

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

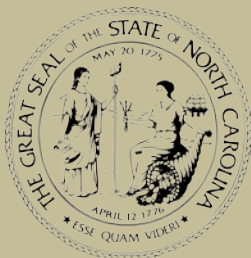
BETH A. WOOD, CPA



ROWAN-CABARRUS COMMUNITY COLLEGE

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

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Rowan-Cabarrus 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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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

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rowan-Cabarrus Community College
Salisbury, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Rowan-Cabarrus Community College (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, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Rowan-Cabarrus 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 Rowan-Cabarrus 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 Rowan-Cabarrus 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 Rowan-Cabarrus Community College, and its discretely presented component unit, as of June 30, 2016, 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.

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 30, 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 30, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

As prescribed by standards issued by the Governmental Accounting Standards Board (GASB), this Management's Discussion and Analysis (MD&A) section of Rowan-Cabarrus Community College's Annual Financial Report provides an overview of the College's financial position and activities during the fiscal year ended June 30, 2016. The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion, along with the accompanying financial statements and related notes, are the responsibility of the College's management and have been prepared by management to comprise the College's complete financial report.

As required, this report contains three basic financial statements and notes to the financial statements:

Statement of Net Position (Exhibit A-1): This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The College's net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) is an indicator of the College's financial health at a point in time.

Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2): This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize the presentation of the College's services to the students and public.

Statement of Cash Flows (Exhibit A-3): This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature.

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

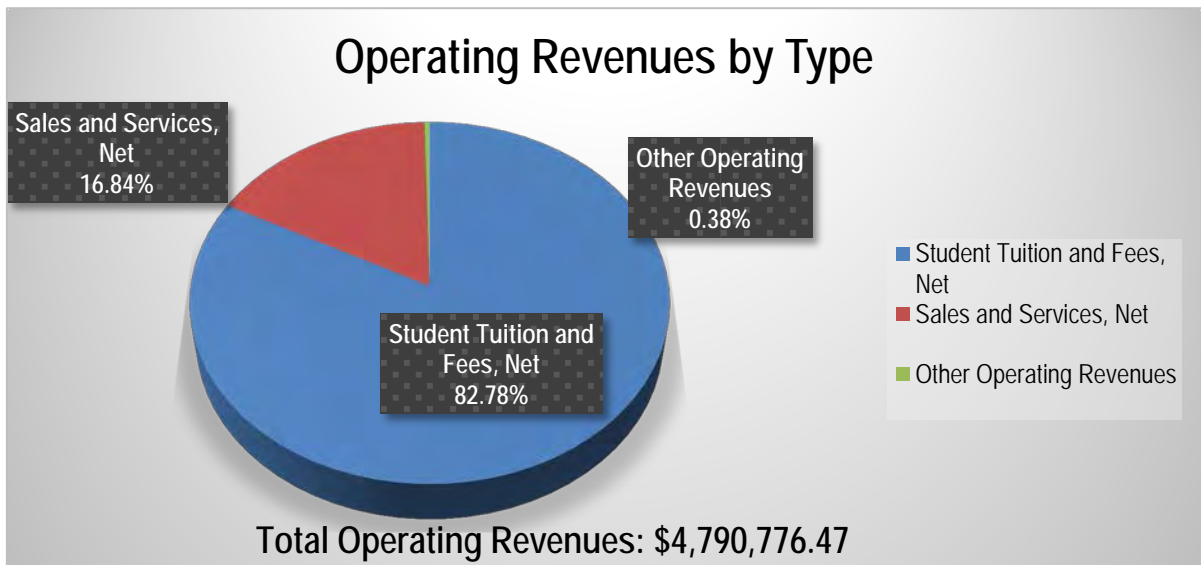
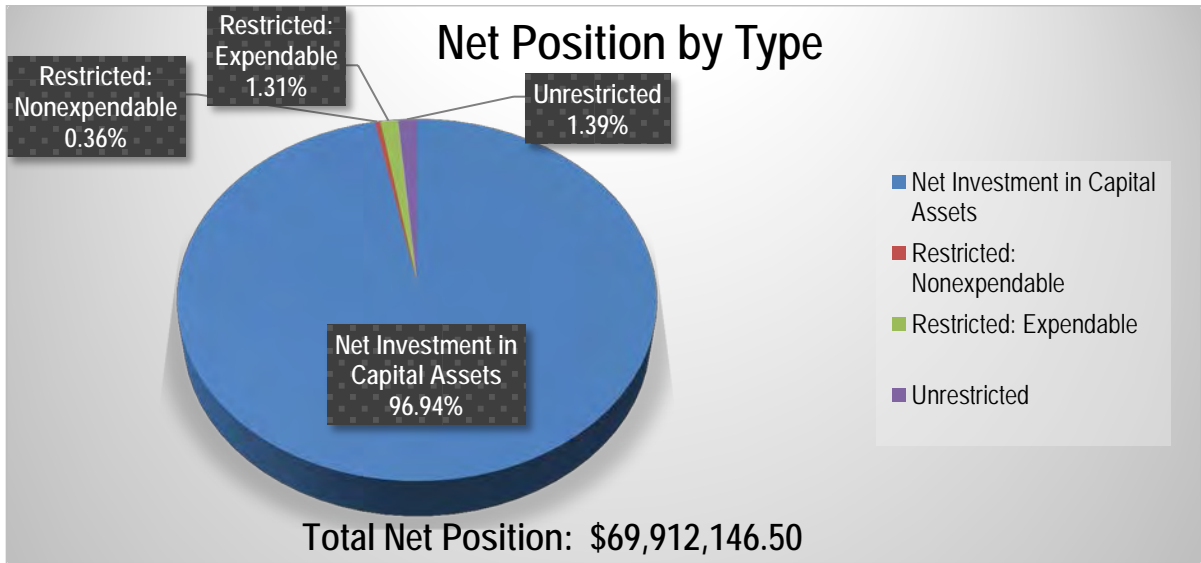
These statements are prepared under the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College is considered to be a business-type activity and is reported in a single column on the statements.

