

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



CRAVEN COMMUNITY COLLEGE

NEW BERN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Craven 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.

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency 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



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Craven Community College
New Bern, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Craven Community College Foundation, Inc., which represent 5.9% percent, 6.6% percent, and 2.2% percent, respectively, of the assets, net position, and revenues of the College or the financial statements of the Public Radio East and Affiliate, which represent 1.8% percent, 1.9% percent, and 4.8% percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation and Public Radio East, are based solely on the reports 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

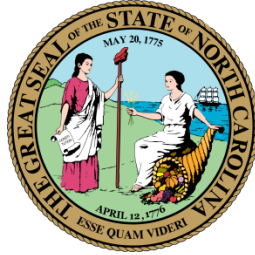
In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and 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, CPA
State Auditor

Raleigh, North Carolina

March 21, 2018



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Craven Community College (College), we offer readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the College's financial statements, which follow this narrative.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to Craven Community College's basic financial statements. The College's basic financial statements consist of three components; 1) Management's Discussion and Analysis, 2) the basic financial statements, 3) Notes to the Financial Statements, and 4) Required Supplementary Information.

Basic Financial Statements

The basic financial statements present information for Craven Community College as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position (Exhibit A-1) includes all assets and liabilities and deferred outflows and inflows of resources. Current and long-term portions of assets and liabilities are presented separately. The difference between total assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2) presents information showing how the College's net position changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (Exhibit A-3) presents information showing how the College's cash changed as a result of current year operations. The Statement of Cash Flows includes the reconciliation of operating loss to net cash used during the year.

The financial statements provide both long-term and short-term information about the College's overall financial status.

Notes to the Financial Statements and the Required Supplementary Information provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements follow the basic financial statements.

Financial Highlights

Like so many of the colleges within the system, Craven Community College experienced enrollment growth during the recent recession serving the unemployed and underemployed citizens of Craven County and surrounding areas. However, after a period of increasing enrollment, the College experienced declining enrollment but appears to be trending upward

again. Budget Full-Time Equivalent (FTE) is calculated based on the higher of the prior year's enrollment or the average of the prior two years. Effective Summer 2014, G.S. 115D-5(v) authorized colleges to earn budget FTE for Tier 1A, Tier 1B and developmental education courses during summer term. This change in the funding model meant that the curriculum budget FTE equals the average curriculum FTE enrollment of the past two years or the latest year, whichever is greater.

- Budgeted FTE for 2011-12 was 3,315, 2012-13 was 3,258, 2013-14 was 3,043, 2014-15 was 3,029, 2015-16 was 2,987, 2016-17 was 2,951 and 2017-18 is 2,994.
- The College's total state budget allocation based on enrollment was \$19,405,962.00. The initial allocation was immediately reduced by \$649,838.00 through a Management Flexibility Reduction. This reduction brought the College's net state budget down to \$18,756,124.00, which was a 1.49% increase from the prior year. The increase of \$274,711.00 stems from multiple factors. Although the College's allocation for FTE earned on curriculum base, Tier 1A and 1B increased by a total of \$119,993.00, the College did have a decrease of \$130,733.00 for Tier 2. The College also increased the allocation for FTE earned through Occupational Extension by \$177,393. Basic Skills funding saw a net decrease of \$112,756.00. Increases in the president's base and multi-campus allotments totaling \$46,595.00 were offset by a decrease in the enrollment allotment of \$4,334.00. Categorical allocations reflect a decrease of \$40,654.00. The final factor was the decrease in the management flexibility reduction of \$92,172.00.
- The College's total county budget allocation used for operations and maintenance of plant increased slightly from \$3,482,948.00 to \$3,532,948.00. The increase of \$50,000.00 was for advance planning of the proposed STEM building for our Havelock campus. The capital allocation remained steady at \$500,000.00.

The College's financial statements are prepared on an accrual basis, which means that revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. Depreciation of capital assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Position.

Condensed Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent) and liabilities (current and noncurrent), deferred outflows and inflows of resources, and net position (assets and deferred outflows of resources, less 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 data provides readers of this statement information on assets available to continue operations, amounts due to vendors and employees, and the net position available for operations by the College. The financial statements demonstrate that the financial position of the College has remained strong during the fiscal year 2017 with an overall increase in total net position.

