STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

CAPE FEAR COMMUNITY COLLEGE

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Cape Fear Community College

We have completed a financial statement audit of Cape Fear Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the ways listed in the back of this report.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cape Fear Community College
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Cape Fear Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Cape Fear Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Cape Fear Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Cape Fear Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

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

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, Cape Fear Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 5, 2016

MANAGEMENT’S DISCUSSION AND ANALYSIS

Cape Fear Community College is pleased to present the Management's Discussion and Analysis of its financial activities for the fiscal year ended June 30, 2015, with comparative data for fiscal year ended June 30, 2014. It provides an objective and easily readable analysis of the College's financial activities based on currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

Using the Annual Financial Report

The financial statements present financial information in a form similar to that used by corporations. They focus on the financial condition of the College, the results of operations, and cash flow of the College as a whole.

The College's net position is one indicator of its financial stability. The Statement of Net Position includes all assets and liabilities. The increase or decrease in net position is an indicator of the improvement or erosion of the College's financial condition.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. With state aid and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit. The utilization of capital assets is reflected in the financial statements as depreciation.

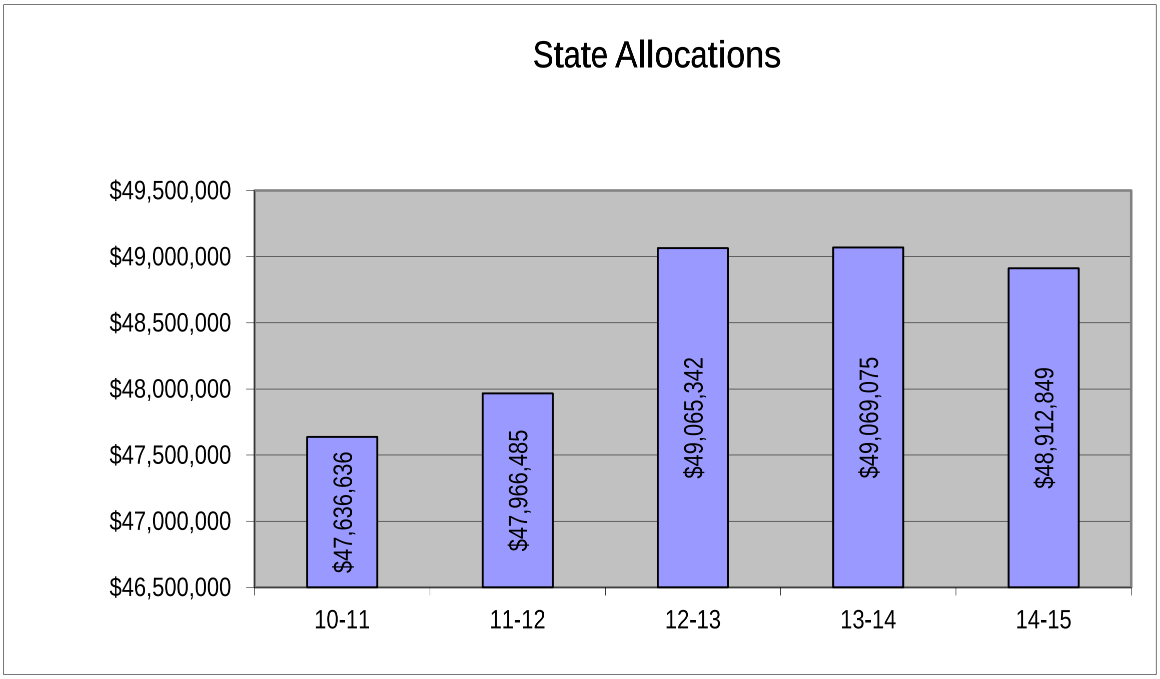
The Statement of Cash Flows is another financial indicator of the ability of the College to meet financial obligations as they occur. It presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the statements.

Financial Highlights

The total number of students who attended curriculum and continuing education classes (an unduplicated headcount) decreased 4.1% to 24,150. This resulted in a decrease of budget full-time equivalents (FTE) by 311 units or 3.5% during the year when compared to prior year. This steady decline that we've seen since 2009 is believed to be in line with the decrease in unemployment and the improvement in the economy as more employment opportunities are created.

The College's initial state budget allocation based on enrollment was $50,850,780. Due to legislative actions this amount was reduced by $2,082,060, resulting in a net allocation of $48,768,720. The College received $601,081 in additional allocations during the year for longevity, performance funding, equipment, and various special projects. The College reverted $456,952 in February 2015 as directed. The College exercised prudence in its fiscal management and spent $48,106,130 of the State's allocation during the year.