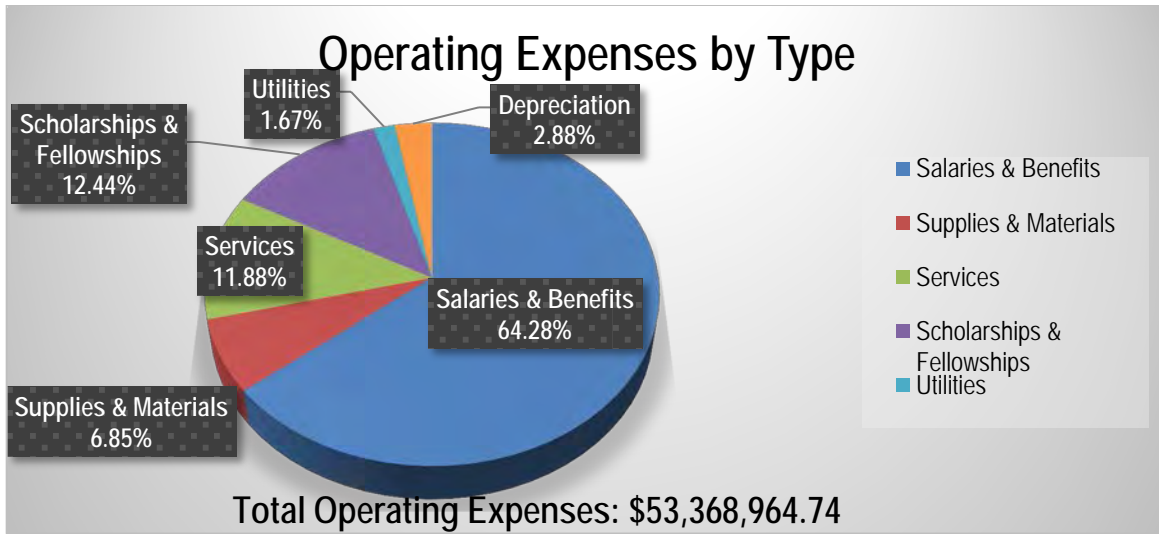
Rowan-Cabarrus Community College (College) is a comprehensive, public, two-year community college serving Rowan and Cabarrus counties on multiple campuses located across the two-county service area. In fiscal year 2016, the College trained more than 7,500 curriculum degree and non-degree seeking students through a broad range of college transfer and associate or technical degree programs, in addition to providing customized corporate training, continuing education courses, and special interest classes for more than 12,200 continuing education students.

Financial Highlights

At June 30, 2016, the College's net position was \$69,912,146.50, an increase of \$7,650,342.47 from the prior year and net investment in capital assets was \$9,690,835.60 higher than fiscal year 2015, totaling \$67,767,887.06 for fiscal year 2016. Total operating revenues for the fiscal year increased by \$160,670.85 over the prior year totaling \$4,790,776.47 at year end while operating expenses decreased by \$1,481,695.06 for a total of \$53,368,964.74 at June 30, 2016.

The charts below reflect the distribution of net position, operating revenues, and operating expenses for the fiscal year.





Statement of Net Position

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables, inventories, and notes receivable. Noncurrent assets consist of cash and cash equivalents, receivables, investments, and net capital assets. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of \$5,000 or more and a useful life of more than one year. The College's net capital assets are stated at historical cost less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 75 years for buildings, and 10 to 30 years for equipment.

The Condensed Statement of Net Position presented here is prepared from the College's Statement of Net Position for the year ended June 30, 2016 and the year ended June 30, 2015.

Condensed Statement of Net Position

	FYE 2016	FYE 2015	Dollar Change	Percent Change
Assets				
Current Assets	\$ 9,136,778.50	\$ 8,759,882.09	\$ 376,896.41	4.30%
Noncurrent Assets				
Capital, Net	87,713,253.47	78,346,601.22	9,366,652.25	11.96%
Other	967,167.99	5,290,349.66	(4,323,181.67)	-81.72%
Total Assets	97,817,199.96	92,396,832.97	5,420,366.99	5.87%
Total Deferred Outflows of Resources	2,214,536.00	2,160,106.00	54,430.00	2.52%
Liabilities				
Current Liabilities	3,945,978.83	3,799,084.27	146,894.56	3.87%
Long-Term Liabilities	24,991,623.63	22,442,879.67	2,548,743.96	11.36%
Total Liabilities	28,937,602.46	26,241,963.94	2,695,638.52	10.27%
Total Deferred Inflows of Resources	1,181,987.00	6,053,171.00	(4,871,184.00)	-80.47%
Net Position				
Net Investment in Capital Assets	67,767,887.06	58,077,051.46	9,690,835.60	16.69%
Restricted	1,171,052.21	3,629,304.02	(2,458,251.81)	-67.73%
Unrestricted	973,207.23	555,448.55	417,758.68	75.21%
Total Net Position	\$ 69,912,146.50	\$ 62,261,804.03	\$ 7,650,342.47	12.29%

The College's total net position at June 30, 2016 was \$69,912,146.50, an increase of \$7,650,342.47 over the prior fiscal year. The increase in total net position is attributable to increases in both current and noncurrent assets, as well as deferred outflows of resources, and increases in current and noncurrent liabilities as detailed below, offset by a decrease in deferred inflows of resources.

