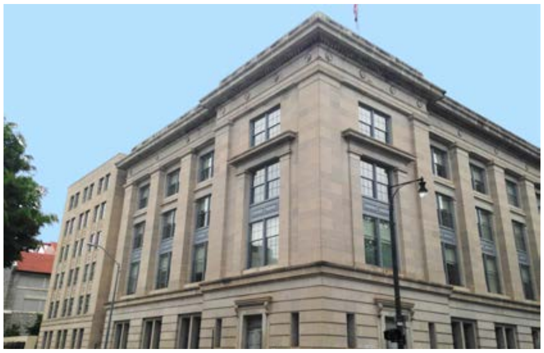
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



Beaufort County Community College

Washington, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2017

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Beaufort County Community College

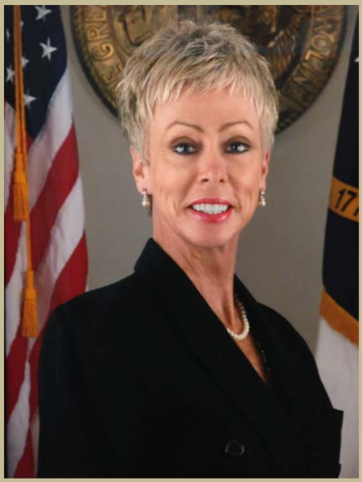
We have completed a financial statement audit of Beaufort County Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Findings, Recommendations, and Responses section of this report. The College's response is included following the finding.

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.

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 and any organization that receives public funding. 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

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Beaufort County Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We 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.

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

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

Opinion

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort County Community College, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 16, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Beaufort County Community College is one of the 58 community colleges in the North Carolina Community College System. The College's service area includes Beaufort, Hyde, Tyrrell, and parts of Washington Counties. The College offers both curriculum and continuing education classes.

This section of Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2017. This section should be read in conjunction with the College's basic financial statements and the related notes.

Basic Financial Statements

The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. The financial statements are accompanied by Notes to the Financial Statements that explain some of the information in the financial statements and provide more detail.

Statement of Net Position: The Statement of Net Position presents a fiscal snapshot of the College as of June 30, 2017, and includes all assets, liabilities, deferred outflows, and deferred inflows of the College. The focus of the Statement of Net Position is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portions to give the users of these statements insight into the financial position of the College.

Statement of Revenues, Expenses, and Changes in Net Position: The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the net position changed during the year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Revenues and expenses are presented in a classified format to distinguish between operating and non-operating revenues and expenses.

Statement of Cash Flows: The Statement of Cash Flows provides detail on the cash activity for the year. The College uses the direct method to present cash flows.

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

Condensed Financial Statements and Financial Analysis

This segment of the Management Discussion and Analysis gives information about the basic financial statements. Charts are utilized to provide further clarification.

Analysis of the Statement of Net Position

Condensed Statement of Net Position
(in thousands)

Assets	2017	2016 (As Restated)	Variance
Current Assets	$ 1,721	$ 1,844	$ (123)
Capital Assets, Net	19,095	19,255	(160)
Other Assets	2,849	3,153	(304)
Total Assets	23,665	24,252	(587)
Deferred Outflows	3,416	797	2,619
Liabilities			
Current Liabilities	761	686	75
Long-Term Liabilities	5,244	2,197	3,047
Other Non-Current Liabilities	18	25	(7)
Total Liabilities	6,023	2,908	3,115
Deferred Inflows	238	414	(176)
Net Position			
Invested in Capital Assets	19,095	19,255	(160)
Restricted	2,739	2,965	(226)
Unrestricted	(1,014)	(493)	(521)
Total Net Position	$ 20,820	$ 21,727	$ (907)

Current assets decreased $123 thousand due to several factors including a continued decline in enrollment. Curriculum head count dropped from 2,113 in 2016 to 2,011 in 2017. Additionally, the College had an increase in accounts receivable due to the College returning book inventory to book publisher because the College stopped selling books from its bookstore and contracted with a 3rd party vendor during 2017. The increase in accounts receivable was offset by the decrease in the College's inventory.

Capital assets decreased by $160 thousand and are discussed in the Analysis of Capital Assets section below.

Other assets decreased $304 thousand. This decrease was primarily due to a decrease in noncurrent cash of $640 thousand that was used to purchase machinery and equipment during the year. The decrease was offset by investment increases of $335 thousand largely attributable to the positive performance of the College's investment portfolio.

Deferred outflows related to pensions increased $2.6 million. The increase in deferred outflows for pensions is due to differences in the expected and actual investment earnings of the Teachers' and State Employees' Retirement System (TSERS) pension plan and changes in assumptions about demographics and economic factors. For additional information on deferred outflows related to pensions, refer to Note 11 of the Notes to the Financial Statements.

