FUND BALANCE	-	-	(7,195)	(7,195)
Fund Balance - Beginning of Year	<u>-</u>	<u>-</u>	<u>7,195</u>	<u>7,195</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2017**

CAPITAL PROJECTS FUND

Capital projects funds are used to account for and report the acquisition and construction of major capital facilities.

DESCRIPTION OF FUND

Plant – This fund is used to account for and report financial resources to be used for acquisition or construction of major capital facilities, the purchase of major initial equipment, and major remodeling. Borrowed funds, state support, earnings on investments, and transfers from other funds are the primary revenue sources.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
PLANT FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
State Support	\$ 1,222,368	\$ 1,222,368	\$ -	\$ (1,222,368)
Other Income	-	-	3,342,841	3,342,841
Total Revenues	<u>1,222,368</u>	<u>1,222,368</u>	<u>3,342,841</u>	<u>2,120,473</u>
EXPENDITURES				
Materials and Services	91,000	91,000	90,279	721
Capital Outlay	1,262,368	1,262,368	180,552	1,081,816
Total Expenditures	<u>1,353,368</u>	<u>1,353,368</u>	<u>270,831</u>	<u>1,082,537</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(131,000)	(131,000)	3,072,010	3,203,010
OTHER FINANCING SOURCES (USES)				
Transfers In	131,000	131,000	131,000	-
Issuance of Debt, Long-Term	-	-	5,000,000	5,000,000
Total Other Financing Sources (Uses)	<u>131,000</u>	<u>131,000</u>	<u>5,131,000</u>	<u>5,000,000</u>
NET CHANGE IN FUND BALANCE	-	-	8,203,010	8,203,010
Fund Balance - Beginning of Year	-	-	42,119	42,119
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,245,129</u>	<u>\$ 8,245,129</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2017**

ENTERPRISE FUNDS

DESCRIPTION OF FUNDS

Enterprise – This fund is used to account for and report the operations of the College’s Bookstore, the Newmark Center, Student Housing, Food Service, Conferencing, and Culinary Arts. Sales of books and supplies, lease rental payments, and tuition and fees are the primary revenue sources.

Internal Service Fund – Internal service funds are used to account for and report the financing of goods or services provided by one department of the College to the other departments on a cost reimbursement basis.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OPERATING REVENUES				
Tuition and Fees	\$ 2,898,700	\$ 2,898,700	\$ 2,076,988	\$ (821,712)
Other	5,986,143	5,986,143	4,653,220	(1,332,923)
Total Operating Revenues	<u>8,884,843</u>	<u>8,884,843</u>	<u>6,730,208</u>	<u>(2,154,635)</u>
OPERATING EXPENSES				
Personnel Services	2,469,722	2,469,722	2,252,849	216,873
Materials and Services	4,671,438	4,671,438	3,003,841	1,667,597
Capital Outlay	235,000	235,000	15,627	219,373
Debt Service	1,071,906	1,260,416	1,247,683	12,733
Total Operating Expenses	<u>8,448,066</u>	<u>8,636,576</u>	<u>6,520,000</u>	<u>2,116,576</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	436,777	248,267	210,208	(38,059)
OTHER FINANCING SOURCES (USES)				
Transfers In	18,497	18,497	18,497	-
Transfers Out	(683,002)	(494,492)	(28,497)	465,995
Total Other Financing Sources (Uses)	<u>(664,505)</u>	<u>(475,995)</u>	<u>(10,000)</u>	<u>465,995</u>
NET CHANGE IN FUND BALANCE	(227,728)	(227,728)	200,208	427,936
Fund Balance - Beginning of Year	<u>2,190,000</u>	<u>2,190,000</u>	<u>(797,797)</u>	<u>(2,987,797)</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,962,272</u>	<u>\$ 1,962,272</u>	<u>\$ (597,589)</u>	<u>\$ (2,559,861)</u>

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
OPERATING REVENUES				
Charges for Services	\$ 325,174	\$ 325,174	\$ 296,718	\$ (28,456)
OPERATING EXPENSES				
Personnel Services	207,386	207,386	149,580	57,806
Materials and Services	314,863	314,863	211,672	103,191
Total Operating Expenses	522,249	522,249	361,252	160,997
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(197,075)	(197,075)	(64,534)	132,541
OTHER FINANCING SOURCES (USES)				
Transfers In	197,075	197,075	64,534	(132,541)
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund Balance - Beginning of Year	-	-	-	-
FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ -	\$ -

