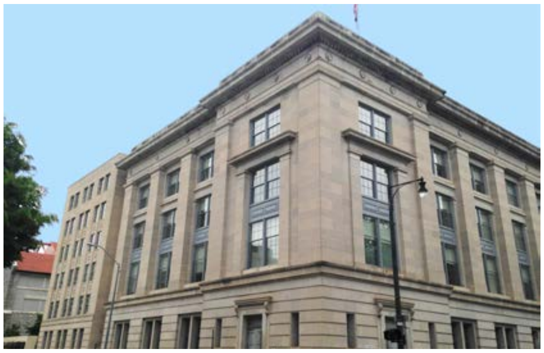
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



Cape Fear Community College

Wilmington, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 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

2 S. Salisbury Street
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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, Cape Fear Community College

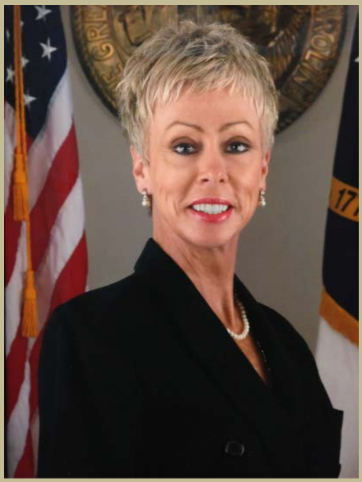
We have completed a financial statement audit of Cape Fear Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cape Fear Community College
Wilmington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Cape Fear Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Cape Fear Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Cape Fear Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Cape Fear Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cape Fear Community College, and its discretely presented component unit, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 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 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Cape Fear Community College (College) is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2017, with comparative data for fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

Using the Annual Financial Report

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

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The increase or decrease in net position is an indicator of the improvement or erosion of the College's financial condition.

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

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

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

Financial Highlights

The largest single source of funding for the College is aid from the State of North Carolina. The amount received is driven largely by full-time equivalent (FTE) students, so maintaining enrollment is critical to the budget. The total number of students who attended curriculum and continuing education classes (an unduplicated headcount) decreased 1.6% to 23,265 compared to a 2.1% decrease last year.

The College's total state budget allocation for the year was $53,930,227. The College exercised prudence in its fiscal management and spent $51,891,968 of the State's allocation during the year.

In addition to the funding received from the State, the College received $10,864,634 from New Hanover County and $381,186 from Pender County for operations and maintenance of buildings. The College received $17,427,645 in county bond revenue from New Hanover County for construction and $407,000 from Pender County for construction.

Financial Analysis

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (total assets plus deferred outflows of resources minus total liabilities and deferred inflows of resources) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2017. The College's total net position increased $15,784,650 as illustrated below.

Condensed Statement of Net Position For Year Ended June 30, as Indicated	2017	2016 (as restated)	Change	% Change
Assets				
Current Assets	$ 19,940,356	$ 17,828,894	$ 2,111,462	11.8%
Noncurrent Assets	67,251	67,464	(213)	-0.3%
Capital Assets, Net	250,572,819	237,467,423	13,105,396	5.5%
Total Assets	270,580,426	255,363,781	15,216,645	6.0%
Deferred Outflows of Resources	13,713,042	3,204,392	10,508,650	327.9%
Liabilities				
Current Liabilities	5,842,582	6,799,623	(957,041)	-14.1%
Long-Term Liabilities	21,005,018	9,260,163	11,744,855	126.8%
Total Liabilities	26,847,600	16,059,786	10,787,814	67.2%
Deferred Inflows of Resources	1,123,424	1,970,593	(847,169)	-43.0%
Net Position				
Net Investment in Capital Assets	249,068,295	236,643,653	12,424,642	5.3%
Restricted	4,574,157	3,562,526	1,011,631	28.4%
Unrestricted	2,679,992	331,614	2,348,378	708.2%
Total Net Position	$ 256,322,444	$ 240,537,794	$ 15,784,650	6.6%

Current assets increased $2.1 million (11.8%) due to increases in fees and unfilled county positions. Capital assets, net increased $13.1 million (5.5%) due to increase in construction in progress with the new Advanced & Emerging Technologies Center (AETC) being 98.0% complete at year-end.