Total liabilities increased $3.1 million from the prior year. This increase in the net pension liability of $3.09 million was the primary reason for the increase and is the result of differences in the expected and actual earnings in the TSERS pension plan and lower than anticipated investment earnings generated from the pension plan.

Deferred inflows related to pensions decreased by $176 thousand and is the result of the higher pension liability related to the difference between projected and actual investment earnings.

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

Analysis of Operating Revenues
(in thousands)

	2017	2016	Variance
Operating Revenues			
Student Tuition and Fees, Net	$ 989	$ 1,020	$ (31)
Sales and Services, Net	495	551	(56)
Other		22	(22)
Total Operating Revenues	$ 1,484	$ 1,593	$ (109)

Total operating revenue showed a decrease of $109 thousand. The decrease in student population is the primary reason for the $32 thousand decrease to student tuition and fees. The $56 thousand decrease in sales and services is the result of decreases in student population and the school outsourcing its book sales during the spring semester.

Analysis of Operating Expenses
(in thousands)

	2017	2016 (As Restated)	Variance
Operating Expenses			
Salaries and Benefits	$ 11,908	$ 11,795	$ 113
Supplies and Materials	2,099	2,425	(326)
Services	1,483	1,407	76
Scholarships and Fellowships	1,388	1,449	(61)
Other	1,240	1,246	(6)
Total Operating Expenses	$ 18,118	$ 18,322	$ (204)

Operating expenses decreased by approximately $204 thousand from fiscal year 2016.

Salaries and benefits increased $113 thousand due to a state approved 1.5% bonus for all employees and a 1.5% non-recurring reserve compensation for all employees. The College also incurred increases in health insurance cost and retirement contribution rates.

Supplies and materials decreased primarily has a result of contracting with a 3rd party to sell books to students. By contracting out book sales, the College did not have to purchase books to resale to students during the spring semester.

Scholarships and Fellowships decreased by $61 thousand during the year related to a decrease in enrollment and awarded Foundation scholarships.

Other expenses decreased by $6 thousand. Utilities decreased $64 thousand due to the installation of computer controls to regulate conditions. Depreciation increased by $58 thousand as a result of capital asset additions during the year.

Analysis of Nonoperating Revenues and Expenses
(in thousands)

	2017	2016 (As Restated)	Variance
Nonoperating Revenues and Expenses			
State Aid	$ 9,359	$ 9,641	$ (282)
County Appropriations	2,464	2,373	91
State Capital Aid	613	669	(56)
County Capital Appropriations	49	640	(591)
Grants and Contracts	2,890	4,008	(1,118)
Additions to Endowments	44	29	15
Other	308	264	44
Total Nonoperating Revenues and Expenses	$ 15,727	$ 17,624	$ (1,897)

Nonoperating revenues decreased by $1.9 million from the prior year. State Aid decreased $282 thousand due to decreases in enrollment over the last few years. Noncapital grants - student financial aid decreased $600 thousand also as a result of the decline in enrollment. The $489 thousand decrease in other noncapital grants was the result of grants including the Kate B. Reynolds IM FITT Trail, Duke Energy, and Golden Leaf being completed in 2016. County capital appropriations decreased $591 thousand and capital gifts decreased $174 thousand in 2017 as a result of no major capital projects being projected for the year. The College also had a $140 thousand increase in the loss on disposal of assets this year. These decreases were offset by a $91 thousand increase in county appropriations due to increased personnel cost, as well as, increases in investment income of $395 thousand due to the College's investment portfolio and good market conditions.

Analysis of Change in Net Position
(in thousands)

	2017	2016 (As Restated)	Variance
Revenues			
Operating Revenues	$ 1,484	$ 1,593	$ (109)
Nonoperating Revenues	15,866	17,624	(1,758)
Total Revenues	17,350	19,217	(1,867)
Total Expenses	18,257	18,322	(65)
Increase (Decrease) in Net Position	(907)	895	(1,802)
Net Position, July 1	21,727	20,832	895
Net Position, June 30	$ 20,820	$ 21,727	$ (907)

Analysis of Capital Assets, Net

	Capital Assets (in thousands) 2017	2016	Variance
Capital Assets, Net			
Land	$ 574.00	$ 574.00	$ 0.00
Buildings	14,562.00	15,026.00	(464.00)
Machinery and Equipment	3,068.00	2,850.00	218.00
General Infrastructure	891.00	805.00	86.00
Total Capital Assets, Net	$ 19,095.00	$ 19,255.00	$ (160.00)

Capital Assets decreased by $160 thousand during fiscal year 2017. During the year the College added $743 thousand to machinery and equipment and included items for the welding, automotive, and Basic Law Enforcement Training departments. The College also had an increase in general infrastructure of $120 thousand for the construction of a digital sign. These increases in capital assets were offset by depreciation expenses totaling $875 thousand and the net disposal of assets of $147 thousand.