While current cash and cash equivalents decreased by \$686,197.51 in fiscal year 2016, receivables increased by \$1,104,304.76, primarily because of monies due from Rowan County for the North Campus additions and renovations capital project. Overall, total current assets increased by 4.30% or \$376,896.41. Even though noncurrent restricted cash and cash equivalents and restricted due from primary government decreased by \$2,261,543.93 and \$2,110,059.94, respectively as funds were spent on ongoing construction projects, total noncurrent assets increased by 6.03% or \$5,043,470.58 due to a large net increase in construction in progress of \$9,764,108.99 related to current year construction costs. Refer to the Capital Assets section of this discussion for further details on the construction in progress increase.

The increase of \$9,690,835.60 in net investment in capital assets is primarily due to the net increase in construction in progress of \$9,764,108.99 related to current year construction costs mentioned above. The decrease in restricted net position of \$2,458,251.81 is largely related to increased spending on construction and renovation projects during the year. Unrestricted net position increased by \$417,758.68 primarily due to increases in revenues related to student fees.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of \$62,469,360.94 for 2016 and \$65,387,211.63 for 2015. Total expenses were \$54,819,018.47 for 2016 and \$56,407,886.89 for 2015, resulting in an overall increase in net position of \$7,650,342.47. Operating revenues increased by \$160,670.85 to \$4,790,776.47 this year due to a decrease in the College's tuition discount related to the College enrolling fewer students, who in turn, received less in student financial aid, which increased net tuition receipts. Net nonoperating revenues decreased by \$2,437,929.71 to \$48,573,554.86 in fiscal year 2016, primarily due to the previously mentioned decrease in student financial aid related to noncapital grants – student financial aid of \$5,344,033.10 and increases in state aid of \$2,417,269.83.

Rowan-Cabarrus Community College is a state supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by state and county appropriations, financial aid grants, and other nonoperating revenues. The College receives appropriations from the State of North Carolina and from Rowan and Cabarrus Counties. Tuition and state aid provide funds for the operational and administrative needs of the College based on the number of student Full-Time Equivalents (FTE) enrolled in the previous academic year or the two-year average FTE, whichever is greater. Rowan and Cabarrus counties provide funds for the operation and maintenance of facilities in the respective counties. Although the College is reliant on these sources of funding by design, they are considered nonoperating revenues for financial reporting purposes. Large operating losses are, therefore, expected every year.

Operating expenses for fiscal year 2016 decreased \$1,481,695.06 to \$53,368,964.74. The change was primarily due to the decrease of expenses for scholarship and fellowships of \$2,895,633.23 related to the decrease in enrollment and students eligible for student financial aid mentioned above. The decrease in scholarships and fellowships was offset by increases in salaries and

benefits of \$194,008.37, supplies and materials in the amount of \$866,271.18, services in the amount of \$230,916.48, utilities in the amount of \$18,159.83, and depreciation in the amount of \$104,582.31. Supplies and materials expenses increased due to additional purchases of instructional supplies and materials, other costs items, and equipment purchases not required to be capitalized.

The Condensed Statement of Revenues, Expenses, and Changes in Net Position presented here is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2016 and the year ended June 30, 2015.

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

	FYE 2016	FYE 2015	Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 3,965,660.95	\$ 3,658,805.26	\$ 306,855.69	8.39%
Sales and Services, Net	806,762.68	881,546.96	(74,784.28)	-8.48%
Other Operating Revenues	18,352.84	89,753.40	(71,400.56)	-79.55%
Total Operating Revenues	4,790,776.47	4,630,105.62	160,670.85	3.47%
Operating Expenses				
Salaries and Benefits	34,309,539.65	34,115,531.28	194,008.37	0.57%
Supplies and Materials	3,654,603.49	2,788,332.31	866,271.18	31.07%
Services	6,338,162.82	6,107,246.34	230,916.48	3.78%
Scholarships and Fellowships	6,639,422.84	9,535,056.07	(2,895,633.23)	-30.37%
Utilities	892,474.72	874,314.89	18,159.83	2.08%
Depreciation	1,534,761.22	1,430,178.91	104,582.31	7.31%
Total Operating Expenses	53,368,964.74	54,850,659.80	(1,481,695.06)	-2.70%
Operating Loss	(48,578,188.27)	(50,220,554.18)	(1,642,365.91)	3.27%
Nonoperating Revenues (Expenses)				
State Aid	32,239,257.20	29,821,987.37	2,417,269.83	8.11%
County Appropriations	4,378,101.00	4,040,049.00	338,052.00	8.37%
Noncapital Grants and Gifts	13,311,273.96	18,655,307.06	(5,344,033.10)	-28.65%
Investment Income, Net	94,976.43	51,368.23	43,608.20	84.89%
Interest and Fees on Debt	(1,393,307.37)	(1,447,704.26)	54,396.89	-3.76%
Other Nonoperating Expenses	(56,746.36)	(109,522.83)	52,776.47	-48.19%
Net Nonoperating Revenues	48,573,554.86	51,011,484.57	(2,437,929.71)	-4.78%
Income (Loss) Before Other Revenues	(4,633.41)	790,930.39	(795,563.80)	-100.59%
Capital Aid and Capital Grants	7,654,975.88	8,188,394.35	(533,418.47)	-6.51%
Increase in Net Position	7,650,342.47	8,979,324.74	(1,328,982.27)	-14.80%
Net Position, Beginning of Year	62,261,804.03	53,282,479.29	8,979,324.74	16.85%
Net Position, End of Year	\$ 69,912,146.50	\$ 62,261,804.03	\$ 7,650,342.47	12.29%

Capital Assets

The following schedule compares capital assets for the fiscal years 2016 and 2015, net of accumulated depreciation.