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
TRUST AND AGENCY FUND
YEAR ENDED JUNE 30, 2017**

TRUST AND AGENCY FUND

The trust and agency fund is sued to account for and report assets held by the College as an agent for individuals, private organizations, other governmental units, and/or other funds (e.g., student clubs and service organizations). Expenditure of funds is determined by the organization for whom the funds are held. Contributions and club receipts are the primary revenue sources.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
TRUST AND AGENCY FUND
YEAR ENDED JUNE 30, 2017**

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Tuition and Fees	\$ 35,000	\$ 35,000	\$ 1,496	\$ (33,504)
Other	140,000	140,000	167,802	27,802
Total Revenues	<u>175,000</u>	<u>175,000</u>	<u>169,298</u>	<u>(5,702)</u>
OPERATING EXPENSES				
Materials and Services	207,000	207,000	149,876	57,124
Capital Outlay	10,000	10,000	-	10,000
Total Operating Expenses	<u>217,000</u>	<u>217,000</u>	<u>149,876</u>	<u>67,124</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(42,000)	(42,000)	19,422	61,422
OTHER FINANCING SOURCES (USES)				
Transfers In	2,000	2,000	9,053	7,053
Transfers Out	(90,000)	(90,000)	(7,054)	82,946
Total Other Financing Sources (Uses)	<u>(88,000)</u>	<u>(88,000)</u>	<u>1,999</u>	<u>89,999</u>
NET CHANGE IN FUND BALANCE	(130,000)	(130,000)	21,421	151,421
Fund Balance - Beginning of Year	<u>130,000</u>	<u>130,000</u>	<u>-</u>	<u>(130,000)</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,421</u>	<u>\$ 21,421</u>

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

Board of Education
Southwestern Oregon Community College
Coos Bay, Oregon

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 Audit Standards*, issued by the Comptroller General of the United States, the basic financial statements of Southwestern Oregon Community College (the College) as of and for the year ended June 30, 2017, and have issued our report thereon dated January 10, 2018.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwestern Oregon Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, 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 aggregate discretely presented component unit was not tested for compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to, the following:

- Deposit of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).

In connection with our testing, nothing came to our attention that caused us to believe Southwestern Oregon Community College was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

This report is intended solely for the information and use of the board of directors, management of Southwestern Oregon Community College, and the Oregon Secretary of State and is not intended to be, and should not be, used by anyone other than these parties.



CliftonLarsonAllen LLP

Bellevue, Washington
January 10, 2018



Christopher Knopik, CPA
Principal
CPA License #23028
Oregon Municipal License #1617



**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***

Board of Education
Southwestern Oregon Community College
Coos Bay, Oregon

We have audited, in accordance with the 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 discretely presented component unit of Southwestern Oregon Community College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Southwestern Oregon Community College's basic financial statements, and have issued our report thereon dated January 10, 2018. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwestern Oregon Community 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 Southwestern Oregon Community College's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwestern Oregon Community 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwestern Oregon Community College’s financial statements are free from material misstatement, we performed tests of its 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*.

Southwestern Oregon Community College’s Response to Findings

Southwestern Oregon Community College’s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southwestern Oregon Community College’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Bellevue, Washington
January 10, 2018



Christopher Knopik, CPA
Principal
CPA License #23028
Oregon Municipal License #1617

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
Southwestern Oregon Community College
Coos Bay, Oregon

Report on Compliance for Each Major Federal Program

We have audited Southwestern Oregon Community College's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southwestern Oregon Community College's major federal programs for the year ended June 30, 2017. Southwestern Oregon Community College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Southwestern Oregon Community College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Southwestern Oregon Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Southwestern Oregon Community College's compliance.

Opinion on Each Major Federal Program

In our opinion, Southwestern Oregon Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2017-004, 2017-005, 2017-006, 2017-007, and 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

Southwestern Oregon Community College's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Southwestern Oregon Community College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Southwestern Oregon Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Southwestern Oregon Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southwestern Oregon Community College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-003, 2017-004, 2017-005, 2017-006, 2017-007, 2017-008, and 2017-009 which we consider to be significant deficiencies.