State Allocations
$49,500,000
$49,000,000
$48,500,000
$48,000,000
$47,500,000
$47,000,000
$46,500,000
$47,636,636
$47,966,485
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$48,912,849
10-11
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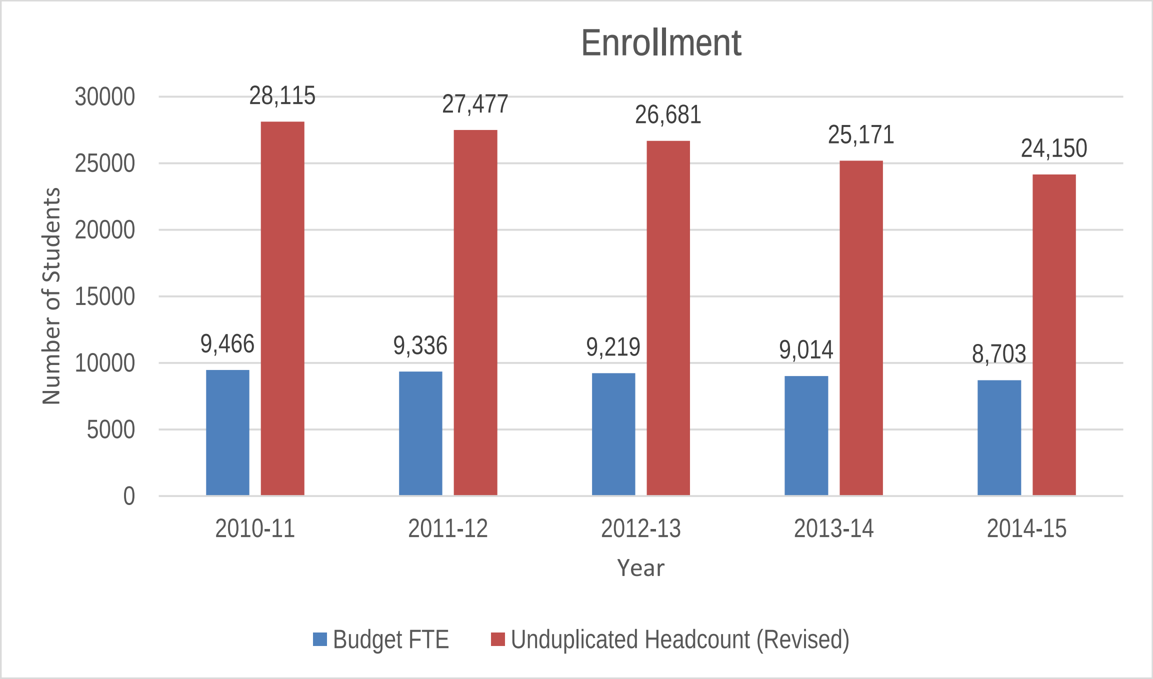
12-13
13-14
14-15


Enrollment
Number of Students
30000
25000
20000
15000
10000
5000
0
9,466
28,115
9,336
27,477
9,219
26,681
9,014
25,171
8,703
24,150
2010-11
2011-12
2012-13
2013-14
2014-15
Year
Budget FTE
Unduplicated Headcount (Revised)

In addition to the funding received from the State, the College received $10,625,605 from New Hanover County and $357,210 from Pender County for operations and maintenance of plant and capital outlay. The College received $13,230,302 in county bond revenue from New Hanover County for construction and $166,000 from Pender County for construction.

Financial Analysis

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (total assets plus deferred outflows of resources minus total liabilities and deferred inflows of resources) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2015. The data provides readers of this statement information on assets available to continue operations; amounts due to vendors and lending institutions; and the net position available to the College for operations.

Condensed Statement of Net Position
For Year Ended June 30, as Indicated

	2015	2014 (as restated)	Change	% Change
Assets				
Current Assets	$ 12,316,967	$ 12,335,627	$ (18,660)	-0.2%
Noncurrent Assets	77,481	1,796,814	(1,719,333)	-95.7%
Capital Assets, Net	222,984,045	209,848,514	13,135,531	6.3%
Total Assets	235,378,494	223,980,955	11,397,539	5.1%
Deferred Outflows of Resources	3,263,026	2,562,543	700,483	27.3%
Liabilities				
Current Liabilities	5,669,145	6,323,771	(654,626)	-10.4%
Noncurrent Liabilities	3,842,743	13,948,802	(10,106,059)	-72.5%
Total Liabilities	9,511,889	20,272,573	(10,760,684)	-53.1%
Deferred Inflows of Resources	9,116,808	0	9,116,808	100.0%
Net Position				
Net Investment in Capital Assets	222,850,712	209,848,514	13,002,198	6.2%
Restricted	2,041,629	4,183,123	(2,141,494)	-51.2%
Unrestricted	(4,879,519)	(7,760,712)	2,881,193	37.1%
Total Net Position	$ 220,012,823	$ 206,270,925	$ 13,741,898	6.7%

Noncurrent assets decreased by $1.7 million (95.7%) from the prior year. This was due to a construction receivable from the State at 6/30/14 that was received in fiscal year 2015 to go towards an instructional facility in Surf City, North Carolina. This construction project was complete in May 2015.

