

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

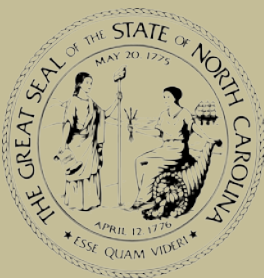
BETH A. WOOD, CPA



ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Roanoke-Chowan Community College

We have completed a financial statement audit of Roanoke-Chowan Community College for the year ended June 30, 2016, 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 options listed in the back of this report.

A handwritten signature in cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Roanoke-Chowan Community College
Ahoskie, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of Roanoke-Chowan Community College Foundation, Inc., which represent 3.74 percent, 4.77 percent, and 0.39 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Roanoke-Chowan Community College Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Roanoke-Chowan 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 opinion.

Opinion

In our opinion based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Roanoke-Chowan Community College, as of June 30, 2016, and the 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 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 March 28, 2017 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 28, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Roanoke-Chowan Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2016. College management has prepared this discussion along with the financial statements and notes to the financial statements. This section should be read in conjunction with and is qualified in its entirety by, the financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

Financial Statement Presentation

The College's basic financial statements include three financial statements: the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. 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 is designed to be similar to the bottom line results for the College. This statement focuses on both gross and net costs of college activities that are supported mainly by state, local, federal, and other revenues. This approach is intended to simplify the user's analysis of the cost of various college services to students and the public.

The Statement of Cash Flows presents information detailing the sources and uses of cash from operating activities, financing activities, and investing activities.

Statement of Net Position

The Statement of Net Position presents assets, deferred outflows, liabilities, deferred inflows, and net position of the College for the fiscal year ended June 30, 2016. From the data presented, readers of the Statement of Net Position are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, the Statement of Net Position provides users of these statements a snapshot of the net position (assets plus deferred outflows minus liabilities and deferred inflows) and their availability for expenditures by the College.

Net position is divided into three major categories. The first category, investment in capital assets, provides the equity in property, plant and equipment owned by the institution. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and depreciable assets include buildings, general infrastructure, and machinery and equipment. The next net position category is restricted expendable net position, which are subject to external restrictions on how they may be used. The final category is unrestricted net position, which is available to the College for any lawful purpose of the institution.

Condensed Statement of Net Position

	2016	2015 (As Restated)	Increase (Decrease)
Assets			
Current Assets	\$ 886,129.89	\$ 523,520.80	\$ 362,609.09
Noncurrent Assets	117,788.25	113,424.40	4,363.85
Capital Assets	6,246,635.87	6,523,064.66	(276,428.79)
Total Assets	<u>7,250,554.01</u>	<u>7,160,009.86</u>	<u>90,544.15</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	<u>411,092.00</u>	<u>402,267.00</u>	<u>8,825.00</u>
Liabilities			
Current Liabilities	565,073.98	451,170.96	113,903.02
Noncurrent Long-Term Liabilities	<u>1,185,638.15</u>	<u>592,036.58</u>	<u>593,601.57</u>
Total Liabilities	<u>1,750,712.13</u>	<u>1,043,207.54</u>	<u>707,504.59</u>
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	<u>257,740.00</u>	<u>1,219,526.00</u>	<u>(961,786.00)</u>
Net Position			
Investment in Capital Assets	6,246,635.87	6,523,064.66	(276,428.79)
Restricted	392,582.41	319,993.74	72,588.67
Unrestricted	<u>(986,024.40)</u>	<u>(1,543,515.08)</u>	<u>557,490.68</u>
Total Net Position	<u>\$ 5,653,193.88</u>	<u>\$ 5,299,543.32</u>	<u>\$ 353,650.56</u>

As seen in the comparison of current fiscal year and prior fiscal year information, there was an increase in total assets of approximately \$90,544. Current assets increased \$362,609 due to increases in unrestricted cash which resulted from decreased spending from county funds. The College also had increases in its current restricted cash due to receiving grant funds for new grants including a Kate B. Reynolds Foundation grant and a First in the World grant. Capital assets decreased by \$276,429 due to current year depreciation expense of \$371,508 offset by purchases of machinery and equipment totaling \$95,079. Capital assets are further discussed in the capital asset section below.