Board of Education
Southwestern Oregon Community College

The Southwestern Oregon Community College's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Southwestern Oregon Community College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Bellevue, Washington
January 10, 2018



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**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Education:				
<u>Direct Programs:</u>				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063	P063P132071	\$ 2,962,590	\$ -
Federal Supplemental Educational Opportunity Grants	84.007	P007A133511	73,934	-
Federal Work-Study Program	84.033	P033A133511	91,938	-
Federal Direct Student Loans	84.268	P268K142071	3,810,019	-
Total Student Financial Assistance Cluster			6,938,481	-
TRIO Cluster				
TRIO - Talent Search	84.044A	P044A110144-14/ P044A110186-14 P044A070615-09	551,076	-
TRIO - Student Support Services	84.042A	P042A120891-14	315,954	-
TRIO - Upward Bound	84.047A	P047A120196-14	254,651	-
Total TRIO Cluster			1,121,681	-
Higher Education Institutional Act - Title III Promise	84.031A	P031A150247	350,669	-
<u>Pass-Through Programs from:</u>				
Oregon Department of Community Colleges and Workforce Development				
Adult Education - Basic Grants to States	84.002A	EE141519	128,910	-
Adult Education - Basic Grants to States - Learning Standards	84.002	IGRA0586		
Oregon Department of Education:				
Race to the Top - Child Care Education	84.412A		67,148	35,130
Career and Technical Education - Basic Grants to States (Perkins IV)	84.048	27386/31778	75,396	75,396
Total U.S. Department of Education			8,682,285	110,526
U.S. Small Business Administration				
<u>Pass-Through Programs from:</u>				
Oregon Small Business Development Network:				
Small Business Development Centers	59.037	14-155-A/15-155	49,305	-
Total U.S. Small Business Administration			49,305	-

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA #	Agency Number	Expenditures	Passed Through to Subrecipients
<u>U.S. Department of Health and Human Service</u>				
<u>Pass-Through Programs from:</u>				
Oregon Department of Education:				
Child Care Resource and Referral Network (Integrated Child Care) Child Care and Development Block Grant	93.575	14-051/143043	\$ 134,632	\$ -
Oregon Dept. of Human Services:				
Child Care and Development Block Grant - Parenting Education	93.575		3,600	-
Subtotal for CFDA 93.575			<u>138,232</u>	<u>-</u>
<u>Pass-Through Programs from:</u>				
Oregon Department of Education				
Promoting Safe and Stable Families - Healthy Families Oregon Title IV-B2	93.556		11,287	-
Total U.S. Department of Health and Human Service			<u>149,519</u>	<u>-</u>
<u>U.S. Department of Labor</u>				
<u>Direct Programs:</u>				
Trade Adjustment Assistance Community College and Career Training (TAACCCT) College to Career	17.282	TC-26516-14-60-A-41	826,769	-
Total U.S. Department of Labor			<u>826,769</u>	<u>-</u>
<u>U.S. Department of Agriculture</u>				
<u>Pass-Through Programs from:</u>				
State of Oregon, Dept. of Education				
Child & Adult Care Food Program	10.558	0619006	12,273	-
Summer Food Service Program for Children	10.559	0619007	3,890	-
Total U.S. Department of Agriculture			<u>16,163</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 9,724,041</u>	<u>\$ 110,526</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Southwestern Oregon Community College under programs of the federal government for the year ended June 30, 2017. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Southwestern Oregon Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southwestern Oregon Community College.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Southwestern Oregon Community College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
-----------------------	---

Student Financial Aid Cluster:

84.007	Federal Supplemental Educational Opportunity Grants
84.033	Federal Work Study Program
84.063	Federal Pell Grant Program
84.268	Federal Direct Loans

TRIO Cluster:

84.044	TRIO – Talent Search
84.047	TRIO – Upward Bound
84.042	TRIO – Student Support Services

Dollar threshold used to distinguish between type A and type B programs: \$750,000/\$187,500

Auditee qualified as low-risk auditee? X yes no

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings

Material Weaknesses in Internal Control Over Financial Reporting

2017 – 001 – Review Processes

Criteria or specific requirement: College management is responsible for establishing and maintaining an internal control system which allows for the secondary review of transactions and reporting.

Condition and Context: During our testing of internal controls, we noted the College did not have a review process in place over manual journal entries, the entering of new employees within the HR system, cash receipt overrides, student late fees, PERS disbursements, and the vendor database.

Effect: The design of internal controls over the items identified above, could affect the College's ability to detect or prevent the misappropriation of assets or fraudulent activity.

Cause: Lack of management oversight

Repeat Finding: Not a repeat finding

Recommendation: We recommend College management be constantly aware of all procedures and processes involved in recording journal entries, entering new employees within the HR system, cash receipt overrides, student late fees, PERS disbursements, and the vendor database and develop internal control policies to ensure a review process is established to allow for someone independent of the initial recording of these items to provide a secondary review.