	2017	2016	Increase (Decrease)
Assets			
Current Assets	\$ 9,726,661.56	\$ 9,158,940.53	\$ 567,721.03
Capital Assets, Net	29,927,778.85	30,702,509.18	(774,730.33)
Other Noncurrent Assets	5,474,888.47	3,748,857.34	1,726,031.13
Total Assets	45,129,328.88	43,610,307.05	1,519,021.83
Deferred Outflows	4,582,063.00	1,098,529.00	3,483,534.00
Liabilities			
Current Liabilities	1,385,233.86	1,332,374.03	52,859.83
Long-Term Liabilities	7,621,253.25	3,542,871.98	4,078,381.27
Total Liabilities	9,006,487.11	4,875,246.01	4,131,241.10
Deferred Inflows	438,535.00	699,101.00	(260,566.00)
Net Position			
Investment in Capital Assets	29,927,778.85	30,702,509.18	(774,730.33)
Restricted:			
Nonexpendable	2,104,472.93	1,909,245.34	195,227.59
Expendable	5,903,006.09	4,238,760.39	1,664,245.70
Unrestricted	2,331,111.90	2,283,974.13	47,137.77
Total Assets	\$ 40,266,369.77	\$ 39,134,489.04	\$ 1,131,880.73

Current assets include cash and cash equivalents, receivables, inventories, and notes receivable for short-term student loans. Noncurrent assets consist of cash, restricted due from primary government, investments, and capital assets. Capital assets include land, artwork, construction in progress, buildings, infrastructure, and machinery and equipment. The College's capital assets are recorded at acquisition cost, or fair market value for donations, less depreciation. A capital asset is recorded when the purchase price for an item is \$5,000.00 or more and has a useful life of more than one year.

Current liabilities include amounts due to vendors, payroll compensation, unearned revenue for summer term, the current portion of compensated absences for vacation leave due to employees, and funds held for others. Noncurrent liabilities include the long-term portion of compensated absences for vacation leave due to employees and the net pension liability.

Net Position is a measure of the value of all the College's assets less liabilities.

Notable changes in the Condensed Statement of Net Position include:

- Current assets increased by \$567,721.03 mainly due to an increase in both unrestricted and restricted cash. The increase in current cash resulted from a combination of the implementation of a new fee (student support) plus additional revenues and reduced expenses in computer use and technology fees, bookstore, and transcript and diploma fees.
- Capital assets net of depreciation decreased by \$774,730.33. See below for further discussion in the capital assets activity section.
- Other Noncurrent Assets increased by \$1,726,031.13 mainly due to the increase in restricted cash of \$831,677.54, investments of \$194,353.59 and restricted due from primary government of \$700,000.00 as a result of the projects currently underway and state capital aid received for those projects. These projects would be for the

renovation of Barker Hall's downstairs area to create a more inviting and efficient First Stop area for our students and the STEM building on our Havelock campus.

- The College experienced an increase in deferred outflows for pensions of \$3,483,534.00 and a decrease of deferred inflows for pensions of \$260,566.00. This was a result of the difference between projected and actual investment earnings and lower than anticipated investment earnings generated from the pension plan.
- Noncurrent liabilities increased by \$4,078,381.27 as a direct result of the increased pension liability of the College for the year due to lower than anticipated investment earnings generated from the pension plan, differences in the expected and actual earnings in the Teachers' and State Employees' Retirement System; and changes in actuarial assumptions.
- Net position increased during the fiscal year by \$1,131,880.73. Unrestricted funds belonging to the institution increased by \$47,137.77 as a result of increased student fees and higher commissions earned from the bookstore and vending operations. Restricted for capital projects increased \$1,531,461.03 due to an increase of state capital aid. Restricted for specific programs of the College, which are funds used by specific areas of the College such as the radio station, the cosmetology program, and instructional technology programs, also increased by \$235,783.50. These increases were offset by a decline in capital assets of \$774,730.33 due to disposal and depreciation and a decrease in other expendable of \$148,254.50.

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

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and nonoperating. The College receives the majority of its funding from appropriations, which are recorded as nonoperating revenue and results in an operating loss on the statements. Such operating loss is normal for public institutions where depreciation is recognized and presented as an operating expense.