Analysis of the Overall Financial Position

Beaufort County Community College is well positioned to meet the needs of its growing community. The College strives to maintain a strong financial base and will continue to be an asset to its service area for many years.

Future Financial Influences

The College's financial position continues to be affected by various funding issues. Beaufort County continues to provide financial support for the College. The overall County budget provided to the College for next fiscal year increased by $284 thousand when compared to last year's appropriations. The increase is mainly in capital projects. However, the current operations budget did increase by $50 thousand from last fiscal year, which includes a cost of living increase for employees and additional funding to make improvements to the fire and burglar alarm systems. Beaufort County is experiencing decreasing tax revenues and increased operating costs. The County did designate $168 thousand of the capital funding to replace and upgrade HVAC systems across campus. However, these funds were financed at the County level as part of an overall plan to renovate several county properties.

The College is the beginning stages of executing the $6.5 million dollar NC Connect Bond funds to construct a future Emergency Services Training Complex. The complex will provide the College with the ability to not only better serve students in our service area but also surrounding local and state agencies including law enforcement, fire departments, and emergency medical services. The facility will also provide the opportunity to earn additional FTE in truck driving and institutional funds in motorcycle training.

There is a small probability that state funding will increase in the next fiscal year. The State's fiscal situation and a decline in community college enrollment across the State continues to provide some uncertainty for the amount of State funding to be received by the College. Generally, as the economy improves curriculum enrollment declines while at the same time continuing education enrollment increases.

The College continues to develop and refine strategies to increase enrollment by retrofitting our high school recruitment programs and restructuring the marketing programs to better connect with the target audiences in the service area. Continuing education has potential for FTE growth due to a robust engagement effort within all four counties and the renewal of the prison programs. The state authorization to earn curriculum FTE during the summer semesters will enhance the revenue potential associated with curriculum enrollment.

The College's service area is the largest in the State and includes Beaufort, Hyde, Tyrrell, and Washington Counties. Unemployment rates in this mostly rural area continue to affect enrollment. Based on North Carolina Department of Commerce's August 2017 statistics, the North Carolina unemployment rate is 4.1%, as compared to the national average of 4.4%, both adjusted for seasonal employment. While unemployment numbers in the College's service area have shown a steady decline over the past year, they are still above the State and national averages. Statistics show Beaufort County is the lowest at 4.7% and Hyde County the highest at 6.2%. Washington and Tyrrell are currently at 6.0% and 5.7% respectfully. Based on the continued downward unemployment trends, enrollment projections in the College's service area over the next few years indicate a possible flat to slight decrease in curriculum and a continued gradual growth in continuing education.

Transportation and access to training facilities in these rural areas are an inhibitor to obtaining an education at a reasonable cost. To provide better opportunities for potential students, the College in conjunction with the separate county governments have established training centers in Hyde and Washington Counties. The College is working with Tyrrell County to open a new center in the near future. In addition, the College is collaborating with Washington County to open an early college high school which will provide students more opportunities to a better education and more affordable education. The College continues to expand online course offerings, which can potentially increase the market share in the assigned service area, and areas where the College traditionally could not expand. Providing both local training facilities and online course not only helps students in these rural areas but also provides potential FTE growth for the College.

Grants provide a major opportunity for the College to seek alternate funding for many different projects not provided for in the County or State funding streams. The outlook for grants in the next fiscal year is promising. The College has already secured several grants is currently working on a number of others. These grants will provide additional equipment and upgraded facilities to better serve business and industry needs by providing a work force ready to meet the challenges of today's global economy. Some of the grants include: a Minority Male Mentoring Grant; a Federal Skills Grant; a Beaufort Area Manufacturing Grant; and Student Support Services. The college will also be receiving funds from Glaxo Smith Kline's Ribbon of Hope; MDC; the Duke Energy Foundation; and the National Science Foundation for various programs throughout the College. The efforts in obtaining grants helps support requests from local communities and industry to provide a quality workforce which has the potential to increase economic development engagements in the service area.

Community colleges continue to be an affordable option for local communities. Both students and local industry have access to quality education and training at reasonable costs. Continued emphases on operating cost reduction and targeted marketing while providing for local industry needs will stabilize enrollment in the College over the next several years.

Contacting the College's Financial Management

Our financial statements are designed to provide the citizens of North Carolina with a general overview of the College's finances and show accountability of all funds received. If you have any questions or need additional financial information, please contact Beaufort County Community College at (252) 940-6264.