Views of responsible officials and planned corrective actions: There is no disagreement with this finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section II – Financial Statement Findings (Continued)

Material Weaknesses in Internal Control Over Financial Reporting (Continued)

2017 – 002 – Segregation of Duties

Criteria or specific requirement: College management is responsible for establishing and maintaining an internal control system which allows for the proper segregation of duties related to the recording, authorizing, and reporting of transactions.

Condition and Context: During our testing of internal controls, we noted there were certain individuals within the Accounting and Finance Department that have the ability to access, authorize, and record manual disbursements and ACHs. It was also noted there is primarily one person involved in the cash receipting process, in which they have the ability to take cash in, create deposits, record the amounts into the system, and finally modify the system after a receipt is generated. We also noted the payroll processing system allows individuals responsible for processing payroll to make changes to master personnel information which are considered human resource functions.

Effect: The design of internal controls over the items identified above, could affect the College's ability to detect or prevent the misappropriation of assets or fraudulent activity.

Cause: Lack of management oversight

Repeat Finding: Not a repeat finding

Recommendation: We recommend College management to review the duties assigned to individuals within the Accounting and Finance Department to as well as other departments across the College and ensure the duties to access, authorize, and record transactions are properly segregated.

Views of responsible officials and planned corrective actions: There is no disagreement with this finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs

2017 – 003

Federal agency: U.S Department of Education

Federal program title: TRIO Cluster

CFDA Number: 84.042 – Student Support Services

Award Period: September 1, 2015 to August 31, 2016

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: Per Uniform Guidance 2 CFR 200.303, non-Federal entities receiving Federal awards are required to establish and maintain internal controls designed to reasonably ensure compliance with Federal laws, regulations and program compliance requirements.

Condition: During our testing of the reporting process, we did not find any noncompliance. However, we were unable to identify a specific control in place to ensure that any errors would be prevented or detected in a timely manner.

Questioned costs: None

Context: We tested the annual reports filed during the year ended June 30, 2017 and noted the annual report for the Student Support Services program was not reviewed by someone other than the preparer.

Cause: Individuals involved with the Student Support Services program did not create a control system to prevent and detect errors during the reporting process.

Effect: It is possible for errors to occur and not be caught timely in the Annual Report.

Repeat Finding: No.

Recommendation: We recommend someone other than the preparer of the annual report review the report for accuracy prior to submission.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 004

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.007 – Federal Supplemental Educational Opportunity Grant

84.033 – Federal Work Study

84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Federal regulations require all students be awarded the proper amount based on their need, cost of attendance, expected family contribution, and program requirements.

Condition: Awards were not awarded based on the enrollment status, awards were in excess of cost of attendance, and award packages were not reviewed.

Questioned costs: None

Context: One of the 40 students tested was awarded funds in excess of their cost of attendance, however the student cancelled their loans and thus no over disbursement occurred. Through the awarding process there is no documentation that a review of the awarding was completed which is a lack of an internal control over awarding.

Cause: The over award was result of the lack of a review process to identify the over award prior to finalizing of the award.

Effect: The College is not in compliance with the federal regulations surrounding awarding of funds resulting in over awards, under disbursements, and lack of control. This could result in the college being financially responsible for improper awarding along with students not receiving the financial assistance they are entitled to or desire to take on to fund their education.

Repeat Finding: No.

Recommendation: We recommend the College put a process in place to ensure that no over or under awards exist, that all awarding goes through review process, and that changes in enrollment are considered throughout the year.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 005

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Federal regulations require first time borrowers not receive their disbursement of funds until after 30 days from the start of their first term receiving a disbursement.

Condition: Loan funds for a first time borrower were disbursed to a student prior to 30 day threshold after the start of their first term.

Questioned costs: None

Context: One of 40 students tested was a first time borrower who received disbursement of their first loan funds within the 30 day window after the start of their first term.

Cause: The College system did not identify the student as a first time borrower so the first disbursement was not held until after 30 days from the start of their first term.

Effect: The College is not in compliance with the federal regulations requiring first time borrowers having their first disbursement held until after 30 days after the start of the term that could result in the college being required to return funds for those students who decide college is not for them, thereby also increasing their cohort default rate.

Repeat Finding: No.

Recommendation: We recommend the College put a process in place to ensure that all first time borrower disbursements are identified and held until after 30 days from the start of the term.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 006

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Federal regulations require all students receiving loan disbursements, receive notification within 30 days for affirmative confirmations and within 30 days before and seven days after for non-affirmative confirmations.