Deferred outflows of resources are up $10.5 million (327.9%). The College's retirement system, Teachers' and State Employees' Retirement System (TSERS), is an employer cost sharing plan (pooled pension plan) and each employer must report its pro rata share of the TSERS's net pension liability. Therefore, the performance of TSERS as a whole will have a huge impact on the College's share of the liability. TSERS's earnings went down sharply while benefit payments continued to rise. That, coupled with a $1.7 billion change in assumptions made by the State in calculating the pension liability, resulted in an increased net pension liability for the College.

Noncurrent liabilities increased by $11.7 million (126.8%), which was attributable to the change of the College's proportionate share of the collective net pension liability for TSERS as explained in the previous paragraph.

The College's net position increased $15.8 million (6.6%) during fiscal year 2017, mainly due to progress made on the AETC mentioned previously.

Statement of Revenues, Expenses, and Changes in Net Position

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

The Statement of Revenues, Expenses and Changes in Net Position reflects a healthy increase in net position of $15,784,650 from prior year. Some highlights of the changes are as follows:

- Operating revenue increased $1.5 million (9.0%). Student tuition and fees, net increased $718 thousand due to a decrease in scholarship discounts as a result of fewer students qualifying for financial aid. Further driving the change in operating revenue is the increased sales and services revenue earned by the Fine Arts Theater ($1.2 million), partially offset by a decrease in bookstore revenues of approximately $500 thousand. The decrease in bookstore revenues is also attributable to fewer students receiving financial aid coupled with decreased enrollment.
- Operating expenses went up $3.4 million (4.3%). Salaries and benefits make up $3.2 million of that because of the $3.1 million increase in pension expense due to the increase in pension liability as described earlier. Scholarships were down $720 thousand because fewer students qualified for Federal Pell Grants. This decrease was offset by increases in utilities and depreciation from adding the Fine Arts Theatre last year.
- Net nonoperating revenues remained flat. The increase in county appropriations of $488 thousand and state aid of $1.4 million was offset by the decrease in noncapital grants and gifts of $1.8 million mostly due to reduction in Federal Pell Grants.
- Other revenues decreased substantially by $3.3 million (14.2%). With the AETC construction project nearing completion there was a decrease in county capital aid of $1.4 million received. Because there were no capital campaigns for construction this year, capital gifts were down $2.4 million (95.1%).
- The ending net position balance for fiscal year 2016 was restated by ($503,925) Prior year depreciation expense was understated by $534,147 and operating expenses were overstated by $30,222.

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

	2017	2016	Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 11,393,984	$ 10,675,616	$ 718,368	6.7 %
Sales and Services, Net	6,250,785	5,444,486	806,299	14.8 %
Other Operating Revenues	269,648	312,084	(42,436)	(13.6) %
Total Operating Revenues	17,914,417	16,432,186	1,482,231	9.0 %
Operating Expenses:				
Salaries and Benefits	50,909,918	47,687,503	3,222,415	6.8 %
Supplies and Materials	9,865,633	9,724,209	141,424	1.5 %
Services	8,638,036	8,599,460	38,576	0.4 %
Scholarships and Fellowships	7,036,677	7,756,637	(719,960)	(9.3) %
Utilities	2,484,436	2,255,285	229,151	10.2 %
Depreciation	4,840,474	4,322,223	518,251	12.0 %
Total Operating Expenses	83,775,174	80,345,317	3,429,857	4.3 %
Operating Loss	(65,860,757)	(63,913,131)	(1,947,626)	3.0 %
Nonoperating Revenues (Expenses):				
State Aid	33,828,257	32,436,982	1,391,274	4.3 %
County Appropriations	11,245,820	10,757,616	488,204	4.5 %
Noncapital Grants and Gifts	16,254,302	18,033,764	(1,779,462)	(9.9) %
Investment Income	71,491	35,697	35,795	100.3 %
Other Nonoperating Revenues (Expenses)	(64,495)	18,614	(83,109)	(446.5) %
Net Nonoperating Revenues	61,335,375	61,282,673	52,702	0.1 %
Other Revenues:				
State Capital Aid	2,178,944	1,620,575	558,369	34.5 %
County Capital Aid	17,834,645	19,271,103	(1,436,458)	(7.5) %
Capital Grants	172,676	239,377	(66,701)	(27.9) %
Capital Gifts	123,767	2,528,300	(2,404,533)	(95.1) %
Total Other Revenues	20,310,032	23,659,355	(3,349,323)	(14.2) %
Increase in Net Position	15,784,650	21,028,897	$ (5,244,247)	(24.9) %
Net Position- Beginning of Year	240,537,794	220,012,822		
Restatement		(503,925)		
Net Position - End of Year	$ 256,322,444	$ 240,537,794		
Reconciliation of Change in Net Position				
Total Revenues	$ 99,624,319	$ 101,374,214	$ (1,749,895)	(1.7) %
Less: Total Expenses	83,839,669	80,345,317	3,494,352	4.3 %
Increase in Net Position	$ 15,784,650	$ 21,028,897	$ (5,244,247)	(24.9) %