Total liabilities increased approximately \$707,505. Current liabilities increased primarily as a result of presidential search expenses not being paid until after year-end. The majority of the increase to long-term liabilities is due to an increase in net pension liability recorded due to GASB Statement Number 68 of \$671,350. This increase in net pension liability is primarily due to substantially lower than anticipated investment earnings generated from the pension plan.

In response to the GASB 68 requirement for Accounting and Financial Reporting for Pensions, the College recorded a reduction of \$961,786 in deferred inflows related to pensions from the prior year.

Statement of Revenues, Expenses, and Changes in Net Position

The change in total net position as presented on the Statement of Net Position is based on activity offered in the Statement of Revenues, Expenses, and Changes in Net Position. The

purpose of the statement is to present the revenues and expenses of the College, distinguishing between the operating and nonoperating revenues and expenses.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015 (As Restated)	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	\$ 330,532.40	\$ 327,523.47	\$ 3,008.93
Sales and Services	37,365.02	44,579.34	(7,214.32)
Other Operating Revenues	38,438.77	18,885.32	19,553.45
Total Operating Revenues	<u>406,336.19</u>	<u>390,988.13</u>	<u>15,348.06</u>
Operating Expenses			
Salaries and Benefits	6,511,196.27	6,497,010.23	14,186.04
Supplies and Materials	471,205.58	556,281.36	(85,075.78)
Services	846,036.23	771,174.52	74,861.71
Scholarships and Fellowships	1,368,337.26	1,513,892.22	(145,554.96)
Utilities	239,286.03	262,794.72	(23,508.69)
Depreciation	371,508.22	360,203.29	11,304.93
Total Operating Expenses	<u>9,807,569.59</u>	<u>9,961,356.34</u>	<u>(153,786.75)</u>
Operating Loss	<u>(9,401,233.40)</u>	<u>(9,570,368.21)</u>	<u>(169,134.81)</u>
Nonoperating Revenues			
State Aid	5,629,319.28	5,248,225.74	381,093.54
County Appropriations	1,089,133.54	1,073,286.99	15,846.55
Noncapital Grants and Gifts	2,792,074.99	3,052,552.14	(260,477.15)
Other Nonoperating Revenues	61,848.07	8,210.51	53,637.56
Capital Aid, Gifts, and Grants	<u>182,508.08</u>	<u>209,914.46</u>	<u>(27,406.38)</u>
Total Nonoperating and Other Revenues	<u>9,754,883.96</u>	<u>9,592,189.84</u>	<u>162,694.12</u>
Change in Net Position	353,650.56	21,821.63	331,828.93
Net Position - Beginning of Year	<u>5,299,543.32</u>	<u>5,277,721.69</u>	<u>21,821.63</u>
Net Position - End of Year	<u>\$ 5,653,193.88</u>	<u>\$ 5,299,543.32</u>	<u>\$ 353,650.56</u>

Fiscal Year 2015-2016 total revenues are \$10,161,220.15 and total expenses are \$9,807,569.59.

Fiscal Year 2014-2015 total revenues are \$9,983,177.97 and total expenses are \$9,961,356.34.

Operating revenues experienced an increase of \$15,348. Even though there was a full-time equivalent (FTE) decline for the College there was an increase in tuition and fees this past year that created an increase in overall revenues. The increase in tuition and fees was caused by a \$4.00 per credit hour increase, effective January 1, 2016.

Operating expenses experienced a decrease of \$153,787. Salaries and benefits increased due to pay raises and bonuses approved by the North Carolina General Assembly. Services increased by \$74,862 as a result of IT service contracts, repairs to the gym floor, and expenses associated with the presidential search. Scholarships and fellowships decreased by \$145,555 as a result of fewer students being enrolled who applied for financial aid. There was also a focus to reduce expenses such as supplies and materials along with utilities during the current fiscal year.