	June 30, 2017	June 30, 2016	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	\$ 4,081,533.35	\$ 3,451,155.02	\$ 630,378.33
Sales and Services	270,439.28	310,150.45	(39,711.17)
Other Operating Revenues	170,740.22	123,326.00	47,414.22
Total Operating Revenues	4,522,712.85	3,884,631.47	638,081.38
Operating Expenses:			
Salaries and Benefits	18,572,846.06	16,734,485.50	1,838,360.56
Supplies and Materials	1,752,284.62	1,690,013.64	62,270.98
Services	3,874,409.83	3,987,337.66	(112,927.83)
Scholarships and Fellowships	3,506,701.71	3,913,423.97	(406,722.26)
Utilities	906,888.84	771,773.58	135,115.26
Depreciation	1,212,902.21	1,184,520.40	28,381.81
Total Operating Expenses	29,826,033.27	28,281,554.75	1,544,478.52
Operating Loss	(25,303,320.42)	(24,396,923.28)	(906,397.14)
Nonoperating Revenues			
State Aid	13,836,079.57	12,701,040.74	1,135,038.83
County Appropriations	3,482,948.00	3,532,948.00	(50,000.00)
Noncapital Grants	6,245,115.57	7,408,355.27	(1,163,239.70)
Other Nonoperating Revenues	1,088,755.92	643,729.43	445,026.49
Nonoperating Revenues	24,652,899.06	24,286,073.44	366,825.62
Loss Before Other Revenues	(650,421.36)	(110,849.84)	(539,571.52)
Other Revenues			
State Capital Aid	1,124,717.38	568,630.11	556,087.27
Other Capital Revenues	626,379.11	797,014.88	(170,635.77)
Additions to Endowments	31,205.60	22,883.00	8,322.60
Total Increase in Net Position	1,131,880.73	1,277,678.15	(145,797.42)
Net Position, Beginning of Year	39,134,489.04	37,856,810.89	1,277,678.15
Net Position, End of Year	\$ 40,266,369.77	\$ 39,134,489.04	\$ 1,131,880.73
Total Revenues	\$ 30,977,128.01	\$ 29,631,800.92	\$ 1,345,327.09
Total Expenses	29,845,247.28	28,354,122.77	1,491,124.51
Total Increase in Net Position	\$ 1,131,880.73	\$ 1,277,678.15	\$ (145,797.42)

Operating revenues are received for providing goods and services to various customers and constituencies of the College. Operating expenses are used to acquire or produce resources required to provide for the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided such as state and county aid, grants, and gifts.

Notable changes in the Condensed Statement of Revenues, Expenses, and Changes in Net Position include:

- Student tuition and fees increased by \$630,378.33 as a result of increased enrollment and additional fees. Sales and services experienced a decrease of \$39,711.17 due to a reduction in patron fees received of \$3,140.65, facilities rental fees of \$2,070.00, testing center fees of \$745.00 and bookstore and food service commissions totaling \$45,781.53 which was offset by higher revenues earned from transcripts of \$11,826.00. Other operating revenues increased by \$47,414.22 due primarily to an increase in other revenues generated by the public radio station of \$26,094.01 and Craven Community College Foundation (Foundation) of \$19,065.39. Overall, total operating revenues increased by \$630,081.38.

- Salaries and benefits increased by \$1,838,360.56 largely due to an increase in the proportionate share of the TSERS pension expense. The State legislature also awarded \$749,048 in salary increases for full time employees. The legislature also increased the College's share of health insurance by \$15.80 per employee per month. The College also filled 11 vacant positions during the first few months of the year.
- Scholarships and fellowships decreased by \$406,722.26 due to lower Pell financial aid revenues discussed below.
- Utilities increased by \$135,115.26 due to increased consumption during renovation projects.
- State Aid increased by \$1,135,038.83 and state capital aid increased by \$556,087.27 as the appropriation for FY16-17 saw an increase in total certification from NCCCS in the amount of \$512,767.45. The net effect of year end adjustments for refunds of payroll, expense and revenue plus federal pass through and tuition & fees was \$105,248.78. The College also had a decrease in the amount of certification returned to NCCCS at year end of \$291,320.69. The College also received funding for advanced planning for the STEM building.
- Noncapital grants decreased by \$1,163,239.70 as the College received less funding from Pell and other grants as a result of fewer students being eligible for such awards due to a recent change in federal regulations.
- Other nonoperating revenues increased by \$445,026.49 mainly due to the increase in gifts to Public Radio East and Craven Community College Foundation as well as increased investment earnings.

Capital Asset Activity

The College's capital assets decreased by \$774,730.33 during fiscal year 2016-2017. This decrease was a result of the annual depreciation expense of \$1,212,902.21 which was offset by purchases of machinery and equipment of \$280,400.22 and a \$166,217.46 increase in construction in progress during the fiscal year.

	Capital Assets (net of depreciation)		Increase (Decrease)
	2017	2016	
Land	\$ 596,500.00	\$ 596,500.00	\$ 0.00
Art	196,246.50	183,650.00	12,596.50
Construction in Progress	166,217.46		166,217.46
Buildings	21,358,052.33	22,070,941.61	(712,889.28)
Machinery and Equipment	6,227,229.11	6,428,510.44	(201,281.33)
General Infrastructure	1,383,533.45	1,422,907.13	(39,373.68)
Total	<u>\$ 29,927,778.85</u>	<u>\$ 30,702,509.18</u>	<u>\$ (774,730.33)</u>

Economic Factors and Next Year's Budget

The economy of the State of North Carolina continues to steadily gain strength as noted in the North Carolina Economic Facts document that was published on October 13, 2016. For the fiscal year 2017-2018 the College's state budget allocation is \$19,933,669.00 with

another Management Flexibility Reduction of \$742,010.00 for a net allocation of \$19,191,659.00. This is an increase of \$435,535.00. This includes \$9,318.00 in non-recurring funds for Hurricane Matthew relief.