FINANCIAL STATEMENTS

Beaufort County Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2017 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	754,277.09
Restricted Cash and Cash Equivalents		413,115.10
Receivables, Net (Note 5)		333,130.49
Inventories		220,803.13
Total Current Assets		1,721,325.81
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		181,683.26
Restricted Due from Primary Government		106,398.77
Endowment Investments		1,956,021.67
Restricted Investments		406,446.72
Other Investments		197,977.07
Capital Assets - Nondepreciable (Note 6)		573,899.72
Capital Assets - Depreciable, Net (Note 6)		18,521,657.16
Total Noncurrent Assets		21,944,084.37
Total Assets		23,665,410.18
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		3,416,185.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		636,911.00
Unearned Revenue		22,978.31
Long-Term Liabilities - Current Portion (Note 8)		101,142.13
Total Current Liabilities		761,031.44
Noncurrent Liabilities:		
Funds Held for Others		18,065.60
Long-Term Liabilities (Note 8)		5,244,009.76
Total Noncurrent Liabilities		5,262,075.36
Total Liabilities		6,023,106.80
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		238,073.00

Beaufort County Community College
Statement of Net Position
June 30, 2017

NET POSITION	
Investment in Capital Assets	19,095,556.88
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,025,610.81
Expendable:	
Scholarships and Fellowships	247,304.73
Loans	1,574.23
Restricted for Specific Programs	427,681.01
Other	36,724.59
Unrestricted	(1,014,036.87)
Total Net Position	$ 20,820,415.38

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

Beaufort County Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 988,567.35
Sales and Services, Net (Note 9)	495,117.26
Other Operating Revenues	563.37
Total Operating Revenues	1,484,247.98
EXPENSES	
Operating Expenses:	
Salaries and Benefits	11,907,514.24
Supplies and Materials	2,098,928.49
Services	1,482,778.30
Scholarships and Fellowships	1,387,540.04
Utilities	367,191.91
Depreciation	874,512.41
Total Operating Expenses	18,118,465.39
Operating Loss	(16,634,217.41)
NONOPERATING REVENUES (EXPENSES)	
State Aid	9,358,672.80
County Appropriations	2,464,126.00
Noncapital Grants - Student Financial Aid	2,197,841.98
Noncapital Grants	433,824.14
Noncapital Gifts	110,807.52
Investment Income (Net of Investment Expense of $11,878.67)	336,923.64
Other Nonoperating Expenses	(139,014.77)
Net Nonoperating Revenues	14,763,181.31
Loss Before Other Revenues	(1,871,036.10)
State Capital Aid	612,805.76
County Capital Aid	49,000.00
Capital Grants	257,881.10
Capital Gifts, Net	25.00
Additions to Endowments	44,000.00
Decrease in Net Position	(907,324.24)
NET POSITION	
Net Position, July 1, 2016 as Restated (Note 16)	21,727,739.62
Net Position, June 30, 2017	$ 20,820,415.38

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

Beaufort County Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2017 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,293,023.99
Payments to Employees and Fringe Benefits	(11,551,205.28)
Payments to Vendors and Suppliers	(3,834,402.37)
Payments for Scholarships and Fellowships	(1,387,540.04)
Other Receipts	900.06
Net Cash Used by Operating Activities	(15,479,223.64)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	9,358,672.80
County Appropriations	2,464,126.00
Noncapital Grants - Student Financial Aid	2,197,841.98
Noncapital Grants	433,824.14
Noncapital Gifts	110,807.52
Additions to Endowments	44,000.00
Cash Provided by Noncapital Financing Activities	14,609,272.44
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	612,805.76
County Capital Aid	49,000.00
Capital Grants	257,881.10
Capital Gifts	25.00
Acquisition of Capital Assets	(862,523.54)
Net Cash Provided by Capital and Related Financing Activities	57,188.32
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	403,495.96
Investment Income	98,779.92
Purchase of Investments and Related Fees	(510,360.16)
Net Cash Used by Investing Activities	(8,084.28)
Net Decrease in Cash and Cash Equivalents	(820,847.16)
Cash and Cash Equivalents, July 1, 2016	2,169,922.61
Cash and Cash Equivalents, June 30, 2017	$ 1,349,075.45

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(16,634,217.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		874,512.41
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(152,650.49)
Inventories		112,760.32
Deferred Outflows for Pensions		(2,618,501.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		107,812.21
Unearned Revenue		(19,723.70)
Net Pension Liability		3,094,300.00
Funds Held for Others		(7,177.74)
Deferred Inflows for Pensions		(175,838.00)
Compensated Absences		(60,500.24)
Net Cash Used by Operating Activities	$	(15,479,223.64)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	754,277.09
Restricted Cash and Cash Equivalents		413,115.10
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		181,683.26
Total Cash and Cash Equivalents - June 30, 2017	$	1,349,075.45

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	239,845.38
Loss on Disposal of Capital Assets		(147,092.57)

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. Beaufort County Community College (College) is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, Beaufort County Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a board consisting of three ex officio directors and 23 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Beaufort County Community College Board of Trustees and the Foundation's sole purpose is to benefit Beaufort County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the Beaufort County Community College Accounting Office, 5337 Highway 264 East, Washington, NC 27889, or by calling 252-940-6264.