	FYE 2016	FYE 2015	Dollar Change	Percent Change
Land	\$ 2,656,620.09	\$ 2,599,028.76	\$ 57,591.33	2.22%
Construction in Progress	20,495,565.74	10,731,456.75	9,764,108.99	90.99%
Buildings	56,241,204.28	56,931,451.62	(690,247.34)	-1.21%
General Infrastructure	1,600,527.52	1,606,792.70	(6,265.18)	-0.39%
Machinery and Equipment	6,719,335.84	6,477,871.39	241,464.45	3.73%
Total Capital Assets, Net	<u>\$ 87,713,253.47</u>	<u>\$ 78,346,601.22</u>	<u>\$ 9,366,652.25</u>	11.96%

Construction in progress increased significantly as a result of continued construction and renovation projects funded by local and state bond funds and college capital reserve funds. During the 2016 fiscal year, the College had several renovation projects underway at the north campus in Rowan County and at campuses in Cabarrus County. While buildings decreased slightly this year due to depreciation, completion of several large construction and renovation projects in fiscal year 2017 will significantly increase buildings next year. Refer to Note 6 of the Notes to the Financial Statements for additional details on the College's capital asset holdings.

Financial Commitments and Other Debt Activity

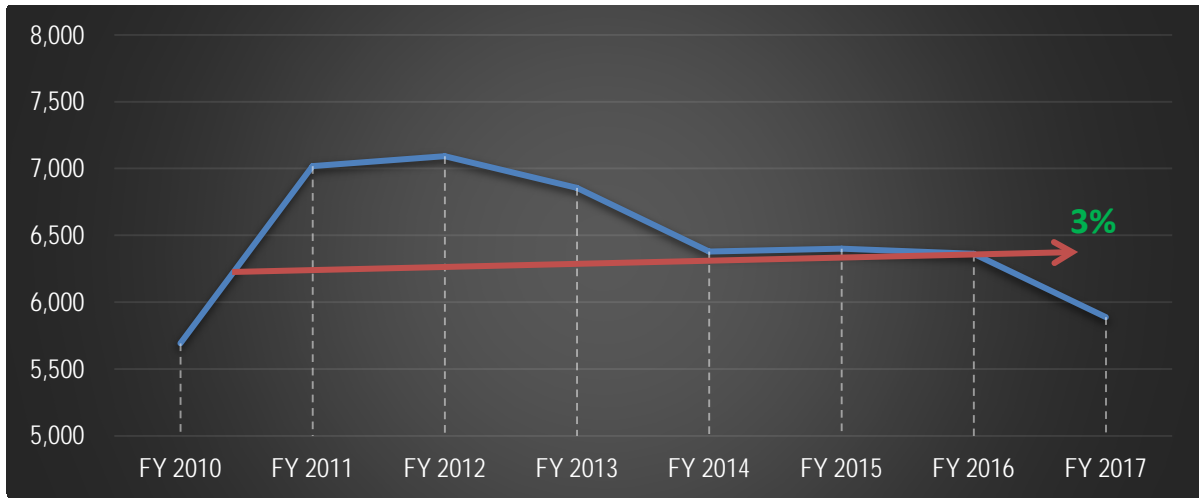
At June 30, 2016, the College had outstanding commitments on construction contracts totaling \$851,124.45. The College pays annual lease payments of \$2,200,184.76 for the North Carolina Research Campus building for a period of 20 years. This capital lease began in June 2010. The lease payments are being supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease payments while searching for alternative funding. Refer to Note 9 of the Notes to the Financial Statements for additional details on the College's capital lease obligations.

Factors Impacting Future Periods

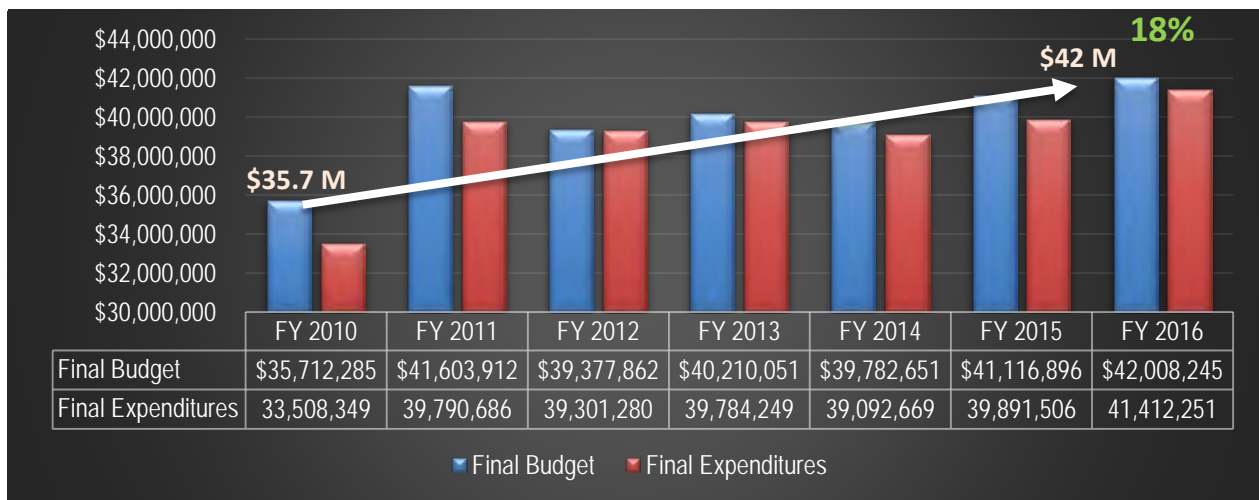
Over a ten-year period from 2002 through 2012, the College saw unprecedented enrollment growth totaling 59%. The increase in enrollment over the period is attributed to a downturn in the economy and the addition of new programs designed to meet community needs. The North Carolina Community College System prides itself in its role in economic recovery and historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. When the economy began a slow recovery following the economic recession, it was not unusual or unexpected to see a decline in FTE as students returned to work. In fiscal years 2013 and 2014, as the economy improved, the College's budget FTE declined slightly, falling from 7,091 in fiscal year 2012 to 6,856 and 6,379 in fiscal years 2013 and 2014, respectively. However, in fiscal year 2015, the College's budget FTE increased by 20 budgeted FTE to 6,399, before declining slightly again in fiscal year 2016 to 6,362.