Noncurrent liabilities decreased by $10.1 million (72.5%), which was substantially attributable to the change of the College's proportionate share of the collective net pension liability for the Teachers' and State Employees' Retirement System.

The College's net position increased by $13.7 million (6.7%) during fiscal year 2015, mainly due to progress made on construction of the Humanities and Fine Arts Center ($13.1 million).

With the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributors Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, the College recorded deferred outflows related to pensions of $3.3 million, a net pension liability of $2.5 million, and deferred inflows related to pensions of $9.1 million at June 30, 2015. The College's unrestricted net position at June 30, 2014 was $2.2 million. After restating for GASB 68, unrestricted net position was ($7.8) million as of July 1, 2014 - a decrease of $9.9 million. Unrestricted net position at June 30, 2015 was ($4.9) million - an increase of $2.9 million from the restated July 1, 2014 balance.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the College.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Year Ended June 30, as Indicated

	2015	2014 *	Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 10,952,325	$ 10,729,467	$ 222,858	2.1
Sales and Services, Net	3,562,848	3,222,917	339,931	10.5
Other Operating Revenues	391,989	361,812	30,177	8.3
Total Operating Revenues	14,907,162	14,314,196	592,966	4.1
Operating Expenses:				
Salaries and Benefits	46,297,777	47,055,463	(757,686)	(1.6)
Supplies and Materials	8,665,660	9,144,929	(479,269)	(5.2)
Services	6,958,331	6,438,783	519,548	8.1
Scholarships and Fellowships	9,536,244	10,029,393	(493,149)	(4.9)
Utilities	2,135,654	2,012,594	123,060	6.1
Depreciation	4,212,509	3,994,499	218,010	5.5
Total Operating Expenses	77,806,174	78,675,661	(869,487)	(1.1)
Operating Loss	(62,899,012)	(64,361,465)	1,462,453	(2.3)
Nonoperating Revenues (Expenses):				
State Aid	31,081,820	30,958,649	123,171	0.4
County Appropriations	9,555,581	8,742,644	812,937	9.3
Noncapital Grants and Gifts	19,829,890	20,567,994	(738,104)	(3.6)
Investment Income	21,644	23,268	(1,624)	(7.0)
Other Nonoperating Revenues (Expenses)	140,109	(124,582)	264,691	(212.5)
Net Nonoperating Revenues	60,629,044	60,167,973	461,071	0.8
Other Revenues:				
State Capital Aid	993,285	1,374,033	(380,748)	(27.7)
County Capital Aid	14,823,536	32,933,805	(18,110,269)	(55.0)
Capital Grants	195,044	158,022	37,022	23.4
Total Other Revenues	16,011,865	34,465,860	(18,453,995)	(53.5)
Increase in Net Position	13,741,898	30,272,368	$ (16,530,470)	(54.6)
Net Position- Beginning of Year	216,208,610	185,936,242		
Restatement	(9,937,685)			
Net Position - End of Year	$ 220,012,823	$ 216,208,610		
Reconciliation of Change in Net Position				
Total Revenues	$ 91,548,072	$ 109,072,611	$ (17,524,539)	(16.1)
Less: Total Expenses	77,806,174	78,800,243	(994,069)	(1.3)
Increase in Net Position	$ 13,741,898	$ 30,272,368	$ (16,530,470)	(54.6)

** Note: The year ended June 30, 2014 column is not presented "As Restated" above because acturial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

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

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. In addition to carrying out the mission of the College, operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. State and county appropriations and noncapital grants are included as nonoperating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the College's mission and operations. Capital contributions are reported separately after nonoperating revenues.