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

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market 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 change in the value of investments is recognized as a component of investment income.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory 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:

Asset Class	Estimated Useful Life
Buildings	15-50 years
Machinery and Equipment	5-25 years
General Infrastructure	10-50 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 and compensated absences payable 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 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources 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 January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

L. **Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - **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 of resources and deferred inflows of resources.

N. **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.

O. 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.

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, 2017 was $1,500.00. The carrying amount of the College's deposits not with the State Treasurer was $509,524.33, and the bank balance was $509,524.33.

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, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. **Investments** - 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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $838,051.12, 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 1.6 years as of June 30, 2017. 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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.

All investments are held by the College's blended component unit, Beaufort County Community College Foundation, Inc. and 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.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2017, for the Foundation's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3,* as the risk a government may face should interest rate variances affect the value of investments. The Foundation's investment policy recommends that the investment committee avoid bunching the maturity dates of its investments. Additionally, the policy sets defined limit amounts for the types of investments to be held.

Investments

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Mutual Bond Funds	$ 313,744.66	$ 0.00	$ 101,276.78	$ 108,492.90	$ 103,974.98
Money Market Funds	3,456.97	3,456.97			
Total Debt Securities	317,201.63	$ 3,456.97	$ 101,276.78	$ 108,492.90	$ 103,974.98
Other Securities					
Mutual Funds	2,238,758.83				
Domestic Stocks	4,485.00				
Total Investments	$ 2,560,445.46				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy lists authorized investment categories and defines quantity and limit amounts. The policy sates that mutual fund shares must be registered with the SEC and its investments must be restricted to those that conform to regulations. As of June 30, 2017, the Foundation's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Mututal Bond Fund	$ 313,744.66	$ 179,524.69	$ 13,083.15	$ 36,143.38	$ 49,665.78	$ 31,405.84	$ 3,921.81
Money Market Funds	3,456.97	3,456.97					
Total	$ 317,201.63	$ 182,981.66	$ 13,083.15	$ 36,143.38	$ 49,665.78	$ 31,405.84	$ 3,921.81

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2017, is as follows:

Cash on Hand	$ 1,500.00
Carrying Amount of Deposits with Private Financial Institutions	509,524.33
Investments in the Short-Term Investment Fund	838,051.12
Other Investments	2,560,445.46
Total Deposits and Investments	$ 3,909,520.91
Deposits	
Current:	
Cash and Cash Equivalents	$ 754,277.09
Restricted Cash and Cash Equivalents	413,115.10
Noncurrent:	
Restricted Cash and Cash Equivalents	181,683.26
Total Deposits	1,349,075.45
Investments	
Noncurrent:	
Endowment Investments	1,956,021.67
Restricted Investments	406,446.72
Other Investments	197,977.07
Total Investments	2,560,445.46
Total Deposits and Investments	$ 3,909,520.91

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2017. 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.

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Mutual Bond Funds	$ 313,744.66	$ 313,744.66	$ 0.00	$ 0.00
Money Market Mutual Funds	3,456.97	3,456.97		
Total Debt Securities	317,201.63	317,201.63		
Other Securities				
Short-Term Investment Fund	838,051.12		838,051.12	
Equity Mutual Funds	2,238,758.83	2,238,758.83		
Domestic Stocks	4,485.00	4,485.00		
Total Investments Measured at Fair Value	$ 3,398,496.58	$ 2,560,445.46	$ 838,051.12	$ 0.00

Short-Term Investment Fund - 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.

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. 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 investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to 80 % of the prior year interest earnings unless donor has stipulated otherwise. At June 30, 2017, net appreciation of $172,038.32 was available to be spent, all of which was classified in restricted net position as expendable for scholarship and fellowships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 236,611.09	$ 158,676.05	$ 77,935.04
Student Sponsors	33,196.22	16,965.70	16,230.52
Accounts	238,964.93		238,964.93
Total Current Receivables	$ 508,772.24	$ 175,641.75	$ 333,130.49

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 573,899.72	$ 0.00	$ 0.00	$ 573,899.72
Total Capital Assets, Nondepreciable	573,899.72			573,899.72
Capital Assets, Depreciable:				
Buildings	23,052,501.29			23,052,501.29
Machinery and Equipment	5,502,982.18	743,023.54	537,332.40	5,708,673.32
General Infrastructure	1,386,577.93	119,500.00		1,506,077.93
Total Capital Assets, Depreciable	29,942,061.40	862,523.54	537,332.40	30,267,252.54
Less Accumulated Depreciation for:				
Buildings	8,027,036.38	462,941.16		8,489,977.54
Machinery and Equipment	2,652,582.55	378,710.17	390,239.83	2,641,052.89
General Infrastructure	581,703.87	32,861.08		614,564.95
Total Accumulated Depreciation	11,261,322.80	874,512.41	390,239.83	11,745,595.38
Total Capital Assets, Depreciable, Net	18,680,738.60	(11,988.87)	147,092.57	18,521,657.16
Capital Assets, Net	$ 19,254,638.32	$ (11,988.87)	$ 147,092.57	$ 19,095,556.88