The College is utilizing \$5,376,640.00 from the 2016 Connect NC Bond issuance to fund the renovation of the First Stop in Barker Hall and the construction of a STEM (Science, Technology, Engineering and Math) building on our Havelock campus. These facilities will enable the College to better serve our students.

For the College, it appears that our enrollment is now on an upward curve. Recent data indicates that fall 2017 is up 7.9% in FTE over fall 2016, summer 2017 was up 11.3% in FTE over summer 2016 and the College anticipates that spring 2018 will be up as well. Management continuously reviews options that they hope will help increase enrollment and meet the needs of our students and community. The re-launching the Adult Enrichment program last fiscal year has received positive feedback from our community and new programs, such as AAS Industrial Systems Technology and Mechatronics are being put forward to the Southern Association of Colleges and Schools (SACSCOC) for their review and approval. The partnership with the City of New Bern on the VOLT Center project will bring workforce development programs to an underserved population.

Craven Community College continues to explore external funding sources to enhance programs and services at the College. The College was approved for its second TRiO SSS award totaling \$1,100,000.00 (\$220,000.00 per year) that runs from 2015-2020. TRiO SSS is a five year grant which focuses on student support services. The College was also approved for a Title III Connect to Success grant totaling \$1,742,927.24 that started 10/1/2016 and runs to 9/30/2021.

Craven Community College Foundation is also committed to seeking additional funding to allow more students access to a college education. For the 2017-2018 fiscal year, the Foundation was able to secure a grant from the Harold Bate Foundation in the amount of \$100,000.00 to fund scholarships for our students. The Foundation continues to work with major donors to establish endowments and scholarships to benefit our students. The Foundation also holds events such as the Community Fabric Awards to increase community awareness of the Foundation and its mission to help students with their educational needs.

Through planning and cost controls the College will maintain its healthy financial position during fiscally challenging times with minimal impact on services, students and staff. Enrollment trends will continue to be monitored to determine the optimal mix of services offered to continue to provide expanded learning opportunities to students.

With emphases on community engagement, partnerships, and economic development, Craven Community College actively collaborates with a variety of other organizations working to achieve broad-based economic development.

Requests for Information

This report is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Cindy A. Patterson, Executive Director of Financial Services and Purchasing, Craven Community College, 800 College Court, New Bern, NC 28562. The College's website is www.cravencc.edu.



FINANCIAL STATEMENTS

Craven Community College
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,352,530.45
Restricted Cash and Cash Equivalents	2,685,724.21
Receivables, Net (Note 5)	498,746.69
Inventories	185,834.68
Notes Receivable, Net (Note 5)	3,825.53
Total Current Assets	<u>9,726,661.56</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,765,291.34
Restricted Due from Primary Government	702,897.51
Restricted Investments	2,006,699.62
Capital Assets - Nondepreciable (Note 6)	958,963.96
Capital Assets - Depreciable, Net (Note 6)	28,968,814.89
Total Noncurrent Assets	<u>35,402,667.32</u>
Total Assets	<u>45,129,328.88</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	<u>4,582,063.00</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	578,860.61
Due to State of North Carolina Component Units	5,590.66
Unearned Revenue	397,062.42
Funds Held for Others	259,830.10
Long-Term Liabilities - Current Portion (Note 8)	143,890.07
Total Current Liabilities	<u>1,385,233.86</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	<u>7,621,253.25</u>
Total Liabilities	<u>9,006,487.11</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	<u>438,535.00</u>
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Craven Community College
Statement of Net Position
June 30, 2017

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	29,927,778.85
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,104,472.93
Expendable:	
Scholarships and Fellowships	311,375.24
Loans	42,118.97
Capital Projects	3,370,415.54
Restricted for Cosmetology Program	263,525.86
Restricted for Instructional Technology Programs	1,271,953.95
Restricted for Public Radio East	316,821.36
Other	326,795.17
Unrestricted	<u>2,331,111.90</u>
Total Net Position	<u><u>\$ 40,266,369.77</u></u>