As the economy continued to strengthen and unemployment rates in the region declined, the College's FTE declined more significantly in fiscal year 2017, falling by more than 8% to 5,888.

However, between fiscal years 2010 and 2017, budget FTE growth was positive, increasing by 3% over the eight-year period (see chart below).



In North Carolina, the majority of financial support for community colleges comes from state funding. At Rowan-Cabarrus Community College in fiscal year 2016, state current and capital aid accounted for more than 52% of total revenues. Therefore, state support is a key factor influencing the College's financial condition and its ability to expand programs, undertake new initiatives and meet its core mission and ongoing operational needs. As shown on the chart below, growth in state funding is strong, increasing by almost 18% from fiscal year 2010 through fiscal year 2016.



Rowan-Cabarrus Community College is confident in its financial stability and ability to attract citizens in Rowan and Cabarrus counties to the life-changing benefits of higher education. The College's Board of Trustees, administration, staff, and faculty are dedicated to the College's mission of *"improving lives and building community through higher education workforce development."*

The College's strategic plan for 2015-2018 centers on five goals:

- Prepare students for careers and opportunities that stimulate sustainable economic and workforce development.
- Foster a culture of learning that inspires academic excellence and promotes student success.
- Provide excellent service to current and prospective students, colleagues, businesses, industries, and the community.
- Acquire, develop, and manage human, fiscal, and physical resources essential to the development and delivery of technology-enriched, high value, education and service.
- Serve as a catalyst for advancing the region.

Rowan-Cabarrus Community College will partner with state, local, and federal agencies, and private businesses to take advantage of workforce and economic development opportunities. Additionally, the College will strategically add credit and non-credit programs that meet our community's needs. Rowan-Cabarrus Community College is well positioned for growth and continued financial stability.



FINANCIAL STATEMENTS

Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,664,701.99
Restricted Cash and Cash Equivalents	883,705.28
Receivables, Net (Note 5)	3,560,070.58
Inventories	22,161.12
Notes Receivable, Net (Note 5)	6,139.53
	<hr/>
Total Current Assets	9,136,778.50

Noncurrent Assets:

Restricted Cash and Cash Equivalents	211,625.30
Restricted Due from Primary Government	106,343.48
Restricted Investments	149,417.75
Other Investments	499,781.46
Capital Assets - Nondepreciable (Note 6)	23,152,185.83
Capital Assets - Depreciable, Net (Note 6)	64,561,067.64
	<hr/>
Total Noncurrent Assets	88,680,421.46

Total Assets	<hr/> <hr/> 97,817,199.96
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	<hr/> 2,214,536.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,137,870.49
Unearned Revenue	385,068.16
Funds Held for Others	313,941.80
Long-Term Liabilities - Current Portion (Note 8)	1,109,098.38
	<hr/>
Total Current Liabilities	3,945,978.83

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	<hr/> 24,991,623.63
Total Liabilities	<hr/> 28,937,602.46

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<hr/> 1,181,987.00
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Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2016

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	67,767,887.06
Restricted for:	
Scholarships and Fellowships	228,140.85
Restricted for Specific Programs	24,000.00
Expendable:	
Scholarships and Fellowships	69,226.33
Loans	19,028.42
Capital Projects	600,694.46
Restricted for Specific Programs	229,962.15
Unrestricted	<u>973,207.23</u>
Total Net Position	<u>\$ 69,912,146.50</u>

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

Rowan-Cabarrus 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 10)	\$ 3,965,660.95
Sales and Services, Net (Note 10)	806,762.68
Other Operating Revenues	18,352.84

Total Operating Revenues	4,790,776.47
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EXPENSES

Operating Expenses:

Salaries and Benefits	34,309,539.65
Supplies and Materials	3,654,603.49
Services	6,338,162.82
Scholarships and Fellowships	6,639,422.84
Utilities	892,474.72
Depreciation	1,534,761.22

Total Operating Expenses	53,368,964.74
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Operating Loss	(48,578,188.27)
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NONOPERATING REVENUES (EXPENSES)

State Aid	32,239,257.20
County Appropriations	4,378,101.00
Noncapital Grants - Student Financial Aid	13,057,451.88
Noncapital Gifts	253,822.08
Investment Income (Net of Investment Expense of \$88.92)	94,976.43
Interest and Fees on Debt	(1,393,307.37)
Other Nonoperating Expenses	(56,746.36)

Net Nonoperating Revenues	48,573,554.86
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Loss Before Other Revenues	(4,633.41)
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State Capital Aid	339,947.26
County Capital Aid	5,315,028.62
Capital Grants	2,000,000.00

Increase in Net Position	7,650,342.47
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NET POSITION

Net Position - July 1, 2015	62,261,804.03
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Net Position - June 30, 2016	\$ 69,912,146.50
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The accompanying notes to the financial statements are an integral part of this statement.