The \$162,694 increase in nonoperating revenues comes from an increase of \$381,094 in state aid being received by the College. A decrease of \$260,477 in noncapital grants and

gifts is related to having fewer students who received financial aid, specifically Pell grant funds. The Roanoke-Chowan Community College Foundation, Inc. (Foundation), the College's blended component unit, also received a \$100,000 grant in 2015 which contributed to the decrease in the current year. These decreases were offset by the College receiving new grants including a Kate B. Reynolds Foundation grant, a First in the World grant, and a Project Skill Up-Tobacco Trust Fund Commission grant.

Analysis of Net Capital Assets

The table below shows the classifications of the College's capital assets as of June 30, 2016. Purchases of new equipment totaling \$95,079 represent the only additions to capital assets in 2016. The highlight was the purchase of a robot for the Industrial Systems program. Accumulated depreciation also increased as yearly depreciation was taken on depreciable assets. The College did not have any capital construction commitments as of June 30, 2016.

Condensed Statement of Capital Assets

	<u>2016</u>	<u>2015 (As Restated)</u>	<u>Increase (Decrease)</u>
Capital Assets			
Land	\$ 34,805.00	\$ 34,805.00	\$ 0.00
Buildings	11,694,720.15	11,694,720.15	
Machinery and Equipment	1,508,620.92	1,413,541.49	95,079.43
General Infrastructure	<u>242,311.00</u>	<u>242,311.00</u>	
Total	<u>13,480,457.07</u>	<u>13,385,377.64</u>	<u>95,079.43</u>
Less: Accumulated Depreciation	<u>7,233,821.20</u>	<u>6,862,312.98</u>	<u>371,508.22</u>
Net Capital Assets	<u>\$ 6,246,635.87</u>	<u>\$ 6,523,064.66</u>	<u>\$ (276,428.79)</u>

Economic Outlook

The level of state support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and on-going operational needs. In addition, there is a direct relationship between the level of state support and tuition increases, as declines in state support have resulted in increased tuition and/or mandatory budget reversions.

Like many other community colleges in the State of North Carolina, the College has experienced a reduction in enrollment but continues to be proactive in recruiting to increase enrollment growth and community support. Enrollment projections for 2016-2017 appear flat even though the College continues to increase marketing efforts and community outreach. The economic position of the College is closely tied to that of the State of North Carolina and the service areas of Hertford, Bertie, and Northampton counties.

The direct impact of the local and national economy on the appropriations for the College is uncertain. Management feels that by using a conservative, realistic approach in handling its resources, the College will be able to continue supporting the educational needs of its students in a quality-learning environment.

The College is affirmed by the Southern Association of Colleges and Schools Commissions on Colleges (SACSCOC). SACSCOC affirmation affords the College continued credibility with the community and availability of financial resources from significant funding agencies.



FINANCIAL STATEMENTS

Roanoke-Chowan Community College
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	140,744.94
Restricted Cash and Cash Equivalents		302,367.27
Receivables, Net (Note 4)		376,536.83
Inventories		41,960.88
Prepaid Items		24,519.97
Total Current Assets		<u>886,129.89</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents		117,788.25
Capital Assets - Nondepreciable (Note 5)		34,805.00
Capital Assets - Depreciable, Net (Note 5)		6,211,830.87
Total Noncurrent Assets		<u>6,364,424.12</u>

Total Assets		<u>7,250,554.01</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions		<u>411,092.00</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		462,727.33
Unearned Revenue		16,213.40
Funds Held for Others		15,624.13
Long-Term Liabilities - Current Portion (Note 7)		70,509.12
Total Current Liabilities		<u>565,073.98</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		<u>1,185,638.15</u>
Total Liabilities		<u>1,750,712.13</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions		<u>257,740.00</u>
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Roanoke-Chowan Community College
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	6,246,635.87
Restricted for:	
Expendable:	
Scholarships and Fellowships	172,322.76
Loans	3,912.36
Capital Projects	100,000.00
Restricted for Specific Programs	86,572.27
Other	29,775.02
Unrestricted	<u>(986,024.40)</u>
Total Net Position	<u>\$ 5,653,193.88</u>