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

Craven 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)	\$ 4,081,533.35
Sales and Services (Note 9)	270,439.28
Other Operating Revenues	170,740.22
Total Operating Revenues	<u>4,522,712.85</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	18,572,846.06
Supplies and Materials	1,752,284.62
Services	3,874,409.83
Scholarships and Fellowships	3,506,701.71
Utilities	906,888.84
Depreciation	1,212,902.21
Total Operating Expenses	<u>29,826,033.27</u>
Operating Loss	<u>(25,303,320.42)</u>

NONOPERATING REVENUES (EXPENSES)

State Aid	13,836,079.57
County Appropriations	3,482,948.00
Noncapital Grants - Student Financial Aid	5,081,007.81
Noncapital Grants	1,164,107.76
Noncapital Gifts	784,726.24
Investment Income (Net of Investment Expense of \$6,510.05)	323,243.69
Other Nonoperating Expenses	(19,214.01)
Net Nonoperating Revenues	<u>24,652,899.06</u>
Loss Before Other Revenues	<u>(650,421.36)</u>

State Capital Aid	1,124,717.38
County Capital Aid	500,000.00
Capital Grants	58,006.55
Capital Gifts	68,372.56
Additions to Endowments	31,205.60
Increase in Net Position	<u>1,131,880.73</u>

NET POSITION

Net Position, July 1, 2016	<u>39,134,489.04</u>
Net Position, June 30, 2017	<u>\$ 40,266,369.77</u>

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

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,694,486.91
Payments to Employees and Fringe Benefits	(18,333,379.63)
Payments to Vendors and Suppliers	(6,471,805.80)
Payments for Scholarships and Fellowships	(3,506,701.71)
Loans Issued to Students	(2,557.59)
Other Receipts	6,734.90
	<hr/>
Net Cash Used by Operating Activities	(23,613,222.92)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,836,079.57
County Appropriations	3,482,948.00
Noncapital Grants - Student Financial Aid	5,081,906.49
Noncapital Grants	1,147,486.89
Noncapital Gifts	777,962.90
Additions to Endowments	31,205.60
	<hr/>
Cash Provided by Noncapital Financing Activities	24,357,589.45

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

State Capital Aid Received	421,819.87
County Capital Aid	500,000.00
Capital Grants	58,006.55
Acquisition and Construction of Capital Assets	(390,841.62)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	588,984.80

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	119,545.54
Investment Income	348,520.54
Purchase of Investments and Related Fees	(241,485.07)
	<hr/>
Net Cash Provided by Investing Activities	226,581.01
	<hr/>
Net Increase in Cash and Cash Equivalents	1,559,932.34
Cash and Cash Equivalents, July 1, 2016	10,243,613.66
	<hr/>
Cash and Cash Equivalents, June 30, 2017	\$ 11,803,546.00

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (25,303,320.42)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,212,902.21
Provision for Uncollectible Loans and Write-Offs	805.43
Nonoperating Other Income	1,828.29
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	106,729.18
Inventories	(18,966.84)
Prepaid Items	2,215.72
Notes Receivable, Net	(2,557.59)
Deferred Outflows for Pensions	(3,483,534.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	11,671.19
Due to State of North Carolina Component Units	1,605.03
Unearned Revenue	65,044.88
Net Pension Liability	3,917,440.00
Funds Held for Others	4,906.61
Deferred Inflows for Pensions	(260,566.00)
Compensated Absences	130,573.39
Net Cash Used by Operating Activities	<u>\$ (23,613,222.92)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 6,352,530.45
Restricted Cash and Cash Equivalents	2,685,724.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>2,765,291.34</u>
Total Cash and Cash Equivalents - June 30, 2017	<u>\$ 11,803,546.00</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 69,380.16
Change in Fair Value of Investments	(23,054.10)
Increase in Receivables Related to Nonoperating Income	724,375.44
Loss on Disposal of Capital Assets	(21,042.30)

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

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

Blended Component Units - Although legally separate, Craven Community College Foundation, Inc. (Foundation) and Public Radio East and Affiliate (Radio) are reported as if they are part of the College. The Foundation is governed by a 32-member board consisting of 3 ex officio directors and 29 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Radio is governed by a 19-member board consisting of 2 ex officio directors and 17 elected directors. The Radio's purpose is to service the education and cultural needs of Eastern North Carolina. Because the elected directors of the Foundation and the Radio are appointed by the members of the Craven Community College Board of Trustees and their sole purpose is to benefit Craven Community College, their financial statements have been blended with those of the College.

Separate financial statements for the Foundation and the Radio may be obtained from the College Controller's Office, 800 College court, New Bern, NC 28562, or by calling (252) 638-7304. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Condensed combining information regarding blended component units is provided in Note 15.