The Statement of Revenues, Expenses and Changes in Net Position reflects a decrease in net position of $16,530,470 from prior year. Some highlights of the changes are as follows:

- Operating revenue increased $593 thousand (4.1%) mainly due to the increase in bookstore sales.
- Operating expenses decreased $869 thousand (1.1%). Reasons include a decrease in salaries of $758 thousand due to unfilled positions, and a decrease in supplies and materials of $479 thousand because of a reduction in equipment purchases. Services were up $520 thousand due to repairs on aging buildings and utilities were up $123 thousand with Union Station being utilized to its potential.
- Net nonoperating revenues were up slightly at $461 thousand (.8%). The increase in county appropriations of $813 thousand was offset by the decrease in noncapital grants and gifts of $738 thousand mostly due to reduction in Federal Pell Grants.
- Other revenues decreased significantly, down $18.5 million (54%), due to the reduction in capital aid received for the construction of the Union Station, Advanced and Emerging Technology Center and the Humanities and Fine Arts Center.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the College's:

- Ability to generate future net cash flows,
- Ability to meet its obligations as they come due, and
- Need for external financing.

Condensed Statement of Cash Flows
For Year Ended June 30, as Indicated

	2015	2014	Change	% Change
Cash Provided (Used) by:				
Operating Activities	$ (59,312,588)	$ (60,721,372)	$ 1,408,784	(2.3) %
Noncapital Financing Activities	60,455,346	60,387,284	68,062	0.1 %
Capital and Related Financing Activities	(4,287)	342,478	(346,765)	(101.3) %
Investing Activities	21,644	23,268	(1,624)	(7.0) %
Net Change in Cash	1,160,115	31,658	1,128,457	3564.5 %
Cash, Beginning of Year	7,725,008	7,693,350	31,658	0.4 %
Cash, Ending of Year	$ 8,885,123	$ 7,725,008	$ 1,160,115	15.0 %

Major uses of funds in operating activities were for employee compensation ($47.5 million, up $498 thousand) and payments to suppliers and service providers ($18.2 million, up $513 thousand).

The largest inflow of funds used in operations includes the aid from the State of North Carolina ($31 million), county appropriations ($9.6 million), and noncapital grants for student financial aid ($18.7 million). These are shown as nonoperating revenue as required by Government Accounting Standard Board (GASB) Statement No. 35. Cash flow from capital and related financing activities decreased $347 thousand because of the outflow of cash for the acquisition and construction of capital assets ($18.5 million) and a decrease in capital aid of $16.7 million.

Capital Assets

The College had $223 million invested in capital assets, net of accumulated depreciation as of June 30, 2015.

Capital Assets
For the Year Ended June 30, as Indicated
(Net of Depreciation)

	2015	2014	Change	% Change
Land and Permanent Easements	$ 17,469,878	$ 17,469,878	$ 0	0.00 %
Construction in Progress	47,880,525	35,000,049	12,880,476	36.80 %
Buildings, Net	140,837,595	140,948,181	(110,586)	(0.08) %
Machinery and Equipment, Net	10,239,730	9,818,936	420,794	4.29 %
General Infrastructure, Net	6,556,317	6,611,470	(55,153)	(0.83) %
Total Capital Assets, Net of Depreciation	$ 222,984,045	$ 209,848,514	$ 13,135,531	6.26 %

In November 2008 voters in New Hanover County approved a $168 million bond referendum which enabled the College to expand its footprint by over one million square feet in both downtown Wilmington and at North Campus. In addition, the College constructed a facility in Surf City, North Carolina at a cost of $2.7 million, which included funding from Pender County, the town of Surf City and the College. Each capital facility project added or improved instructional, student support and administrative spaces to meet the education, training and service needs of students. The following illustrates the capital projects initiated, completed or substantially completed in Fiscal Year 2014-15:

- Completed design and bond issuance for a two-building, Advanced and Emerging Technologies project at North Campus. The first building will house technical and vocational programs; and, the second building will house new instructional programs laser/photonics and veterinary medicine technologies. The estimated cost of construction is $37.7 million, with construction to begin in September 2015 and a completion date of December 2016.
- Substantial completion of the Humanities and Fine Arts Center at a cost of $46.5 million, including instructional spaces, studios and a 1,500 seat performance theatre. The estimated completion date is September 30, 2015.
- Completed in May 2015 the construction and took occupancy of an instructional building at the Alston W. Burke Campus in Surf City at a cost of $2.7 million.

Economic Forecast

The economy in both New Hanover and Pender Counties continues to improve. According to Labor Market Analysis provided by the North Carolina Department of Commerce, data for July 2015 indicate that both counties have seen declines in unemployment rates over the past two fiscal years. Based upon July 2014 to July 2015 comparisons, unemployment rates declined .5% in the Wilmington area. Over the last six months of fiscal year 2014-15, employment in the Wilmington area grew 2.8%, reflecting a healthy local economy.

The College began offering both curriculum and continuing education (non-credit) classes in the summer session (May 2015) at the Alston W. Burke Campus. The effects of those course offerings will not be realized until the 2015-16 fiscal year.