Condition: Notification of disbursements were not sent timely.

Questioned costs: None

Context: Summer and Fall term notifications of disbursement were not sent timely to students.

Cause: Notifications were initiated but not released by the system until confirmations from common origination and disbursement (COD) was received.

Effect: The College was not timely in their notifications of disbursements to students in the Summer and Fall terms which could result in student's carrying a higher loan balance than they intended without ability to cancel some or all of the funds.

Repeat Finding: No.

Recommendation: We recommend the College continue their process of checking to ensure notifications are released which began in the Winter term.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 007

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Federal regulations require all students who received direct loan funds upon graduating or withdrawing from the college be made aware of loan repayment information through a process called exit counseling.

Condition: A student was not made aware of or completed exit counseling after separating from the college.

Questioned costs: None

Context: One of 40 students tested did not complete, nor was sent the required information regarding loan exit counseling.

Cause: Student was noted as having completed exit counseling in a prior year, thus no loan exit counseling information was sent after the student separated from the college.

Effect: The College is not in compliance with the federal regulations surrounding loan exit counseling that could result in an increase to the college's cohort rate.

Repeat Finding: No.

Recommendation: We recommend that the college put a process in place to ensure that any student who separates from the College and received loan funds, receive the information regarding loan exit counseling.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 008

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.063 – Federal Pell Grant
84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance, Other Matters

Criteria or specific requirement: Federal regulations require all student enrollment status changes be reported to the National Student Loan Database System (NSLDS) using the proper enrollment status, effective date of the change, and be reported within 30 days of the change, unless a scheduled reporting with the change is to occur in the next 60 days from the later of the school becoming aware or the actual change in enrollment.

Condition: Enrollment status changes were reported with improper statuses, improper effective dates of the change in enrollment and were not reported timely.

Questioned costs: None

Context: Twenty-four of 40 students tested were reported to NSLDS with an effective date that did not agree with the college records of the actual change in status. Twelve of the 40 students tested were not reported in a timely manner to NSLDS based on the time the college became aware of the change in status. Three students were reported to NSLDS with an enrollment status that did not agree to the college records.

Cause: The field used in the college's record system to report enrollment status changes did not correspond to the actual effective date of the enrollment status change based on federal regulations. Also, students who are expected to graduate were not reported as withdrawn when the degree audit period extended beyond the allowed timing to report the student's change in status. Reported status' that were improper were due to timing of the changes in status within term and student not attending a term within a year.

Effect: The College is not in compliance with the federal regulations that require accurate enrollment statuses and changes to those status be reported to NSLDS within a timely manner. This could result in changes to the amount of interest charged to a student along with improper length of grace periods for students.

Repeat Finding: No.

Recommendation: We recommend the College put a process in place to ensure that enrollment status changes be reported accurately for all students during entire year including within a term. We also recommend that if degree audits are to not be completed within 60 days of the end of a student's last term they be reported as withdrawn and subsequently updated to graduated when the degree is awarded to the student.

Views of responsible officials: There is no disagreement with the audit finding.

**SOUTHWESTERN OREGON COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Federal Award Findings and Questioned Costs (Continued)

2017 – 009

Federal agency: Department of Education

Federal program title: Student Financial Aid

CFDA Number: 84.268 – Federal Direct Loans

Award Period: July 1, 2016 – June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria or specific requirement: Federal regulations require controls to be put in place to ensure compliance requirements occur to properly administer the program.

Condition: No formal review process was put in place to ensure that direct loan reconciliations are performed on a monthly basis as required.

Questioned costs: None

Context: Reconciliations are performed between common origination and disbursement (COD), PowerFaid, and student accounts on at least a monthly basis by the Financial Aid General Ledger Director, though there is no formal process to ensure the reconciliation occurs and that it is done accurately.

Cause: There has not been a review process in place and it is assumed to be completed as a job responsibility of the Financial Aid General Ledger Director without oversight.

Effect: Because there is no review of the reconciliation process, it is possible for the reconciliation not to be completed as required and systems involved could then be out of sync requiring resources to bring them into agreement at a later time, and could also cause the College out of compliance with other federal regulations surrounding cash management.

Repeat Finding: No.

Recommendation: We recommend that the College put a process in place to formally review reconciliations of federal loan funds on at least a monthly basis to ensure the process is done accurately and timely.

Views of responsible officials: There is no disagreement with the audit finding.