- 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.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated

capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	40-100 years
Machinery and Equipment	5-25 years
Art, Literature, and Artifacts	15-75 years

The College does not capitalize the Godwin Library collection. This collection adheres to the College's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

The Congleton Artwork collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

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

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

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

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

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

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

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

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

N. Scholarship Discounts - Student tuition and fees revenues 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 and fees, the College has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing,

capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2017 was \$1,825.00. The carrying amount of the College's deposits not with the State Treasurer was \$809,120.51, and the bank balance was \$1,114,917.33.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. **Investments** - In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

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

At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$10,992,600.49, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

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

Investments of the College's component units, the Foundation and the Radio, are subject to and restricted by G.S. 36E "Uniform Prudent

Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2017, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3*, as the risk a government may face should interest rate variances affect the value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

Investment Type	Amount
Mutual Funds	\$ 2,006,699.62

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

Cash on Hand	\$ 1,825.00
Carrying Amount of Deposits with Private Financial Institutions	809,120.51
Investments in the Short-Term Investment Fund	10,992,600.49
Other Investments	2,006,699.62
Total Deposits and Investments	\$ 13,810,245.62
Deposits	
Current:	
Cash and Cash Equivalents	\$ 6,352,530.45
Restricted Cash and Cash Equivalents	2,685,724.21
Noncurrent:	
Restricted Cash and Cash Equivalents	2,765,291.34
Total Deposits	11,803,546.00
Investments	
Noncurrent:	
Restricted Investments	2,006,699.62
Total Deposits and Investments	\$ 13,810,245.62

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest

and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

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

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Other Securities				
Short-Term Investment Fund	\$ 10,992,600.49	\$ 0.00	\$ 10,992,600.49	\$ 0.00
Mutual Funds	2,006,699.62	2,006,699.62		
Total Investments by Fair Value Level	<u>\$ 12,999,300.11</u>	<u>\$ 2,006,699.62</u>	<u>\$ 10,992,600.49</u>	<u>\$ 0.00</u>

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Equity Securities - Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested with Branch Banking & Trust Company. If a donor has not provided specific

instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. The College's endowment donor agreements prohibit spending of nonexpendable balances that are not eligible for expenditure.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending up to 6% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the income for the current year exceeds the payout, the excess is added to the principal. If current year earnings do not meet the payout requirements, the College uses accumulated from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2017, net appreciation of \$224,404.88 was available to be spent, of which \$162,521.99 was classified in net position as restricted: nonexpendable: scholarships and fellowships and \$61,882.89 was classified in net position as restricted: expendable: scholarships and fellowships as these funds are restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 348,137.18	\$ 82,875.30	\$ 265,261.88
Student Sponsors	93,580.13	2,772.47	90,807.66
Grants	6,480.97		6,480.97
Intergovernmental	19,654.27		19,654.27
Pledges	129,980.32	21,446.59	108,533.73
Other	8,008.18		8,008.18
Total Current Receivables	\$ 605,841.05	\$ 107,094.36	\$ 498,746.69
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 4,992.72	\$ 1,167.19	\$ 3,825.53

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Art	183,650.00	12,596.50		196,246.50
Construction in Progress		166,217.46		166,217.46
Total Capital Assets, Nondepreciable	780,150.00	178,813.96		958,963.96
Capital Assets, Depreciable:				
Buildings	35,073,168.27			35,073,168.27
Machinery and Equipment	10,919,195.53	280,400.22	66,332.80	11,133,262.95
General Infrastructure	2,476,928.65			2,476,928.65
Total Capital Assets, Depreciable	48,469,292.45	280,400.22	66,332.80	48,683,359.87
Less Accumulated Depreciation for:				
Buildings	13,002,226.66	712,889.28		13,715,115.94
Machinery and Equipment	4,490,685.09	460,639.25	45,290.50	4,906,033.84
General Infrastructure	1,054,021.52	39,373.68		1,093,395.20
Total Accumulated Depreciation	18,546,933.27	1,212,902.21	45,290.50	19,714,544.98
Total Capital Assets, Depreciable, Net	29,922,359.18	(932,501.99)	21,042.30	28,968,814.89
Capital Assets, Net	\$ 30,702,509.18	\$ (753,688.03)	\$ 21,042.30	\$ 29,927,778.85

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 134,140.30
Accrued Payroll	444,720.31
Total Current Accounts Payable and Accrued Liabilities	\$ 578,860.61