The College also began offering two new academic programs in the fall of 2015: Interpretive Education and Baking and Pastry. The effects of those course offerings will not be realized until the 2015-16 fiscal year.

The population of both counties in the two-county service delivery area continues to grow at a modest 2.6% to 2.7% rate, as does the median family income. Both are usually indicators of increased demand upon education and training services, as more student's access low cost education and higher wage occupations with continuing education requirements.

Finally, the College has strengthened its emphasis on student retention, progression and completion with the opening in fall 2015-16 of a new Student Advising Center. The effects of these new student-focused services will not be realized until the completion of the academic year.

Overall, Cape Fear Community College predicts no growth in FTE over the course of academic year 2015-16, in keeping with a conservative forecast so as not to over-estimate its nonoperating revenues.

FINANCIAL STATEMENTS

Cape Fear Community College
Statement of Net Position *Exhibit A-1*
June 30, 2015 *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	5,477,809.40
Restricted Cash and Cash Equivalents		3,329,832.35
Receivables, Net (Note 3)		1,889,468.26
Inventories		1,292,225.59
Prepaid Items		327,631.69
Total Current Assets		12,316,967.29
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		77,481.08
Capital Assets - Nondepreciable (Note 4)		65,350,402.65
Capital Assets - Depreciable, Net (Note 4)		157,633,642.67
Total Noncurrent Assets		223,061,526.40
Total Assets		235,378,493.69
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		3,263,026.00
Total Deferred Outflows of Resources		3,263,026.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		4,589,499.59
Unearned Revenue		665,363.70
Funds Held for Others		77,481.08
Long-Term Liabilities - Current Portion (Note 6)		336,801.10
Total Current Liabilities		5,669,145.47
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		3,842,743.46
Total Noncurrent Liabilities		3,842,743.46
Total Liabilities		9,511,888.93
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		9,116,808.00
Total Deferred Inflows of Resources		9,116,808.00

NET POSITION		
Net Investment in Capital Assets		222,850,711.99
Restricted for:		
Expendable:		
Scholarships and Fellowships		30,172.07
Capital Projects		1,636,846.50
Restricted for Specific Programs		73,552.20
Other		301,058.66
Unrestricted		(4,879,518.66)
Total Net Position	$	220,012,822.76

The accompanying notes to the financial statements are an integral part of this statement.

Cape Fear Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	10,952,324.97
Sales and Services, Net (Note 8)		3,562,848.21
Other Operating Revenues		391,989.05
Total Operating Revenues		14,907,162.23
EXPENSES		
Operating Expenses:		
Salaries and Benefits		46,297,777.11
Supplies and Materials		8,665,660.15
Services		6,958,330.99
Scholarships and Fellowships		9,536,243.78
Utilities		2,135,653.52
Depreciation		4,212,508.60
Total Operating Expenses		77,806,174.15
Operating Loss		(62,899,011.92)
NONOPERATING REVENUES		
State Aid		31,081,820.45
County Appropriations		9,555,581.00
Noncapital Grants - Student Financial Aid		18,655,978.45
Noncapital Grants		427,213.72
Noncapital Gifts		746,698.14
Investment Income		21,643.84
Other Nonoperating Revenue		140,108.81
Net Nonoperating Revenues		60,629,044.41
Loss Before Other Revenues		(2,269,967.51)
State Capital Aid		993,285.29
County Capital Aid		14,823,535.61
Capital Grants		195,044.18
Increase in Net Position		13,741,897.57
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 14)		206,270,925.19
Net Position, June 30, 2015	$	220,012,822.76

The accompanying notes to the financial statements are an integral part of this statement.

Cape Fear Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 15,700,303.06
Payments to Employees and Fringe Benefits	(47,517,054.38)
Payments to Vendors and Suppliers	(18,164,179.69)
Payments for Scholarships and Fellowships	(9,536,243.78)
Other Receipts	204,587.00
Net Cash Used by Operating Activities	(59,312,587.79)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	31,081,820.45
County Appropriations	9,555,581.00
Noncapital Grants - Student Financial Aid	18,644,032.16
Noncapital Grants	427,213.72
Noncapital Gifts	746,698.14
William D. Ford Direct Lending Receipts	13,569,774.00
William D. Ford Direct Lending Disbursements	(13,569,774.00)
Net Cash Provided by Noncapital Financing Activities	60,455,345.47
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,730,113.10
County Capital Aid	15,615,619.65
Capital Grants	195,044.18
Acquisition and Construction of Capital Assets	(18,478,397.29)
Principal Paid on Capital Debt	(66,666.67)
Net Cash Used by Capital and Related Financing Activities	(4,287.03)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	21,643.84
Cash Provided by Investing Activities	21,643.84
Net Increase in Cash and Cash Equivalents	1,160,114.49
Cash and Cash Equivalents, July 1, 2014	7,725,008.34
Cash and Cash Equivalents, June 30, 2015	$ 8,885,122.83