Rowan-Cabarrus 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	\$ 4,815,994.96
Payments to Employees and Fringe Benefits	(35,091,525.58)
Payments to Vendors and Suppliers	(11,333,030.33)
Payments for Scholarships and Fellowships	(6,639,422.84)
Loans Issued to Students	(6,139.53)
Collection of Loans to Students	6,289.53
Other Payments	(138,095.72)

Net Cash Used by Operating Activities (48,385,929.51)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	32,239,257.20
County Appropriations	4,378,101.00
Noncapital Grants - Student Financial Aid	12,004,390.07
Noncapital Gifts	253,822.08

Cash Provided by Noncapital Financing Activities 48,875,570.35

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,450,007.20
County Capital Aid	5,315,028.62
Capital Grants	2,000,000.00
Acquisition and Construction of Capital Assets	(11,048,787.57)
Principal Paid on Capital Debt and Leases	(806,877.39)
Interest and Fees Paid on Capital Debt and Leases	(1,393,307.37)

Net Cash Used by Capital Financing and Related Financing Activities (3,483,936.51)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	94,976.43
Purchase of Investments and Related Fees	(48,422.20)

Net Cash Provided by Investing Activities 46,554.23

Net Decrease in Cash and Cash Equivalents (2,947,741.44)
Cash and Cash Equivalents - July 1, 2015 8,707,774.01

Cash and Cash Equivalents - June 30, 2016 \$ 5,760,032.57

Rowan-Cabarrus 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	\$ (48,578,188.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,534,761.22
Pension Expense	628,940.24
Nonoperating Other Expenses	(9,607.28)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(51,242.95)
Inventories	41,060.84
Notes Receivable, Net	150.00
Accounts Payable and Accrued Liabilities	124,509.39
Unearned Revenue	76,461.44
Funds Held for Others	(128,488.44)
Deferred Outflows for Contributions Subsequent to the Measurement Date	(1,907,261.24)
Compensated Absences	(117,024.46)
	<u>(48,385,929.51)</u>
Net Cash Used by Operating Activities	<u>\$ (48,385,929.51)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,664,701.99
Restricted Cash and Cash Equivalents	883,705.28
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>211,625.30</u>
Total Cash and Cash Equivalents - June 30, 2016	<u>\$ 5,760,032.57</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 481,074.04
Increase in Receivables Related to Nonoperating Income	1,053,061.81
Loss on Disposal of Capital Assets	(47,139.08)

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

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Financial Position
June 30, 2016

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,808,595
Receivables		4,217
Unconditional Promises to Give		189,446
Beneficial Interest in Assets Held by Others		2,396,801
Land		101,246
		<hr/>
Total Assets	\$	5,500,305
		<hr/> <hr/>

LIABILITIES AND NET ASSETS

Accrued Expenses	\$	2,906
		<hr/>
Total Liabilities		2,906
		<hr/>
Net Assets		
Unrestricted		295,189
Temporarily Restricted		3,215,192
Permanently Restricted		1,987,018
		<hr/>
Total Net Assets		5,497,399
		<hr/>
Total Liabilities and Net Assets	\$	5,500,305
		<hr/> <hr/>

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

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Activities
Year Ended June 30, 2016

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND GAINS				
Contributions & Support	\$ 550,539	\$ 566,518	\$ 74,312	\$ 1,191,369
Special Events, Net	(29,460)			(29,460)
Investment Income, Net	7,007			7,007
Total Support, Revenues, and Gains	<u>528,086</u>	<u>566,518</u>	<u>74,312</u>	<u>1,168,916</u>
EXPENSES AND LOSSES				
Program Expenses	<u>434,558</u>			<u>434,558</u>
Supporting Services:				
General Administration	<u>51,918</u>			<u>51,918</u>
Change in Beneficial Interest - Net Loss	<u>110,303</u>			<u>110,303</u>
Total Expenses and Losses	<u>596,779</u>			<u>596,779</u>
Change in Net Assets	(68,693)	566,518	74,312	572,137
Net Assets at Beginning of Year	<u>363,882</u>	<u>2,648,674</u>	<u>1,912,706</u>	<u>4,925,262</u>
Net Assets at End of Year	<u>\$ 295,189</u>	<u>\$ 3,215,192</u>	<u>\$ 1,987,018</u>	<u>\$ 5,497,399</u>

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. Rowan-Cabarrus 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 discretely presented in the College's financial statements. See below for further discussion of the College's component unit.

Discretely Presented Component Unit - Rowan-Cabarrus Community College Foundation, Inc. (Foundation) is a legally separate, tax-exempt, 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 24 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 fiscal year ended June 30, 2016, the Foundation distributed \$224,324.07 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Director, P.O. Box 1595, Salisbury, NC 28145-1595 or by calling (704) 216-3876.

- 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 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. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the value of investments is recognized as a component of investment income.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the College for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** – Receivables consist of tuition and fees charged to students and charged for auxiliary enterprises' sales and services.

Receivables also include amounts due from the federal government, and state and local governments. Receivable are recorded net of estimated uncollectible amounts.

- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. **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.

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	75 years
Machinery & Equipment	10-30 years
General Infrastructure	10-75 years

- I. **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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability, capital lease obligations, 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 12 for further information regarding the College’s policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

- K. **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 fiscal 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.

L. 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 liabilities related to those capital assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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.

- M. 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.
- N. 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.
- O. Internal Sales Activities** - The Copy Center is the only institutional auxiliary operation that provides goods and services to College departments. All internal sales activities to College departments from auxiliary operations have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. 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

A. Deposits - 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, 2016 was \$2,595.00. The carrying amount of the College's deposits not with the State Treasurer, was \$1,163,167.53, and the bank balance was \$1,373,253.85.

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.

B. Investments

College - 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$4,594,270.04, 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

At June 30, 2016, the amount shown on the Statement of Net Position as restricted and other investments includes \$649,199.21, which represents the College's equity position in the State Treasurer's Long-Term Investment Portfolio (LTIP). The LTIP (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 formal regulatory oversight and does not have a credit rating) had a weighted average maturity of 17.9 years at June 30, 2016. Assets and shares of the LTIP are valued at fair market value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's LTIP) 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.