NOTE 8 - 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
Net Pension Liability	\$ 2,759,845.00	\$ 3,917,440.00	\$ 0.00	\$ 6,677,285.00	\$ 0.00
Compensated Absences	957,284.93	757,607.15	627,033.76	1,087,858.32	143,890.07
Total Long-Term Liabilities	\$ 3,717,129.93	\$ 4,675,047.15	\$ 627,033.76	\$ 7,765,143.32	\$ 143,890.07

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

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	\$ 6,016,467.14	\$ 1,852,058.49	\$ 82,875.30	\$ 4,081,533.35
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 152,422.48	\$ 0.00	\$ 0.00	\$ 152,422.48
Food Service	37,600.27			37,600.27
Rental Fees	6,195.00			6,195.00
Sales and Services of Education and Related Activities	74,221.53			74,221.53
Total Sales and Services	\$ 270,439.28	\$ 0.00	\$ 0.00	\$ 270,439.28

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	\$ 8,697,274.64	\$ 743,111.31	\$ 1,480,287.58	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,920,673.53
Public Service	481,578.77	34,808.26	512,473.96		48,194.88		1,077,055.87
Academic Support	1,918,810.44	21,783.64	66,470.25				2,007,064.33
Student Services	2,362,893.21	100,135.44	285,972.19				2,749,000.84
Institutional Support	3,844,787.04	718,143.01	1,354,882.17				5,917,812.22
Operations and Maintenance of Plant	1,216,107.34	133,611.97	141,455.73		858,693.96		2,349,869.00
Student Financial Aid			5,021.59	3,506,701.71			3,511,723.30
Auxiliary Enterprises	51,394.62	690.99	27,846.36				79,931.97
Depreciation						1,212,902.21	1,212,902.21
Total Operating Expenses	\$ 18,572,846.06	\$ 1,752,284.62	\$ 3,874,409.83	\$ 3,506,701.71	\$ 906,888.84	\$ 1,212,902.21	\$ 29,826,033.27

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 \$675,553.30, and the College's contributions were \$1,123,670.32 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 \$6,677,285.00 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 0.07265%, which was a decrease of 0.00224 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:

<u>Asset Class</u>	<u>Long-Term Expected</u>
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%)
\$ 12,558,683.66	\$ 6,677,285.00	\$ 1,731,835.79

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of \$1,264,348.00. 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	\$ 315,578.00
Changes of Assumptions	984,737.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,381,334.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	92,321.68	122,957.00
Contributions Subsequent to the Measurement Date	1,123,670.32	
Total	\$ 4,582,063.00	\$ 438,535.00

The amount of \$1,123,670.32 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	\$ 492,616.00
2019	510,114.00
2020	1,298,685.00
2021	718,442.68
Total	\$ 3,019,857.68

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 \$645,825.71, \$594,171.70, and \$584,714.21, 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 \$42,785.04, \$43,501.86, and \$43,667.18, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

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

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

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

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

Professional liability insurance of \$2,000,000 per claim and \$5,000,000 aggregate is provided to students participating in certain programs. Coverage is under a private insurance policy. Faculty that instruct in those programs are covered under the college's private insurance policy.

NOTE 14 - 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 \$1,006,589.32 at June 30, 2017.

NOTE 15 - BLENDED COMPONENT UNITS

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

Condensed Statement of Net Position June 30, 2017

	College	CCC Foundation	PRE and Affiliate	Eliminations	Total
ASSETS					
Current Assets	\$ 8,691,735.56	\$ 564,952	\$ 469,974	\$ 0.00	\$ 9,726,661.56
Capital Assets	29,566,214.85		361,564		29,927,778.85
Other Noncurrent Assets	3,370,415.47	2,104,473			5,474,888.47
Total Assets	41,628,365.88	2,669,425	831,538		45,129,328.88
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,582,063.00				4,582,063.00
LIABILITIES					
Current Liabilities	1,362,306.86	863	22,064		1,385,233.86
Long-Term Liabilities	7,568,606.25		52,647		7,621,253.25
Total Liabilities	8,930,913.11	863	74,711		9,006,487.11
TOTAL DEFERRED INFLOWS OF RESOURCES	438,535.00				438,535.00
NET POSITION					
Investment in Capital Assets	29,566,214.85		361,564		29,927,778.85
Restricted - Nonexpendable		2,104,473		(0.07)	2,104,472.93
Restricted - Expendable	5,295,267.02	290,916	316,823	0.07	5,903,006.09
Unrestricted	1,979,498.90	273,173	78,440		2,331,111.90
Total Net Position	\$ 36,840,980.77	\$ 2,668,562	\$ 756,827	\$ 0.00	\$ 40,266,369.77

**Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2017**

	College	CCC Foundation	PRE and Affiliate	Eliminations	Total
OPERATING REVENUES					
Student Tuition and Fees, Net	\$ 4,035,077.35	\$ 0	\$ 0	\$ 46,456.00	\$ 4,081,533.35
Sales and Services	270,439.28				270,439.28
Contributions		46,456	428,906	(475,362.00)	
Lifetime Learning Center		101,693		(101,693.00)	
Other	33,011.22	3,062	32,974	101,693.00	170,740.22
Total Operating Revenues	4,338,527.85	151,211	461,880	(428,906.00)	4,522,712.85
OPERATING EXPENSES					
Operating Expenses	26,718,571.06	397,992	1,496,568		28,613,131.06
Depreciation	1,187,134.21		25,768		1,212,902.21
Total Operating Expenses	27,905,705.27	397,992	1,522,336		29,826,033.27
Operating Loss	(23,567,177.42)	(246,781)	(1,060,456)	(428,906.00)	(25,303,320.42)
NONOPERATING REVENUES (EXPENSES)					
State Aid	13,836,079.57				13,836,079.57
County Appropriations	3,482,948.00				3,482,948.00
Noncapital Grants	5,322,217.41	100,000	393,992	428,906.16	6,245,115.57
Noncapital Gifts		174,759	609,967	0.24	784,726.24
Investment Income	95,352.69	223,888	4,003		323,243.69
Other Nonoperating Income (Expense)	(11,847.01)	(19,195)	11,828		(19,214.01)
Net Nonoperating Revenues	22,724,750.66	479,452	1,019,790	428,906.40	24,652,899.06
State Capital Aid	1,182,723.93				1,182,723.93
County Capital Aid	500,000.00				500,000.00
Capital Gifts	68,372.56				68,372.56
Additions to Endowments		31,206		(0.40)	31,205.60
Increase (Decrease) in Net Position	908,669.73	263,877	(40,666)		1,131,880.73
NET POSITION					
Net Position, July 1, 2016	35,932,311.04	2,404,685	797,493		39,134,489.04
Net Position, June 30, 2017	\$ 36,840,980.77	\$ 2,668,562	\$ 756,827	\$ 0.00	\$ 40,266,369.77

**Condensed Statement of Cash Flows
June 30, 2017**

	College	CCC Foundation	PRE and Affiliate	Total
Net Cash Used by Operating Activities	\$ (22,318,601.92)	\$ (259,379)	\$ (1,035,242)	\$ (23,613,222.92)
Cash Provided by Noncapital Financing Activities	23,053,459.45	304,189	999,941	24,357,589.45
Net Cash Provided by Capital and Related Financing Activities	588,984.80			588,984.80
Net Cash Provided by Investing Activities	192,036.01	30,542	4,003	226,581.01
Net Increase (Decrease) in Cash and Cash Equivalents	1,515,878.34	75,352	(31,298)	1,559,932.34
Cash and Cash Equivalents, July 1, 2016	9,360,184.66	484,017	399,412	10,243,613.66
Cash and Cash Equivalents, June 30, 2017	\$ 10,876,063.00	\$ 559,369	\$ 368,114	\$ 11,803,546.00

NOTE 16 - 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. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

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

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

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



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07265%	0.07489%	0.07239%	0.07590%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 6,677,285.00	\$ 2,759,845.00	\$ 848,716.00	\$ 4,607,903.00
Covered Payroll	\$ 10,610,208.84	\$ 10,610,208.84	\$ 10,460,136.59	\$ 11,077,467.99
Net Pension Liability as a Percentage of Covered Payroll	62.93%	26.01%	8.11%	41.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

Exhibit B-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	\$ 1,123,670.32	\$ 970,834.11	\$ 974,523.69	\$ 908,985.87	\$ 922,753.09
Contributions in Relation to the Contractually Determined Contribution	1,123,670.32	970,834.11	974,523.69	908,985.87	922,753.09
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 11,259,221.69	\$ 10,610,208.84	\$ 10,650,532.10	\$ 10,460,136.59	\$ 11,077,467.99
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	\$ 810,079.55	\$ 550,319.19	\$ 365,056.09	\$ 358,927.98	\$ 310,734.57
Contributions in Relation to the Contractually Determined Contribution	810,079.55	550,319.19	365,056.09	358,927.98	310,734.57
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 10,888,166.01	\$ 11,162,661.12	\$ 10,255,660.73	\$ 10,682,380.25	\$ 10,188,018.53
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.56%	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.

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Craven Community College
New Bern, 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 Craven Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 21, 2018. Our report includes a reference to other auditors who audited the financial statements of Craven Community College Foundation, Inc. and Public Radio East and Affiliates, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 21, 2018

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This audit required 284 hours at an approximate cost of \$29,252.