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(62,899,011.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		4,212,508.60
Pension Expense		1,210,527.00
Nonoperating Other Income		187,092.10
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		623,089.37
Inventories		(236,774.47)
Prepaid Items		(5,172.91)
Accounts Payable and Accrued Liabilities		157,126.33
Unearned Revenue		170,051.46
Funds Held for Others		17,494.90
Pollution Remediation Payable		(24,796.46)
Deferred Outflows - Contributions After the Measurement Date		(2,770,208.00)
Compensated Absences		45,486.21
Net Cash Used by Operating Activities	$	(59,312,587.79)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	5,477,809.40
Restricted Cash and Cash Equivalents		3,329,832.35
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		77,481.08
Total Cash and Cash Equivalents - June 30, 2015	$	8,885,122.83

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	2,446,719.43
Loss on Disposal of Capital Assets		(46,983.29)

The accompanying notes to the financial statements are an integral part of this statement.

Cape Fear Community College Foundation, Inc.
Statement of Financial Position
June 30, 2015 — *Exhibit B-1*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	$ 623,545	$ 1,450,415	$ 81,846	$ 2,155,806
Investments	11,009	1,598,065	5,083,093	6,692,167
Cash Surrender Value of Life Insurance		141,760		141,760
Pledges Receivable	11,051	675,329	32,230	718,610
Note Receivable - Related Party	133,334			133,334
Total Assets	778,939	3,865,569	5,197,169	9,841,677
LIABILITIES				
Accounts Payable	$ 0	$ 0	$ 0	$ 0
Total Liabilities				
NET ASSETS				
Unrestricted	778,939			778,939
Temporarily Restricted		3,865,569		3,865,569
Permanently Restricted			5,197,169	5,197,169
Total Net Assets	778,939	3,865,569	5,197,169	9,841,677
Total Liabilities and Net Assets	$ 778,939	$ 3,865,569	$ 5,197,169	$ 9,841,677

The accompanying notes to the financial statements are an integral part of this statement.

Cape Fear Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2015 ***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	$ 799,697	$ 1,021,283	$ 490,464	$ 2,311,444
Gifts in kind	61,955			61,955
Donated Facilities and Support	676,899			676,899
Return on Investments:				
Investment Income	9,780	366,290		376,070
Net Realized and Unrealized Losses	(29,175)	(311,155)		(340,330)
Change in Value of Life Insurance		2,070		2,070
Total Support and Revenues	1,519,156	1,078,488	490,464	3,088,108
Net Assets Released from Restrictions	(83,659)	148,659	(65,000)	
Total Support and Revenues and Net Assets Released from Restrictions	1,435,497	1,227,147	425,464	3,088,108
EXPENSES:				
Program Services:				
Educational Support	765,649			765,649
Supporting Services:				
Management and General	325,621			325,621
Fundraising	266,591			266,591
Total Expenses	1,357,861			1,357,861
Change in Net Assets	77,636	1,227,147	425,464	1,730,247
Net Assets at Beginning of Year, as Previously Reported	701,303	2,403,422	5,006,705	8,111,430
Restatement		235,000	(235,000)	
Net Assets at Beginning of Year, as Restated	701,303	2,638,422	4,771,705	8,111,430
Net Assets at End of Year	$ 778,939	$ 3,865,569	$ 5,197,169	$ 9,841,677

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cape Fear Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - Cape Fear Community College Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members and 3 ex-officio members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2015, the Foundation distributed $518,596 in cash and $61,955 in donated property to the College for both restricted and unrestricted purposes. The College donated $676,899 in facilities and services to the Foundation. Complete financial statements for the Foundation can be obtained from Cape Fear Community College Foundation, Inc., 411 N. Front Street, Wilmington, NC 28401.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories** - Inventories, consisting of expendable supplies, and merchandise for resale are valued at cost using first-in, first out method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, and resources whose use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, net pension liability, and compensated absences, that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

K. **Net Position** - The College's net position is classified as follows:

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

Restricted Net Position - **Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

L. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. **Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

N. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was $20,740. The carrying amount of the College's deposits not with the State Treasurer was $4,020,519.77, and the bank balance was $7,032,665.32.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,843,863.06, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Component Unit - Investments of the College's discretely presented component unit, Cape Fear Community College Foundation, Inc. is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Fair Value
Cash	$ 8,333
Stocks:	
Emerging Markets	81,760
Mid Cap	178,402
Small Blend	50,410
Mutual Funds:	
Large Blend	2,207,767
Bonds Markets	2,089,286
Futures	244,528
Emerging Markets	233,403
World Stocks	511,187
Large Value	200,271
Global Real Estate	261,694
Large Growth	211,095
Natural Resources	149,696
Small Blend	264,335
Total Investments	$ 6,692,167