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

Roanoke-Chowan Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 330,532.40
Sales and Services	37,365.02
Other Operating Revenues	38,438.77
	<hr/>
Total Operating Revenues	406,336.19
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	6,511,196.27
Supplies and Materials	471,205.58
Services	846,036.23
Scholarships and Fellowships	1,368,337.26
Utilities	239,286.03
Depreciation	371,508.22
	<hr/>
Total Operating Expenses	9,807,569.59
	<hr/>
Operating Loss	(9,401,233.40)
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NONOPERATING REVENUES

State Aid	5,629,319.28
County Appropriations	1,089,133.54
Noncapital Grants - Student Financial Aid	2,042,424.17
Noncapital Grants	694,950.89
Noncapital Gifts	54,699.93
Investment Income	1,092.70
Other Nonoperating Revenues	60,755.37
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Nonoperating Revenues	9,572,375.88
	<hr/>
Income Before Other Revenues	171,142.48
	<hr/>
State Capital Aid	164,744.82
County Capital Aid	9,847.72
Capital Grants	7,915.54
	<hr/>
Increase in Net Position	353,650.56

NET POSITION

Net Position, July 1, 2015 as Restated (Note 16)	5,299,543.32
	<hr/>
Net Position, June 30, 2016	\$ 5,653,193.88
	<hr/> <hr/>

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

Roanoke-Chowan Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 280,116.09
Payments to Employees and Fringe Benefits	(6,849,728.47)
Payments to Vendors and Suppliers	(1,458,962.26)
Payments for Scholarships and Fellowships	(1,368,337.26)
Loans Issued to Students	(10,967.50)
Collection of Loans to Students	4,606.82
Other Receipts	157,875.86
	<hr/>
Net Cash Used by Operating Activities	(9,245,396.72)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,629,319.28
County Appropriations	1,089,133.54
Noncapital Grants - Student Financial Aid	2,033,751.78
Noncapital Grants	578,864.33
Noncapital Gifts	54,699.93
	<hr/>
Cash Provided by Noncapital Financing Activities	9,385,768.86

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	164,744.82
County Capital Aid	9,847.72
Capital Grants	7,915.54
Acquisition of Capital Assets	(95,079.43)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	87,428.65

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,092.70
	<hr/>
Cash Provided by Investing Activities	1,092.70
	<hr/>
Net Increase in Cash and Cash Equivalents	228,893.49
Cash and Cash Equivalents, July 1, 2015	332,006.97
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Cash and Cash Equivalents, June 30, 2016	\$ 560,900.46

Roanoke-Chowan Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (9,401,233.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	371,508.22
Provision for Uncollectible Loans and Write-Offs	7,597.80
Pension Expense	94,901.00
Nonoperating Other Income	61,171.37
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(30,729.56)
Inventories	9,244.29
Prepaid Items	6,927.59
Notes Receivable, Net	(6,360.68)
Accounts Payable and Accrued Liabilities	68,249.54
Unearned Revenue	(3,016.36)
Funds Held for Others	4,646.31
Deferred Outflows for Contributions Subsequent to the Measurement Date	(394,577.94)
Compensated Absences	(33,724.90)
	<u>(9,245,396.72)</u>
Net Cash Used by Operating Activities	<u>\$ (9,245,396.72)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 140,744.94
Restricted Cash and Cash Equivalents	302,367.27
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>117,788.25</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 560,900.46</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 124,758.89
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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. Roanoke-Chowan Community College (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 of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. See below for further discussion of the College's component unit.

Blended Component Unit - Although legally separate, Roanoke-Chowan Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 13-member board consisting of one ex officio director and 12 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Roanoke-Chowan Community College Board of Trustees and the Foundation's sole purpose is to benefit Roanoke-Chowan Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 109 Community College Road Ahoskie, NC 27910, or by calling 252-862-1316. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding the blended component unit is provided in Note 14.

- 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. Additional information regarding the fair value measurement of investments is disclosed in Note 3.
- 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, are valued at cost using the first-in, first-out, method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-51 years
Machinery & Equipment	2-45 years
General Infrastructure	10-30 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 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 2015 *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 11 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 July 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 June 30 plus the leave earned, less the leave taken between July 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 June 30 is retained by employees and transferred into the next fiscal 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:

Investment in Capital Assets - This represents the College's total investment in 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. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$620.00, and deposits in private financial institutions with a carrying value of \$406,588.23 and a bank balance of \$515,327.07.