Capital Assets

On June 30, 2017, the College's capital assets, net of accumulated depreciation of $51,242,680, totaled $250,572,819.

For the Year Ended June 30, as Indicated Net of Depreciation	2017	2016 (as restated)	Change	% Change
Land and Permanent Easements	$ 17,469,878	$ 17,469,878	$ 0	0 %
Construction in Progress	25,228,780	18,651,792	6,576,988	35.26 %
Buildings, Net	191,282,935	184,841,350	6,441,585	3.48 %
Machinery and Equipment, Net	10,237,313	9,934,217	303,096	3.05 %
General Infrastructure, Net	6,353,913	6,570,186	(216,273)	(3.29) %
Total Capital Assets, Net of Depreciation	$ 250,572,819	$ 237,467,423	$ 13,105,396	5.52 %

In November 2008, voters in New Hanover County approved a $168 million bond referendum which enabled the College to expand its footprint by over one million square feet in both downtown Wilmington and at North Campus in northern New Hanover County. In addition, the College constructed a facility in Surf City, North Carolina at a cost of $2.9 million, which included funding from Pender County, the town of Surf City, and the College. Each capital facility project added or improved instructional, student support and administrative spaces to meet the education, training, and service needs of students. The following illustrates the capital projects initiated, completed, or substantially completed in fiscal year 2016-17:

- Construction on the AETC that began in September 2015 is nearing completion. The center is three buildings consisting of a 75,000 square foot technology building, a 32,000 square foot space for the diesel and heavy equipment program, and an 18,000 square foot building for a new veterinary tech program. The total contracted cost of construction is $37.4 million with a scheduled completion date of July 2017. The Heavy Equipment and Transportation Technology (HEATT) building that houses the diesel and heavy equipment program was completed in April 2017 and represents $10 million of the total project.
- Design development is completed on a $4.3 million renovation of the existing gymnasium, the Schwartz Center, which will be the final project substantially funded by the 2008 County Bond. This project is on track for the bulk of construction to be complete in fiscal year 2017-18.
- North Carolina voters approved a $2 billion bond referendum (Connect NC Bond) in March of 2016. The higher education portion of the Connect NC Bond will allocate $350 million for community colleges and is focused on buildings and facilities at the various campuses. The College has been approved to receive $5,908,685 in capital improvement funds under the Connect NC Bond. The College is using these funds on an array of renovations for several small and medium sized existing buildings. Programs receiving renovations include automotive tech training, auto body tech training, marine tech, physical education, and many academic programs. Design of these projects started in fiscal year 2016-17.

Economic Forecast

The College continues to increase curriculum and continuing education (non-credit) classes at the Alston W. Burke Campus in Surf City, North Carolina and the new Advanced and Emerging Technologies Center (AETC). The AETC will allow the College to expand current job training programs that are in high demand and provide additional space for new job training programs. It will also provide space for customized industry training to help businesses become more efficient and competitive. AETC houses the new veterinary technology program, one of only five offered in the state. The effects of these course offerings will not be realized until the 2017-18 fiscal year.

The College has strengthened its emphasis on student retention, progression, and completion with a new strategic Quality Enhancement Plan which began in the fall of 2016. It will focus heavily on first-year experience to improve student engagement and success. The effects of these new student-focused services should result in increased FTE.

The College predicts a continuing trend of downward growth over the course of academic year 2017-18. We do believe that with the addition of our new AETC, we will be able to expand our program offerings which should boost enrollment in the upcoming years.