Component Unit - Investments of the College’s discretely presented component unit, Rowan-Cabarrus Community College Foundation, Inc., are 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 Foundation established a Quasi-Endowed Agency Fund in 2015 with an initial transfer of \$2,148,568 to the Foundation for the Carolinas. The Quasi-Endowed Agency Fund is treated like an Endowed Agency Fund, such that an annual spendable income is calculated and available for distribution. However, unlike an Endowed Agency Fund, the entire balance may be made available for distribution. The general purpose of the Gift Fund is to raise and manage funds and enhance relationships that support the work and mission of Rowan-Cabarrus Community College. The Foundations for the Carolinas has “variance power” granting its board of directors authority and discretion as to the investment and distribution of the assets of the fund. Distributions of net income and principal are made on the recommendation of the Board of Directors of the Foundation.

The Foundation’s beneficial interest in assets held by others at June 30, 2016 is as follows:

	<u>Amount</u>
Beginning Balance	\$ 2,301,536
Transfers To (From)	205,568
Change in Value - Decrease	<u>(110,303)</u>
Total Assets Held by Others	<u>\$ 2,396,801</u>

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	\$ 2,595.00
Carrying Amount of Deposits with Private Financial Institutions	1,163,167.53
Investments in the Short-Term Investment Fund	4,594,270.04
Investments in the Long-Term Investment Portfolio	<u>649,199.21</u>
Total Deposits and Investments	<u>\$ 6,409,231.78</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 4,664,701.99
Restricted Cash and Cash Equivalents	883,705.28
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>211,625.30</u>
Total Deposits	<u>5,760,032.57</u>
Investments	
Noncurrent:	
Restricted Investments	149,417.75
Other Investments	<u>499,781.46</u>
Total Investments	<u>649,199.21</u>
Total Deposits and Investments	<u>\$ 6,409,231.78</u>

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, a portion of the College's investments valued at \$4,594,270.04 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.

Long-Term Investment Portfolio - At year-end, a portion of the College's investments valued at \$649,199.21 were held in the LTIP which is a Level 2 investment. Ownership interest in the LTIP is determined monthly at fair market value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings.

NOTE 4 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2016, net appreciation of \$1,049.04 was available to be spent, all of which was classified in net position as restricted expendable for scholarships and fellowships as it is restricted for specific purposes.

On March 1, 2013, the College placed additional endowment assets in the State Treasurer's Long-Term Investment Portfolio. These assets are pooled with state agencies and similar institutions in long-term investments with the State Treasurer's Investment Pool and are reported as noncurrent restricted and other investments on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated

otherwise; however, it generally expected that the amount of annual spending will approximate a range of 2% to 7% of the previous 12 quarter average market value portfolio assets determined at December 31 each year. Initially, the annual spending will be based on the market value of portfolio assets for the previous year and the previous two years until a three-year average is available. At June 30, 2016, there was \$46,195.13 appreciation available to be spent.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 2,172,627.91	\$ 440,511.70	\$ 1,732,116.21
Student Sponsors	9,810.26		9,810.26
Intergovernmental	1,818,144.11		1,818,144.11
Total Current Receivables	\$ 4,000,582.28	\$ 440,511.70	\$ 3,560,070.58
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 11,196.64	\$ 5,057.11	\$ 6,139.53

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	\$ 2,599,028.76	\$ 57,591.33	\$ 0.00	\$ 2,656,620.09
Construction in Progress	10,731,456.75	10,001,241.05	237,132.06	20,495,565.74
Total Capital Assets, Nondepreciable	13,330,485.51	10,058,832.38	237,132.06	23,152,185.83
Capital Assets, Depreciable:				
Buildings	67,055,302.48	211,632.06		67,266,934.54
Machinery and Equipment	9,358,001.19	889,720.17	117,584.64	10,130,136.72
General Infrastructure	2,103,566.93	25,500.00		2,129,066.93
Total Capital Assets, Depreciable	78,516,870.60	1,126,852.23	117,584.64	79,526,138.19
Less Accumulated Depreciation for:				
Buildings	10,123,850.86	901,879.40		11,025,730.26
Machinery and Equipment	2,880,129.80	601,116.64	70,445.56	3,410,800.88
General Infrastructure	496,774.23	31,765.18		528,539.41
Total Accumulated Depreciation	13,500,754.89	1,534,761.22	70,445.56	14,965,070.55
Total Capital Assets, Depreciable, Net	65,016,115.71	(407,908.99)	47,139.08	64,561,067.64
Capital Assets, Net	\$ 78,346,601.22	\$ 9,650,923.39	\$ 284,271.14	\$ 87,713,253.47

NOTE 7 - 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	\$ 435,869.74
Accrued Payroll	1,567,036.69
Contract Retainage	<u>134,964.06</u>
Total Current Accounts Payable and Accrued Liabilities	<u><u>\$ 2,137,870.49</u></u>

NOTE 8 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Capital Leases Payable	\$ 20,269,549.76	\$ 0.00	\$ 806,877.39	\$ 19,462,672.37	\$ 865,206.59
Net Pension Liability	1,675,976.00	3,647,293.00		5,323,269.00	
Compensated Absences	<u>1,431,805.10</u>	<u>769,651.31</u>	<u>886,675.77</u>	<u>1,314,780.64</u>	<u>243,891.79</u>
Total Long-Term Liabilities	<u><u>\$ 23,377,330.86</u></u>	<u><u>\$ 4,416,944.31</u></u>	<u><u>\$ 1,693,553.16</u></u>	<u><u>\$ 26,100,722.01</u></u>	<u><u>\$ 1,109,098.38</u></u>

Additional information regarding capital lease obligations is included in Note 9.
Additional Information regarding the net pension liability is included in Note 12.