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 69,968.80
Accrued Payroll	566,942.20
Total Current Accounts Payable and Accrued Liabilities	$ 636,911.00

NOTE 8 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 1,831,175.00	$ 3,094,300.00	$ 0.00	$ 4,925,475.00	$ 0.00
Compensated Absences	480,177.13	409,316.04	469,816.28	419,676.89	101,142.13
Total Long-Term Liabilities	$ 2,311,352.13	$ 3,503,616.04	$ 469,816.28	$ 5,345,151.89	$ 101,142.13

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

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 1,810,635.35	$ 772,312.12	$ 49,755.88	$ 988,567.35
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 669,478.37	$ 171,407.35	$ 37,788.89	$ 460,282.13
Other	19,331.13			19,331.13
Sales and Services of Education and Related Activities	15,504.00			15,504.00
Total Sales and Services, Net	$ 704,313.50	$ 171,407.35	$ 37,788.89	$ 495,117.26

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 5,391,925.99	$ 701,190.50	$ 257,217.94	$ 0.00	$ 0.00	$ 0.00	$ 6,350,334.43
Public Service		1,229.91	1,831.23				3,061.14
Academic Support	1,334,287.91	135,637.75	158,508.89				1,628,434.55
Student Services	1,229,557.25	44,502.97	99,250.81				1,373,311.03
Institutional Support	2,870,306.45	141,513.59	517,969.24				3,529,789.28
Operations and Maintenance of Plant	990,449.55	499,375.60	398,355.74		367,191.91		2,255,372.80
Student Financial Aid		30,000.00	1,944.07	1,387,540.04			1,419,484.11
Auxiliary Enterprises	90,987.09	545,478.17	47,700.38				684,165.64
Depreciation						874,512.41	874,512.41
Total Operating Expenses	$ 11,907,514.24	$ 2,098,928.49	$ 1,482,778.30	$ 1,387,540.04	$ 367,191.91	$ 874,512.41	$ 18,118,465.39

NOTE 11 - PENSION PLANS

Defined Benefit Plan

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

LEAs and charter schools that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $428,586.33, and the College's contributions were $712,882.00 for the year ended June 30, 2017.

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 2016 *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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $4,925,475.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was .05359%, which was an increase of .00240 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 9,263,865.90	$ 4,925,475.00	$ 1,277,487.17

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,023,615.00. At June 30, 2017, 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	$ 232,785.00
Changes of Assumptions	726,388.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,756,582.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	220,333.00	5,288.00
Contributions Subsequent to the Measurement Date	712,882.00	
Total	$ 3,416,185.00	$ 238,073.00

The amount of $712,882.00 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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
2018	$ 454,350.00
2019	454,337.00
2020	998,381.00
2021	558,162.00
Total	$ 2,465,230.00

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $415,014.43, $422,097.09, and $413,352.62, 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $27,143.80, $30,903.54, and $30,869.69, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile Losses

There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible. Employee dishonesty and computer fraud losses for employees are paid from county funds. These funds 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.

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

The College purchased malpractice insurance for students in medical related fields. Coverage is provided at $1,000,000 per occurrence up to $5,000,000 annual aggregate.

NOTE 14 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2017, is presented as follows:

Condensed Statement of Net Position
June 30, 2017

	BCCC	BCCC Foundation, Inc	Eliminations	Total
ASSETS				
Current Assets	$ 1,909,097.21	$ (187,771.40)	$ 0.00	$ 1,721,325.81
Capital Assets	19,095,556.88			19,095,556.88
Other Noncurrent Assets	218,492.89	2,630,034.60		2,848,527.49
Total Assets	21,223,146.98	2,442,263.20		23,665,410.18
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,416,185.00			3,416,185.00
LIABILITIES				
Current Liabilities	761,031.44			761,031.44
Long-Term Liabilities	5,244,009.76			5,244,009.76
Other Noncurrent Liabilities	18,065.60			18,065.60
Total Liabilities	6,023,106.80			6,023,106.80
TOTAL DEFERRED INFLOWS OF RESOURCES	238,073.00			238,073.00
NET POSITION				
Investment in Capital Assets	19,095,556.88			19,095,556.88
Restricted - Nonexpendable		2,025,610.81		2,025,610.81
Restricted - Expendable	520,673.77	192,610.79		713,284.56
Unrestricted	(1,238,078.47)	224,041.60		(1,014,036.87)
Total Net Position	$ 18,378,152.18	$ 2,442,263.20	$ 0.00	$ 20,820,415.38

Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	BCCC	BCCC Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 988,567.35	$ 0.00	$ 0.00	$ 988,567.35
Sales and Services, Net	495,117.26			495,117.26
Investment Income		322,569.03	(322,569.03)	
Contributions		95,190.52	(95,190.52)	
Other Operating Revenues	563.37			563.37
Total Operating Revenues	1,484,247.98	417,759.55	(417,759.55)	1,484,247.98
OPERATING EXPENSES				
Operating Expenses	17,057,435.24	186,517.74		17,243,952.98
Depreciation	874,512.41			874,512.41
Total Operating Expenses	17,931,947.65	186,517.74		18,118,465.39
Operating Income (Loss)	(16,447,699.67)	231,241.81	(417,759.55)	(16,634,217.41)
NONOPERATING REVENUES (EXPENSES)				
State Aid	9,358,672.80			9,358,672.80
County Appropriations	2,464,126.00			2,464,126.00
Noncapital Grants	2,631,666.12			2,631,666.12
Noncapital Gifts	15,617.00		95,190.52	110,807.52
Investment Income	14,354.61		322,569.03	336,923.64
Other Nonoperating Expenses	(139,014.77)			(139,014.77)
Net Nonoperating Revenues (Expenses)	14,345,421.76		417,759.55	14,763,181.31
Capital Contributions	919,711.86			919,711.86
Additions to Endowments		44,000.00		44,000.00
Increase (Decrease) in Net Position	(1,182,566.05)	275,241.81		(907,324.24)
NET POSITION				
Net Position, July 1, 2016, As Restated	19,518,466.63	2,209,272.99		21,727,739.62
Net Position, June 30, 2017	$ 18,335,900.58	$ 2,484,514.80	$ 0.00	$ 20,820,415.38

Condensed Statement of Cash Flows
June 30, 2017

	BCCC	BCCC Foundation, Inc.	Total
Net Cash Used by Operating Activities	$ (15,292,705.90)	$ (186,517.74)	$ (15,479,223.64)
Cash Provided by Noncapital Financing Activities	14,470,081.92	139,190.52	14,609,272.44
Net Cash Provided by Capital and Related Financing Activities	57,188.32		57,188.32
Net Cash Provided (Used) by Investing Activities	14,354.61	(22,438.89)	(8,084.28)
Net Increase (Decrease) in Cash and Cash Equivalents	(751,081.05)	(69,766.11)	(820,847.16)
Cash and Cash Equivalents, July 1, 2016	2,218,866.24	(48,943.63)	2,169,922.61
Cash and Cash Equivalents, June 30, 2017	$ 1,467,785.19	$ (118,709.74)	$ 1,349,075.45

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

GASB Statement No. 74 establishes new accounting and financial reporting requirements for defined benefit other post employment benefit (OPEB) plans that replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 16 - NET POSITION RESTATEMENTS

As of July 1, 2016, net position as previously reported was restated as follows:

	Amount
July 1, 2016 Net Position as Previously Reported	$ 21,861,319.72
Restatements:	
Correct Grant Revenues Overstated in Prior Year	(219,434.63)
Capitalize Assets Expensed in Prior Year	62,254.73
Correct Liability for Compensated Absences	23,599.80
July 1, 2016 Net Position as Restated	$ 21,727,739.62

REQUIRED SUPPLEMENTARY INFORMATION

Beaufort County Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit B-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.05359%	0.04969%	0.05119%	0.04920%
Proportionate Share of TSERS Collective Net Pension Liability	$ 4,925,475.00	$ 1,831,175.00	$ 600,162.31	$ 2,986,941.35
Covered Payroll	$ 7,537,448.04	$ 7,529,191.63	$ 7,496,073.77	$ 7,483,093.55
Net Pension Liability as a Percentage of Covered Payroll	65.35%	24.32%	8.01%	39.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Beaufort County Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit B-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 712,882.00	$ 689,676.50	$ 688,921.03	$ 651,408.81	$ 623,341.69
Contributions in Relation to the Contractually Determined Contribution	712,882.00	689,676.50	688,921.03	651,408.81	623,341.69
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 7,143,105.46	$ 7,537,448.04	$ 7,529,191.63	$ 7,496,073.77	$ 7,483,093.55
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 581,772.70	$ 383,285.73	$ 285,917.53	$ 264,741.88	$ 223,050.31
Contributions in Relation to the Contractually Determined Contribution	581,772.70	383,285.73	285,917.53	264,741.88	223,050.31
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 7,819,525.51	$ 7,774,558.41	$ 8,008,894.49	$ 7,879,222.51	$ 7,313,124.96
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

Beaufort County 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:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR’S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Beaufort County Community College
Washington, 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 Beaufort County Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 16, 2018.