FINANCIAL STATEMENTS

Cape Fear Community College
Statement of Net Position
June 30, 2017

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 13,481,497.27
Restricted Cash and Cash Equivalents	3,781,892.83
Receivables, Net (Note 4)	1,534,925.22
Inventories	829,167.07
Prepaid Items	312,873.36
Total Current Assets	19,940,355.75
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	67,250.90
Capital Assets - Nondepreciable (Note 5)	42,698,657.62
Capital Assets - Depreciable, Net (Note 5)	207,874,161.79
Total Noncurrent Assets	250,640,070.31
Total Assets	270,580,426.06
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	13,713,042.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	3,797,269.50
Unearned Revenue	1,754,933.30
Funds Held for Others	25,662.41
Long-Term Liabilities - Current Portion (Note 7)	264,716.76
Total Current Liabilities	5,842,581.97
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	21,005,018.43
Total Liabilities	26,847,600.40
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,123,424.00

NET POSITION	
Net Investment in Capital Assets	249,068,295.36
Restricted for:	
Expendable:	
Scholarships and Fellowships	12,275.41
Capital Projects	3,624,419.21
Restricted for Specific Programs	92,353.44
Other	845,108.38
Unrestricted	2,679,991.86
Total Net Position	$ 256,322,443.66

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

Cape Fear Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	11,393,984.23
Sales and Services, Net (Note 9)		6,250,784.26
Other Operating Revenues		269,648.02
Total Operating Revenues		17,914,416.51
EXPENSES		
Operating Expenses:		
Salaries and Benefits		50,909,918.26
Supplies and Materials		9,865,632.73
Services		8,638,035.64
Scholarships and Fellowships		7,036,677.01
Utilities		2,484,436.07
Depreciation		4,840,473.89
Total Operating Expenses		83,775,173.60
Operating Loss		(65,860,757.09)
NONOPERATING REVENUES (EXPENSES)		
State Aid		33,828,256.78
County Appropriations		11,245,820.00
Noncapital Grants - Student Financial Aid		15,041,524.85
Noncapital Grants		519,923.32
Noncapital Gifts		692,854.12
Investment Income		71,491.33
Other Nonoperating Expenses		(64,495.48)
Net Nonoperating Revenues		61,335,374.92
Loss Before Other Revenues		(4,525,382.17)
State Capital Aid		2,178,944.23
County Capital Aid		17,834,644.97
Capital Grants		172,676.33
Capital Gifts		123,766.40
Increase in Net Position		15,784,649.76
NET POSITION		
Net Position, July 1, 2016 as Restated (Note 16)		240,537,793.90
Net Position, June 30, 2017	$	256,322,443.66

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

Cape Fear Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 18,276,272.66
Payments to Employees and Fringe Benefits	(50,462,956.06)
Payments to Vendors and Suppliers	(20,390,155.76)
Payments for Scholarships and Fellowships	(7,036,677.01)
Other Receipts	17,963.98
Net Cash Used by Operating Activities	(59,595,552.19)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	33,828,256.78
County Appropriations	11,245,820.00
Noncapital Grants - Student Financial Aid	15,016,518.46
Noncapital Grants	519,923.32
Noncapital Gifts	692,854.12
William D. Ford Direct Lending Receipts	9,068,557.00
William D. Ford Direct Lending Disbursements	(9,068,557.00)
Net Cash Provided by Noncapital Financing Activities	61,303,372.68
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,178,944.23
County Capital Aid	19,086,173.78
Capital Grants	169,997.53
Capital Gifts	123,766.40
Acquisition and Construction of Capital Assets	(19,368,561.03)
Principal Paid on Capital Debt	(67,333.33)
Net Cash Provided by Capital and Related Financing Activities	2,122,987.58
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	71,491.33
Net Increase in Cash and Cash Equivalents	3,902,299.40
Cash and Cash Equivalents, July 1, 2016	13,428,341.60
Cash and Cash Equivalents, June 30, 2017	$ 17,330,641.00

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(65,860,757.09)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		4,840,473.89
Nonoperating Other Income		59,766.08
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		21,241.20
Inventories		387,907.78
Prepaid Items		127,836.08
Deferred Outflows for Pensions		(10,508,650.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		88,417.52
Unearned Revenue		340,614.95
Net Pension Liability		12,035,177.00
Funds Held for Others		(41,802.10)
Deferred Inflows for Pensions		(847,169.00)
Compensated Absences		(238,608.50)
Net Cash Used by Operating Activities	$	(59,595,552.19)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	13,481,497.27
Restricted Cash and Cash Equivalents		3,781,892.83
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		67,250.90
Total Cash and Cash Equivalents - June 30, 2017	$	17,330,641.00