NOTE 9 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to the North Carolina Research Campus (NCRC) building are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 2,200,184.76
2018	2,200,184.76
2019	2,200,184.76
2020	2,200,184.76
2021	2,200,184.76
2022-2026	11,000,923.80
2027-2030	<u>8,434,041.58</u>
Total Minimum Lease Payments	30,435,889.18
Amount Representing Interest (7% Rate of Interest)	<u>10,973,216.81</u>
Present Value of Future Lease Payments	<u><u>\$ 19,462,672.37</u></u>

The NCRC building and land acquired in fiscal year 2010 under a capital lease amounted to \$26,786,729.97 at June 30, 2016. The capital lease payments are supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease expense while searching for alternative funding.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$2,002,546.51 at June 30, 2016.

B. Operating Lease Obligations - The College entered into operating leases for equipment and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 292,940.64
2018	249,876.60
Total Minimum Lease Payments	\$ 542,817.24

Rental expense for all operating leases during the year was \$302,077.63.

NOTE 10 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees, Net	\$ 9,567,059.46	\$ 0.00	\$ 5,551,594.60	\$ 49,803.91	\$ 3,965,660.95
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	\$ 636,894.64	\$ 0.00	\$ 0.00	\$ 0.00	\$ 636,894.64
Vending Commissions	28,520.95				28,520.95
Copy Center	34,939.29	34,939.29			
Other	22,292.72				22,292.72
Sales and Services of Education and Related Activities	119,054.37				119,054.37
Total Sales and Services, Net	\$ 841,701.97	\$ 34,939.29	\$ 0.00	\$ 0.00	\$ 806,762.68

NOTE 11 - 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	\$ 20,156,074.60	\$ 1,040,643.17	\$ 1,714,407.94	\$ 0.00	\$ 166,470.57	\$ 0.00	\$ 23,077,596.28
Academic Support	4,454,917.55	365,556.57	364,916.45				5,185,390.57
Student Services	3,913,244.29	68,465.40	600,178.25				4,581,887.94
Institutional Support	4,460,357.74	1,817,644.47	1,727,350.01				8,005,352.22
Operations and Maintenance of Plant	1,324,945.47	337,402.65	1,662,661.30		726,004.15		4,051,013.57
Student Financial Aid				6,639,422.84			6,639,422.84
Auxiliary Enterprises		24,891.23	268,648.87				293,540.10
Depreciation						1,534,761.22	1,534,761.22
Total Operating Expenses	\$ 34,309,539.65	\$ 3,654,603.49	\$ 6,338,162.82	\$ 6,639,422.84	\$ 892,474.72	\$ 1,534,761.22	\$ 53,368,964.74

NOTE 12 - 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 \$1,907,261.24, and employee contributions were \$1,250,663.11 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 \$5,323,269.00 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 0.14445%, which was an increase of 0.0015 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 (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 16,021,569.00	\$ 5,323,269.00	\$ (3,755,473.00)

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 \$628,940.24. 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	\$ 605,256.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		576,731.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	307,274.76	
Contributions Subsequent to the Measurement Date	1,907,261.24	
Total	\$ 2,214,536.00	\$ 1,181,987.00

The amount of \$1,907,261.24 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	\$ (594,394.00)
2018	(594,394.00)
2019	(585,102.00)
2020	899,178.00
Total	\$ (874,712.00)

NOTE 13 - 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 5.40%, 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 \$1,167,285.57, \$1,494,406.39, and \$1,081,434.34, 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 \$85,461.98, \$121,766.45, and \$88,116.87, 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 14 - 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.

During the fiscal year ended June 30, 1995, the College Board of Trustees voted to establish a self-insured reserve fund by transferring \$125,000.00 from the Construction Fund. These funds are to be used for liability claims against the College, which are not covered by insurance. The reserve fund had a balance of \$72,120.88 at June 30, 2016.

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. Losses from county and institutional fund paid employees are covered 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 15 - 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 \$851,124.45 at June 30, 2016.

NOTE 16 - 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. 79, Certain External Investment Pools and Pool Participants

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.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.14445%	0.14295%	0.13940%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 5,323,269.00	\$ 1,675,976.00	\$ 8,463,000.00
Covered-Employee Payroll	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09
Net Pension Liability as a Percentage of Covered-Employee Payroll	25.20%	8.37%	41.68%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

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

Exhibit C-2

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$ 1,907,261.24	\$ 1,932,978.77	\$ 1,740,308.22	\$ 1,691,361.36	\$ 1,427,744.42
Contributions in Relation to the Contractually Determined Contribution	<u>1,907,261.24</u>	<u>1,932,978.77</u>	<u>1,740,308.22</u>	<u>1,691,361.36</u>	<u>1,427,744.42</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	\$ 20,844,385.10	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09	\$ 19,190,113.20
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	\$ 871,827.66	\$ 581,978.14	\$ 586,367.46	\$ 519,658.59	\$ 428,522.76
Contributions in Relation to the Contractually Determined Contribution	<u>871,827.66</u>	<u>581,978.14</u>	<u>586,367.46</u>	<u>519,658.59</u>	<u>428,522.76</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	\$ 17,684,130.95	\$ 16,301,908.56	\$ 17,451,412.48	\$ 17,037,986.60	\$ 16,109,878.37
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Rowan-Cabarrus 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>	<u>2006</u>		
1.00%	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.

*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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<http://www.ncauditor.net>

**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
Rowan-Cabarrus Community College
Salisbury, 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 Rowan-Cabarrus Community College (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, 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 30, 2017. Our report includes a reference to other auditors who audited the financial statements of Rowan-Cabarrus Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Rowan-Cabarrus 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 Rowan-Cabarrus 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 30, 2017

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State of North Carolina
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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