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, 2016, 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, 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$153,692.23 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2016. Assets and shares of the STIF are valued at 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College’s investments valued at \$153,692.23 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 406,901.60	\$ 365,733.89	\$ 41,167.71
Student Sponsors	149,209.58	6,085.10	143,124.48
Accounts	92,242.54		92,242.54
Intergovernmental	<u>100,002.10</u>		<u>100,002.10</u>
Total Current Receivables	<u>\$ 748,355.82</u>	<u>\$ 371,818.99</u>	<u>\$ 376,536.83</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	<u>Balance July 1, 2015 (As Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capital Assets, Nondepreciable:				
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 34,805.00
Total Capital Assets, Nondepreciable	<u>34,805.00</u>			<u>34,805.00</u>
Capital Assets, Depreciable:				
Buildings	11,694,720.15			11,694,720.15
Machinery and Equipment	1,413,541.49	95,079.43		1,508,620.92
General Infrastructure	<u>242,311.00</u>			<u>242,311.00</u>
Total Capital Assets, Depreciable	<u>13,350,572.64</u>	<u>95,079.43</u>		<u>13,445,652.07</u>
Less Accumulated Depreciation for:				
Buildings	5,978,691.80	279,684.96		6,258,376.76
Machinery and Equipment	697,287.78	81,046.06		778,333.84
General Infrastructure	<u>186,333.40</u>	<u>10,777.20</u>		<u>197,110.60</u>
Total Accumulated Depreciation	<u>6,862,312.98</u>	<u>371,508.22</u>		<u>7,233,821.20</u>
Total Capital Assets, Depreciable, Net	<u>6,488,259.66</u>	<u>(276,428.79)</u>		<u>6,211,830.87</u>
Capital Assets, Net	<u>\$ 6,523,064.66</u>	<u>\$ (276,428.79)</u>	<u>\$ 0.00</u>	<u>\$ 6,246,635.87</u>

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 96,275.06
Accrued Payroll	<u>366,452.27</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 462,727.33</u></u>

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Net Pension Liability	\$ 337,657.00	\$ 671,350.00	\$ 0.00	\$ 1,009,007.00	\$ 0.00
Compensated Absences	<u>280,865.17</u>	<u>235,648.95</u>	<u>269,373.85</u>	<u>247,140.27</u>	<u>70,509.12</u>
Total Long-Term Liabilities	<u>\$ 618,522.17</u>	<u>\$ 906,998.95</u>	<u>\$ 269,373.85</u>	<u>\$ 1,256,147.27</u>	<u>\$ 70,509.12</u>

Additional information regarding the net pension liability is included in Note 11.

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	<u>Amount</u>
2017	\$ 65,119.56
2018	65,119.56
2019	65,119.56
2020	<u>54,266.30</u>
Total Minimum Lease Payments	<u><u>\$ 249,624.98</u></u>

Rental expense for all operating leases during the year was \$65,119.56.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 1,120,342.29</u>	<u>\$ 798,490.39</u>	<u>\$ (8,680.50)</u>	<u>\$ 330,532.40</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,227,197.25	\$ 194,224.03	\$ 117,393.50	\$ 96,278.61	\$ 0.00	\$ 0.00	\$ 3,635,093.39
Public Service		472.55					472.55
Academic Support	658,796.39	26,657.81	9,777.61				695,231.81
Student Services	232,071.03	25,757.06	12,967.82	1,548.00			272,343.91
Institutional Support	1,558,347.30	115,223.05	503,857.73	8,765.85			2,186,193.93
Operations and Maintenance of Plant	421,250.13	92,676.00	177,847.60		239,286.03		931,059.76
Student Financial Aid	413,534.17	10,731.06	8,840.66	1,261,744.80			1,694,850.69
Auxiliary Enterprises		5,464.02	15,351.31				20,815.33
Depreciation						371,508.22	371,508.22
Total Operating Expenses	\$ 6,511,196.27	\$ 471,205.58	\$ 846,036.23	\$ 1,368,337.26	\$ 239,286.03	\$ 371,508.22	\$ 9,807,569.59

NOTE 11 - PENSION PLANS

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 pension 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, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were \$394,577.94, and employee contributions were \$258,739.63 for the year ended June 30, 2016.