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	1,504,524.05
Loss on Disposal of Capital Assets		(124,261.56)

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

Cape Fear Community College Foundation, Inc.
Statement of Financial Position
June 30, 2017

Exhibit B-1

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and Cash Equivalents	$ 550,155	$ 1,172,035	$ 208,466	$ 1,930,656
Investments	12,120	2,082,941	6,011,532	8,106,593
Cash Surrender Value of Life Insurance		157,247		157,247
Pledges Receivable	13,553	342,797	83,647	439,997
Total Assets	$ 575,828	$ 3,755,020	$ 6,303,645	$ 10,634,493
LIABILITIES				
Accounts Payable	$ 3,341	$ 0	$ 0	$ 3,341
Total Liabilities	3,341			3,341
NET ASSETS				
Unrestricted:				
Board Designated	250,154			250,154
Undesignated	322,333			322,333
Temporarily Restricted		3,755,020		3,755,020
Permanently Restricted			6,303,645	6,303,645
Total Net Assets	572,487	3,755,020	6,303,645	10,631,152
Total Liabilities and Net Assets	$ 575,828	$ 3,755,020	$ 6,303,645	$ 10,634,493

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

Cape Fear Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2017 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:				
Contributions	$ 87,980	$ 590,039	$ 541,389	$ 1,219,408
Gifts in Kind	169,528			169,528
Donated Facilities and Support	314,967			314,967
Investment Income/(Loss)	(31,112)	267,492		236,380
Net Realized and Unrealized Gains	732	487,314		488,046
Change in Value of Life Insurance		6,391		6,391
Total Support and Revenues	542,095	1,351,236	541,389	2,434,720
Net Assets Released from Restrictions	756,783	(743,682)	(13,101)	
Total Support and Revenues and Net Assets Released from Restrictions	1,298,878	607,554	528,288	2,434,720
Expenses:				
Program Services:				
Educational Support	998,564			998,564
Supporting Services:				
Management and General	144,829			144,829
Fundraising	135,874			135,874
Total Expenses	1,279,267			1,279,267
Increase in Net Assets	19,611	607,554	528,288	1,155,453
Net Assets at Beginning of Year	552,876	3,147,466	5,775,357	9,475,699
Net Assets at End of Year	$ 572,487	$ 3,755,020	$ 6,303,645	$ 10,631,152

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. See below for further discussion of the College's component unit.

Discretely Presented Component Unit - Cape Fear Community College Foundation, Inc. (Foundation) is a legally separate, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 22 members and 4 ex-officio members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income hereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2017, the Foundation distributed $604,931 in cash and $169,528 in donated property to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Cape Fear Community College Foundation, Inc., 411 N. Front Street, Wilmington, NC 28401.

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state 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, 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

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

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

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

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

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

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 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.

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

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

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

K. **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 resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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

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

Restricted Net Position - **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.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling $25,959.00, and deposits in private financial institutions with a carrying value of $6,078,445.90 and a bank balance of $6,376,812.86.

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.

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 $11,226,236.10, 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.

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

Investment Type	Fair Value
Stocks:	
Emerging Markets	$ 464,571
Mid Cap	384,804
Small Blend	325,296
Large Blend	455,460
Mutual Funds:	
Bonds	2,354,860
Futures	436,439
Emerging Markets	193,178
World Stocks	233,666
Large Value	1,235,937
Global Real Estate	311,769
Large Growth	1,578,843
Natural Resources	131,770
Total Investments	$ 8,106,593

NOTE 3 - FAIR VALUE MEASUREMENTS

College - 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.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $11,226,236.10 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit - FASB ASC 820-10 and subsections *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

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

Level 2 Inputs to the valuation methodology include:

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

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

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth within the fair value hierarchy, for the Foundation's investments at fair value as of June 30, 2017:

	Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Cash	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Stocks:				
Emerging Markets	464,571			464,571
Mid cap	384,804			384,804
Small blend	325,296			325,296
Large blend	455,460			455,460
Mutual funds:				
Bonds	2,354,860			2,354,860
Futures	436,439			436,439
Emerging markets	193,178			193,178
World stocks	233,666			233,666
Large value	1,235,937			1,235,937
Global real estate	311,769			311,769
Large growth	1,578,843			1,578,843
Natural resources	131,770			131,770
	$ 8,106,593.00	$ 0.00	$ 0.00	$ 8,106,593.00

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 568,782.73	$ 218,953.16	$ 349,829.57
Student Sponsors	74,546.11	2,211.65	72,334.46
Accounts	81,667.07		81,667.07
Intergovernmental	961,715.32		961,715.32
Other	69,378.80		69,378.80
Total Current Receivables	$ 1,756,090.03	$ 221,164.81	$ 1,534,925.22

NOTE 5 - 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 and Permanent Easements	$ 17,469,877.74	$ 0.00	$ 0.00	$ 17,469,877.74
Construction in Progress	18,651,791.70	16,913,078.40	10,336,090.22	25,228,779.88
Total Capital Assets, Nondepreciable	36,121,669.44	16,913,078.40	10,336,090.22	42,698,657.62
Capital Assets, Depreciable:				
Buildings	221,273,670.22	10,206,276.89		231,479,947.11
Machinery and Equipment	17,060,856.28	1,169,791.89	331,255.56	17,899,392.61
General Infrastructure	9,620,426.52	117,075.32		9,737,501.84
Total Capital Assets, Depreciable	247,954,953.02	11,493,144.10	331,255.56	259,116,841.56
Less Accumulated Depreciation for:				
Buildings	36,432,320.70	3,764,690.77		40,197,011.47
Machinery and Equipment	7,126,638.90	742,434.30	206,994.00	7,662,079.20
General Infrastructure	3,050,240.28	333,348.82		3,383,589.10
Total Accumulated Depreciation	46,609,199.88	4,840,473.89	206,994.00	51,242,679.77
Total Capital Assets, Depreciable, Net	201,345,753.14	6,652,670.21	124,261.56	207,874,161.79
Capital Assets, Net	$ 237,467,422.58	$ 23,565,748.61	$ 10,460,351.78	$ 250,572,819.41

NOTE 6 - 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	$ 1,334,545.32
Accrued Payroll	1,579,946.47
Contract Retainage	705,659.52
Other	177,118.19
Total Current Accounts Payable and Accrued Liabilities	$ 3,797,269.50

NOTE 7 - 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	Additions	Reductions	Balance June 30, 2017	Current Portion
Notes Payable	$ 67,333.33	$ 0.00	$ 67,333.33	$ 0.00	$ 0.00
Net Pension Liability	7,681,427.00	12,035,177.00		19,716,604.00	
Compensated Absences	1,791,739.69	1,283,856.91	1,522,465.41	1,553,131.19	264,716.76
Total Long-Term Liabilities	$ 9,540,500.02	$ 13,319,033.91	$ 1,589,798.74	$ 21,269,735.19	$ 264,716.76

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

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for Equipment, vehicles, and a building. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 246,872.91
2019	203,892.89
2020	169,034.91
2021	85,729.81
Total Minimum Lease Payments	$ 705,530.52

Rental expense for all operating leases during the year was $299,999.49.

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	$ 17,467,277.97	$ 6,017,703.54	$ 55,590.20	$ 11,393,984.23
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Daycare	$ 469,476.01	$ 0.00	$ 0.00	$ 469,476.01
Vending	140,985.88			140,985.88
Bookstore	4,817,817.47	1,985,665.63		2,832,151.84
Parking	146,814.10			146,814.10
Fine Arts Center	2,598,269.85			2,598,269.85
Other	63,086.58			63,086.58
Total Sales and Services, Net	$ 8,236,449.89	$ 1,985,665.63	$ 0.00	$ 6,250,784.26

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	$ 30,410,746.75	$ 3,862,716.15	$ 775,189.50	$ 0.00	$ 0.00	$ 0.00	$ 35,048,652.40
Academic Support	5,447,085.92	118,712.88	136,248.91				5,702,047.71
Student Services	3,224,807.49	134,824.05	336,936.00				3,696,567.54
Institutional Support	7,410,075.36	384,846.97	2,562,451.61				10,357,373.94
Operations and Maintenance of Plant	2,947,897.27	1,052,197.78	2,271,433.49		2,484,436.07		8,755,964.61
Student Financial Aid				7,036,677.01			7,036,677.01
Auxiliary Enterprises	1,469,305.47	4,312,334.90	2,555,776.13				8,337,416.50
Depreciation						4,840,473.89	4,840,473.89
Total Operating Expenses	$ 50,909,918.26	$ 9,865,632.73	$ 8,638,035.64	$ 7,036,677.01	$ 2,484,436.07	$ 4,840,473.89	$ 83,775,173.60