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 317,445.72	$ 145,779.13	$ 171,666.59
Student Sponsors	98,034.81	431.76	97,603.05
Accounts	202,278.26		202,278.26
Intergovernmental	1,413,004.26		1,413,004.26
Other	4,916.10		4,916.10
Total Current Receivables	$ 2,035,679.15	$ 146,210.89	$ 1,889,468.26

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 17,469,877.74	$ 0.00	$ 0.00	$ 17,469,877.74
Construction in Progress	35,000,048.82	15,885,613.45	3,005,137.36	47,880,524.91
Total Capital Assets, Nondepreciable	52,469,926.56	15,885,613.45	3,005,137.36	65,350,402.65
Capital Assets, Depreciable:				
Buildings	170,266,581.97	3,174,458.76		173,441,040.73
Machinery and Equipment	15,913,824.33	1,101,775.39	238,818.72	16,776,781.00
General Infrastructure	9,046,694.96	238,313.00		9,285,007.96
Total Capital Assets, Depreciable	195,227,101.26	4,514,547.15	238,818.72	199,502,829.69
Less Accumulated Depreciation for:				
Buildings	29,318,401.21	3,285,044.64		32,603,445.85
Machinery and Equipment	6,094,887.98	633,998.41	191,835.43	6,537,050.96
General Infrastructure	2,435,224.66	293,465.55		2,728,690.21
Total Accumulated Depreciation	37,848,513.85	4,212,508.60	191,835.43	41,869,187.02
Total Capital Assets, Depreciable, Net	157,378,587.41	302,038.55	46,983.29	157,633,642.67
Capital Assets, Net	$ 209,848,513.97	$ 16,187,652.00	$ 3,052,120.65	$ 222,984,045.32

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 1,163,136.80
Accrued Payroll	1,421,935.16
Contract Retainage	2,004,427.63
Total Accounts Payable and Accrued Liabilities	$ 4,589,499.59

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Prior Year Adjustments	Additions	Reductions	Balance June 30, 2015	Current Portion
Notes Payable	$ 200,000.00	$ 0.00	$ 0.00	$ 66,666.67	$ 133,333.33	$ 66,666.67
Net Pension Liability		12,500,228.00		9,976,006.00	2,524,222.00	
Compensated Absences	1,476,503.02		1,556,701.56	1,511,215.35	1,521,989.23	270,134.43
Pollution Remediation Payable	24,796.46			24,796.46		
Total Long-Term Liabilities	$ 1,701,299.48	$ 12,500,228.00	$ 1,556,701.56	$ 11,578,684.48	$ 4,179,544.56	$ 336,801.10

Additional information regarding the net pension liability is included in Note 10.

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Capital Construction	CFCC Foundation	5.50%	06/03/2017	$ 200,000.00	$ 66,666.67	$ 133,333.33

The annual requirements to pay principal and interest on notes payable at June 30, 2015, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2016	$ 66,667	$ 7,658
2017	66,666	7,659
Total Requirements	$ 133,333	$ 15,317

C. Pollution Remediation Payable -The College had recognized a pollution remediation liability for monitoring a site that was contaminated by the flammable material used to train firefighters. The cleanup has been completed and was jointly done by New Hanover County, the City of Wilmington, the US Air Force and Cape Fear Community College. The College paid a total of $499,739 being its one fourth share of the cleanup, the last installment being paid on 11/11/2003. The liability recorded and paid was for monitoring costs.

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment, vehicles, and a building. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 188,427.50
2017	71,356.02
2018	34,757.94
2019	13,488.48
Total Minimum Lease Payments	$ 308,029.94

Rental expense for all operating leases during the year was $186,058.83.

NOTE 8 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 17,816,140.36	$ 6,854,688.43	$ 9,126.96	$ 10,952,324.97
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Daycare	$ 440,585.71	$ 0.00	$ 0.00	$ 440,585.71
Vending	147,297.19			147,297.19
Bookstore	5,366,584.65	2,510,431.59		2,856,153.06
Parking	61,128.73			61,128.73
Other	57,683.52			57,683.52
Total Sales and Services	$ 6,073,279.80	$ 2,510,431.59	$ 0.00	$ 3,562,848.21

NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 29,617,358.19	$ 2,635,244.87	$ 1,054,106.32	$ 0.00	$ 0.00	$ 0.00	$ 33,306,709.38
Academic Support	5,052,062.38	107,638.31	147,280.19				5,306,980.88
Student Services	3,238,004.64	282,411.14	418,307.63				3,938,723.41
Institutional Support	3,129,375.66	369,120.04	2,306,502.92				5,804,998.62
Operations/Maintenance Plant	2,751,568.17	1,046,436.62	2,360,672.76		2,135,653.52		8,294,331.07
Student Financial Aid				9,536,243.78			9,536,243.78
Auxiliary Enterprises	1,298,881.07	4,224,809.17	671,461.17				6,195,151.41
Depreciation						4,212,508.60	4,212,508.60
Pension Expense	1,210,527.00						1,210,527.00
Total Operating Expenses	$ 46,297,777.11	$ 8,665,660.15	$ 6,958,330.99	$ 9,536,243.78	$ 2,135,653.52	$ 4,212,508.60	$ 77,806,174.15

NOTE 10 - PENSION PLAN

A. Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $2,770,208.22 employee contributions were $1,748,853.20 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $2,524,222 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was .2153%, which was an increase of .0094% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, 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 the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
$ 18,120,619	$ 2,524,222	$ (10,644,662)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $1,210,527. At June 30, 2015, the

College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 588,383.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		8,528,425.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	492,818.00	
Contributions Subsequent to the Measurement Date	2,770,208.00	
Total	$ 3,263,026.00	$ 9,116,808.00

$2,770,208 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (2,157,322)
2017	(2,157,322)
2018	(2,157,322)
2019	(2,152,024)
Total	$ (8,623,990)

B. Defined Contribution Plan - The Optional Retirement Program (Program) is a defined contribution pension plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Community College Presidents may join the Program instead of the TSERS. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2015, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The College assumes no liability other than its contribution.

For the current fiscal year, the College had a total payroll of $37,542,337.64, of which $154,567.77 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were $10,572.44 and $9,274.07, respectively.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $1,662,124.93, $1,593,463.18, and $1,515,588.71, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS and the Optional Retirement Program to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $124,129.55, $129,837.74, and $125,822.46, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

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; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

B. Employee Benefit Plans

1. State Health Plan

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. The College purchases coverage for employee dishonest for employees paid with county and institutional funds under an employee dishonesty bond.

4. Statewide Workers' Compensation Program

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Additional details on the state-administered risk management programs are disclosed in the State's Comprehensive Annual Financial Report, issued by the Office of the State Controller.

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Marine Technology Program has coverage for their ocean going vessels in the amount of $1,000,000 with an additional $1,000,000 of coverage for pollution related to such vessels. The Allied Health Program has medical professional liability insurance with coverage of $1,000,000 for each incident ($2,000,000 for Pharmacy Technician students) and $5,000,000 in aggregate.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $41,787,623.21 and on other purchases were $245,764.79 at June 30, 2015.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 216,208,610.19
Restatement:	
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements.	(9,937,685.00)
July 1, 2014 Net Position as Restated	$ 206,270,925.19

REQUIRED SUPPLEMENTARY INFORMATION

Cape Fear Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit C-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.2153%	0.2059%
Proportionate Share of TSERS Collective Net Pension Liability	$ 2,524,222	$ 12,500,228
Covered-Employee Payroll	$ 29,508,577	$ 28,419,759
Net Pension Liability as a Percentage of Covered-Employee Payroll	9%	44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

Cape Fear Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years — *Exhibit C-2*

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 2,770,208.22	$ 2,564,295.38	$ 2,367,365.93	$ 2,063,786.04	$ 1,338,734.21
Contributions in Relation to the Contractually Determined Contribution	2,770,208.22	2,564,295.38	2,367,365.93	2,063,786.04	1,338,734.21
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 30,275,499.67	$ 29,508,577.44	$ 28,419,759.09	$ 27,739,059.66	$ 27,154,852.13
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 888,817.39	$ 820,400.94	$ 680,027.78	$ 565,560.31	$ 458,006.81
Contributions in Relation to the Contractually Determined Contribution	888,817.39	820,400.94	680,027.78	565,560.31	458,006.81
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 24,896,845.61	$ 24,416,694.63	$ 22,295,992.91	$ 21,261,665.84	$ 19,572,940.69
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Cape Fear Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of Assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Cape Fear Community College
Wilmington, North Carolina

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 Cape Fear Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 5, 2016. Our report includes a reference to other auditors who audited the financial statements of the Cape Fear Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of the Cape Fear Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Cape Fear Community College Foundation, Inc.

<u>Internal Control Over Financial Reporting</u>

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 5, 2016

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NC OSA
The Taxpayers' Watchdog

This audit required 460 audit hours at an approximate cost of $45,540.