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 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of \$1,009,007.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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, 2015, the College's proportion was .02738%, which was a decrease of .00142 from its proportion measured as of June 30, 2014.

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	12/31/2014
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, 2014 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, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 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:

<u>Net Pension Liability (Asset)</u>		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.25%)</u>
\$ 3,036,833.00	\$ 1,009,007.00	\$ (711,837.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of \$94,901.00. At June 30, 2016, 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	\$ 114,724.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		109,318.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	16,514.06	33,698.00
Contributions Subsequent to the Measurement Date	394,577.94	
Total	<u>\$ 411,092.00</u>	<u>\$ 257,740.00</u>

The amount of \$394,577.94 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, 2017. 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
2017	\$ (134,795.00)
2018	(134,795.00)
2019	(131,891.00)
2020	160,255.06
Total	<u>\$ (241,225.94)</u>

NOTE 12 - 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were \$241,490.32, \$227,900.89, and \$225,713.04, 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 on the North Carolina Office of the State Controller's website at <http://www.osc.nc.gov/> 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were \$17,680.54, \$17,019.92, and \$18,391.43, 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 13 - 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. 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.

B. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

Fire and other property losses are covered by contracts with private insurance companies. 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.

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 \$100,000 deductible. The College is protected from losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

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.

NOTE 14 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2016, is presented as follows:

*Condensed Statement of Net Position
June 30, 2016*

	R-CCC	R-CCC Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	\$ 715,231.89	\$ 170,898.00	\$ 0.00	\$ 886,129.89
Capital Assets, Net	6,246,635.87			6,246,635.87
Other Noncurrent Assets	17,788.25	100,000.00		117,788.25
Total Assets	<u>6,979,656.01</u>	<u>270,898.00</u>		<u>7,250,554.01</u>
Total Deferred Outflows of Resources	<u>411,092.00</u>			<u>411,092.00</u>
LIABILITIES				
Current Liabilities	563,943.98	1,130.00		565,073.98
Long-Term Liabilities	1,185,638.15			1,185,638.15
Total Liabilities	<u>1,749,582.13</u>	<u>1,130.00</u>		<u>1,750,712.13</u>
Total Deferred Inflows of Resources	<u>257,740.00</u>			<u>257,740.00</u>
NET POSITION				
Investment in Capital Assets	6,246,635.87			6,246,635.87
Restricted - Expendable	157,200.41	235,382.00		392,582.41
Unrestricted	(1,020,410.40)	34,386.00		(986,024.40)
Total Net Position	<u>\$ 5,383,425.88</u>	<u>\$ 269,768.00</u>	<u>\$ 0.00</u>	<u>\$ 5,653,193.88</u>

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2016*

	R-CCC	R-CCC Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 330,532.40	\$ 0.00	\$ 0.00	\$ 330,532.40
Sales and Services	37,365.02			37,365.02
Contributions		33,071.00	(33,071.00)	
Special Events		5,340.00	(5,340.00)	
Other	38,438.77			38,438.77
Total Operating Revenues	<u>406,336.19</u>	<u>38,411.00</u>	<u>(38,411.00)</u>	<u>406,336.19</u>
OPERATING EXPENSES				
Operating Expenses	9,398,669.37	37,392.00		9,436,061.37
Depreciation	371,508.22			371,508.22
Total Operating Expenses	<u>9,770,177.59</u>	<u>37,392.00</u>		<u>9,807,569.59</u>
Operating Income (Loss)	<u>(9,363,841.40)</u>	<u>1,019.00</u>	<u>(38,411.00)</u>	<u>(9,401,233.40)</u>
NONOPERATING REVENUES				
State Aid	5,629,319.28			5,629,319.28
County Appropriations	1,089,133.54			1,089,133.54
Noncapital Grants	2,737,375.06			2,737,375.06
Noncapital Gifts	16,288.93		38,411.00	54,699.93
Other Nonoperating Revenues	60,755.37	1,092.70		61,848.07
Nonoperating Revenues	<u>9,532,872.18</u>	<u>1,092.70</u>	<u>38,411.00</u>	<u>9,572,375.88</u>
Capital Contributions	<u>182,508.08</u>			<u>182,508.08</u>
Increase in Net Position	351,538.86	2,111.70		353,650.56
NET POSITION				
Net Position, July 1, 2015 (As Restated)	<u>5,031,887.32</u>	<u>267,656.00</u>		<u>5,299,543.32</u>
Net Position, June 30, 2016	<u>\$ 5,383,426.18</u>	<u>\$ 269,767.70</u>	<u>\$ 0.00</u>	<u>\$ 5,653,193.88</u>