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 $1,949,800.57, and the College's contributions were $3,243,168.00 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 $19,716,604.00 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 .21452%, which was an increase of .00608 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%)
$ 37,083,122.00	$ 19,716,604.00	$ 5,113,743.00

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 $3,919,385.00. 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	$ 931,834.00
Changes of Assumptions	2,907,720.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	7,031,573.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	530,581.00	191,590.00
Contributions Subsequent to the Measurement Date	3,243,168.00	
Total	$ 13,713,042.00	$ 1,123,424.00

The amount of $3,243,168.00 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	$	1,640,624.00
2019		1,645,807.00
2020		3,868,771.00
2021		2,191,248.00
Total	$	9,346,450.00

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 $1,888,056.72, $1,739,430.19, and $1,662,124.93, 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 $123,487.36, $127,351.14, and $124,129.55, 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 Insurance

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The

North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Marine Technology Program has coverage for their ocean going vessels in the amount of $1,000,000 with an additional $1,000,000 of coverage for pollution related to such vessels. The Allied Health Program has medical professional liability insurance with coverage of $1,000,000 for each incident ($2,000,000 for Pharmacy Technician students) and $5,000,000 in the aggregate. Law enforcement Legal Liability Insurance was purchased with coverage of $1,000,000 for each wrongful act. Liquor Liability coverage was added to the General Liability policy with coverage of $1,000,000. Volunteer Accident insurance was added for recorded Participating Volunteers. Coverage includes Accidental Death and Dismemberment of $2,500 and Accident Medical of $50,000.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were

$9,062,854.54 and on other purchases were $28,048.10 at June 30, 2017.

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

NOTE 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. 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. The College does have law enforcement officers who could at some point be eligible for LEOSSA. Management has reviewed their eligibility and determined that the liability is immaterial to the financial statements.

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. 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	$	241,041,719.27
Restatements:		
Overstated Operating Expense		30,222.33
Understated Depreciation Expense		(534,147.70)
July 1, 2016 Net Position as Restated	$	240,537,793.90

REQUIRED SUPPLEMENTARY INFORMATION

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

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.21452%	0.20844%	0.21530%	0.20590%
Proportionate Share of TSERS Collective Net Pension Liability	$ 19,716,604.00	$ 7,681,427.00	$ 2,524,222.00	$ 12,500,228.00
Covered Payroll	$ 31,061,253.38	$ 30,275,499.67	$ 29,508,577.44	$ 28,419,759.09
Net Pension Liability as a Percentage of Covered Payroll	63.48%	25.37%	8.55%	43.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

Exhibit C-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 3,243,168.00	$ 2,842,104.68	$ 2,770,208.22	$ 2,564,295.38	$ 2,367,365.93
Contributions in Relation to the Contractually Determined Contribution	3,243,168.00	2,842,104.68	2,770,208.22	2,564,295.38	2,367,365.93
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 32,496,676.24	$ 31,061,253.38	$ 30,275,499.67	$ 29,508,577.44	$ 28,419,759.09
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	$ 2,063,786.04	$ 1,338,734.21	$ 888,817.39	$ 820,400.94	$ 680,027.78
Contributions in Relation to the Contractually Determined Contribution	2,063,786.04	1,338,734.21	888,817.39	820,400.94	680,027.78
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 27,739,059.66	$ 27,154,852.13	$ 24,896,845.61	$ 24,416,694.63	$ 22,295,992.91
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.

Cape Fear 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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20601 Mail Service Center
Raleigh, NC 27699-0600
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Cape Fear Community College
Wilmington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cape Fear Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 19, 2018. Our report includes a reference to other auditors who audited the financial statements of the Cape Fear Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Cape Fear Community College Foundation, Inc**.,** were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Cape Fear Community College Foundation, Inc.

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 19, 2018

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For additional information contact:
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This audit required 422 hours at an approximate cost of $43,466.