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Finding, Recommendation, and Response section, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the finding in the accompanying Findings, Recommendations, and Responses section to be a material weakness.

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.*

College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying Finding, Recommendation, and Response section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 16, 2018

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS

The financial statements and related notes prepared by the College and submitted for audit contained significant misstatements that were identified and corrected as a result of our audit as follows:

A. The College's fiscal year 2017 beginning balances were incorrect. As a result, the following misstatements were identified and corrected:

Account	Overstated / (Understated)	Percentage *
Restricted Cash and Cash Equivalents	119,825.62	29%
Services	119,500.00	8%
Funds Held for Others	68,841.00	381%
Accounts Receivable - Students	7,091.22	9%

* Percentage of the overstatement to the final audited account balance

B. The College's year-end accrual entries were not prepared or not prepared correctly and the following adjustments were made to correct them:

- Numerous audit adjustments were made to ensure proper classification of cash, investments, accounts receivable and net position.
- Numerous audit adjustments were made to either correct or record accrual entries to accounts payable and accrued payroll.

Account	Overstated / (Understated)	Percentage *
Cash and Cash Equivalents	474,350.97	63%
Restricted Cash and Cash Equivalents - Current	(292,667.71)	71%
Restricted Cash and Cash Equivalents - Noncurrent	(181,683.26)	100%
Short-Term Investments	197,977.07	100%
Restricted Short-Term Investments	406,446.72	100%
Endowment Investments	(1,956,021.67)	100%
Restricted Investments	1,549,574.95	381%
Other Investments	(197,977.07)	100%
Accounts Receivable - Students	255,195.45	327%
Accounts Receivable - Student Sponsors	(16,230.52)	100%
Accounts Receivable - Accounts	(238,964.93)	100%
Restricted Expendable - Scholarship and Fellowship	(76,840.64)	4%
Restricted Expendable - Capital Projects	(246,225.21)	100%
Restricted Expendable - Specific Projects	(427,681.01)	100%
Restricted Expendable - Other	317,889.69	866%
Unrestricted	432,857.17	43%
Accounts Payable	66,326.68	95%
Accrued Payroll	471,483.14	83%
Salaries and Benefits	471,483.14	4%
Supplies and Materials	18,547.47	1%
Services	12,009.07	1%
Utilities	35,770.14	10%

* Percentage of the overstatement to the final audited account balance

Additional entries were made to correctly record additions and disposals of capital assets, additions to endowments and in the process to blend[1] activity of the component unit. The auditors also corrected the statement of cash flows, the management's discussion and analysis and a majority of the notes to the financial statements.

Without these error corrections and inclusions of all required statements and disclosures, users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance, and operating results.

The omissions and errors in financial reporting occurred and were not detected and corrected by the College management, in part because:

- College management did not ensure that staff responsible for the preparation of the financial statements possessed the necessary knowledge and training.

[1] See Note 1 Significant Accounting Policies in the College's Notes to the Financial Statements

- College management did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Recommendation:

College management should ensure that appropriate and adequate resources are provided to ensure:

- Staff are adequately trained to perform year-end financial reporting, and

- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting.

Beaufort County Community College
5337 US Hwy 264 East Washington, NC 27889

February 16, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Dear Ms. Wood:

Please accept this letter as Beaufort County Community College's official response to the financial audit performed by the Office of the State Auditor for fiscal year 2016-17.

OSA Finding

Financial Statements Contained Significant Misstatements

The financial statements and related notes prepared by the College and submitted for audit contained significant misstatements that were identified and corrected as a result of our audit.

OSA Recommendations

College Management should ensure that appropriate and adequate resources are provided to ensure:

- Staff are adequately trained to perform year-end financial reporting, and
- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and through review of the financial statements and related information to ensure accurate and complete year-end reporting.

Agency Response

Beaufort County Community College agrees with the findings and recommendations of the audit of the financial statements contained in the State Auditor's report. The institution takes very seriously the Governmental Accounting Standards Board (GASB) reporting standards and will take all necessary actions to ensure future reports are in compliance with the GASB standards.

To address the finding of the report, the institution will develop and implement plans which will include the following corrective actions:

1. Develop a training plan for the Controller and other Business Office personnel to ensure adequate skills are obtained which will permit the accurate development of the year-end financial reports.
2. Develop a workflow with timelines and deadlines for major actions required in the development of the year-end reports and financial statements.

Mr. Mark Nelson, Vice President of Administrative Services, will oversee the development and implementation of the individual training plan and workflow for the year-end reports and financial statements. The corrective action plans will be completed by June 30, 2018.

Beaufort County Community College regrets any failure to ensure proper staff training and year-end plan development. The College will work diligently to address and remedy these identified failures in our processes.

Sincerely,

David R. Loope, Ed.D.
President
Beaufort County Community College

ORDERING INFORMATION

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 527 hours at an approximate cost of $54,281.