*Condensed Statement of Cash Flows
June 30, 2016*

	R-CCC	R-CCC Foundation, Inc.	Total
Net Cash Used by Operating Activities	\$ (9,209,134.72)	\$ (36,262.00)	\$ (9,245,396.72)
Cash Provided by Noncapital Financing Activities	9,347,472.86	38,296.00	9,385,768.86
Net Cash Provided by Capital and Related Financing Activities	87,428.65		87,428.65
Cash Provided by Investing Activities		1,092.70	1,092.70
Net Increase in Cash and Cash Equivalents	225,766.79	3,126.70	228,893.49
Cash and Cash Equivalents, July 1, 2015	<u>64,350.97</u>	<u>267,656.00</u>	<u>332,006.97</u>
Cash and Cash Equivalents, June 30, 2016	<u>\$ 290,117.76</u>	<u>\$ 270,782.70</u>	<u>\$ 560,900.46</u>

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2015, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2015 Net Position as Previously Reported	\$ 5,248,016.71
Restatement: Adjustment to accumulated depreciation for fully depreciated assets still in service	<u>51,526.61</u>
July 1, 2015 Net Position as Restated	<u><u>\$ 5,299,543.32</u></u>



REQUIRED SUPPLEMENTARY INFORMATION

Roanoke-Chowan Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit B-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.02738%	0.02880%	0.02880%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 1,009,007.00	\$ 337,657.00	\$ 1,748,453.00
Covered-Employee Payroll	\$ 4,151,200.16	\$ 4,179,871.20	\$ 4,194,324.01
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.31%	8.08%	41.69%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

**Roanoke-Chowan Community College
 Required Supplementary Information
 Schedule of College Contributions
 Teachers' and State Employees' Retirement System
 Last Ten Fiscal Years**

Exhibit B-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 394,577.94	\$ 379,834.81	\$ 363,230.81	\$ 349,387.19	\$ 307,358.52
Contributions in Relation to the Contractually Determined Contribution	<u>394,577.94</u>	<u>379,834.81</u>	<u>363,230.81</u>	<u>349,387.19</u>	<u>307,358.52</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 4,312,327.17	\$ 4,151,200.16	\$ 4,179,871.20	\$ 4,194,324.01	\$ 4,131,162.94
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contribution	\$ 221,757.05	\$ 157,231.47	\$ 150,725.04	\$ 137,256.83	\$ 117,895.66
Contributions in Relation to the Contractually Determined Contribution	<u>221,757.05</u>	<u>157,231.47</u>	<u>150,725.04</u>	<u>137,256.83</u>	<u>117,895.66</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered-Employee Payroll	\$ 4,498,114.60	\$ 4,404,242.89	\$ 4,485,864.29	\$ 4,500,224.01	\$ 4,432,167.67
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Roanoke-Chowan Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

<u>Cost of Living Increase</u>								
<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

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.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report*, the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
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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
Roanoke-Chowan Community College
Ahoskie, 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 Roanoke-Chowan Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 28, 2017. Our report includes a reference to other auditors who audited the financial statements of Roanoke-Chowan Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Roanoke-Chowan 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 Roanoke-Chowan Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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, CPA
State Auditor

Raleigh, North Carolina

March 28, 2017

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For additional information contact:
Bill Holmes
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919-807-7513



This audit required 310 audit hours at an approximate cost of \$31,930.00.