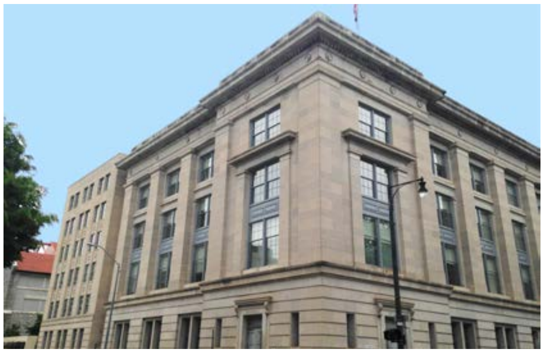
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

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

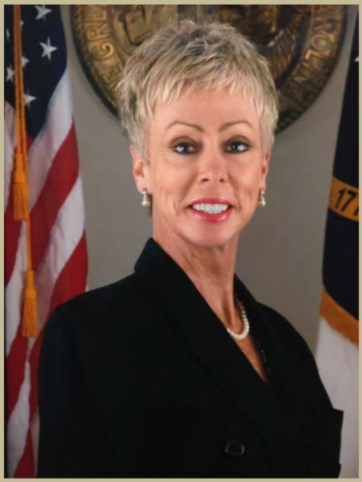
We have completed a financial statement audit of Nash Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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20601 Mail Service Center
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Nash Community College
Rocky Mount, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 19, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Nash Community College's (the College) financial statements presents Management's Discussion and Analysis (MD&A) of the College's financial activity during the fiscal years ended June 30, 2017 and June 30, 2016. This Management's Discussion and Analysis focuses on current activities, resulting changes, and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

The financial statements focus on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The Statement of Net Position is similar to bottom line results for the College, combining and consolidating current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross and the net costs of College activities, which are supported by state funds, county appropriations, and other revenues. This approach summarizes and simplifies the user's analysis of costs of various College services to students and the public. The Statement of Cash Flows provides detail on the College's cash activity for the year. The direct method is used to present cash flows. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

Financial Highlights

Statement of Net Position

The Statement of Net Position provides information regarding the College's assets, liabilities, deferred inflows and outflows of resources, and net position as of June 30, 2017.

Statement of Net Position

	2017	2016	Increase/ (Decrease)
Assets:			
Current Assets	$ 2,664,194.70	$ 2,615,309.53	$ 48,885.17
Noncurrent Assets:			
Other Noncurrent Assets	235,351.39	212,422.53	22,928.86
Capital Assets, Net	32,525,924.40	32,464,677.43	61,246.97
Total Assets	35,425,470.49	35,292,409.49	133,061.00
Deferred Outflows Related to Pensions	6,026,000.94	1,476,934.00	4,549,066.94
Liabilities:			
Current:			
Long-Term Liabilities - Current Portion	303,751.58	193,839.59	109,911.99
Other Current Liabilities	695,201.93	943,950.81	(248,748.88)
Noncurrent Liabilities:			
Long-Term Liabilities	9,867,339.70	4,728,071.94	5,139,267.76
Other Noncurrent Liabilities	195,652.25	176,102.07	19,550.18
Total Liabilities	11,061,945.46	6,041,964.41	5,019,981.05
Deferred Inflows Related to Pensions	409,491.00	737,750.00	(328,259.00)
Net Position:			
Net Investment in Capital Assets	32,511,279.60	32,328,677.93	182,601.67
Restricted	774,392.21	733,921.83	40,470.38
Unrestricted	(3,305,636.84)	(3,072,970.68)	(232,666.16)
Total Net Position	$ 29,980,034.97	$ 29,989,629.08	$ (9,594.11)

The total assets recorded by the College as of June 30, 2017 were $35.4 million. Current assets increased by $49 thousand. Restricted cash decreased by $158 thousand as grant funds were expended, specifically the Duke Critical Robotic Center Training Initiative Grant, and the Duke Computer Numerical Control (CNC) Electrical Discharge Machining (EDM) and WaterJet Training Grant. Current receivables increased by $245 thousand due to increased bookstore credits receivable ($154 thousand) and increased student accounts receivable ($89 thousand). Decreased enrollment caused the bookstore to return more unsold books for credit year over year. Student accounts receivable increased due to R2T4 (Return to Title IV) balances in the amount of $96 thousand being added back to student accounts. Inventories decreased by $37 thousand due to decreased bookstore inventory on hand. Other noncurrent assets increased by $23 thousand due to the increase in restricted cash held for the Memorial Wall to be built in front of the Continuing Education and Public Services building.

As of June 30, 2017, the College had recorded $2.4 million in nondepreciable capital assets, $46.1 million in depreciable capital assets, $15.9 million in accumulated depreciation, and $32.5 million in net capital assets. These balances resulted from construction in progress additions of $539 thousand, capital additions of $803 thousand, disposals of $56 thousand, and annual depreciation of $1.3 million. The construction in progress increase relates to the construction of the Cosmetology and Advanced Manufacturing building. The capital additions figure of $803 thousand includes machinery purchased under the Duke Critical Robotic Center Training Initiative Grant ($235 thousand) and Mission Critical Operations Grant ($217 thousand). Additional information on these grants is provided in the Additional Information section of this MD&A. Other capital additions include $40 thousand for a Fire and EMS Program vehicle shelter, and $63 thousand for equipment to outfit the new brewing classroom located at the Rocky Mount Mills.

Deferred outflows related to pensions were $6 million for the year, an increase of $4.5 million from the prior year. This increase was a result of the College's participation in the Teachers' and State Employees' Retirement System and is further detailed in Note 11 - Pension Plans.

Current liabilities decreased by $139 thousand. This decrease was caused by a $238 thousand decrease in accounts payable and accrued liabilities and a $110 thousand increase in the current portion of long-term liabilities. The accounts payable and accrued liabilities decrease is due to decreased accrued payables related to the CNC EDM and WaterJet Training Grant and the Mission Critical Operations Grant. The increase in the current portion of long-term liabilities is due to the increase in compensated absence leave payouts this year, which caused the College to recognize a larger percentage of our compensated absences liability as a current liability. The increase in long-term liabilities was caused by a $5.3 million increase in the College's pension liability. See Note 11 - Pension Plans for additional information.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position provides information regarding the College's activities for the year ending June 30, 2017.

Statement of Revenues, Expenses, and Changes in Net Position

	2017	2016	Increase/ (Decrease)
Operating Revenues and Expenses:			
Total Operating Revenues	$ 5,105,916.86	$ 5,488,066.56	$ (382,149.70)
Less Operating Expenses	31,344,131.96	30,600,857.25	743,274.71
Operating Loss	(26,238,215.10)	(25,112,790.69)	(1,125,424.41)
Nonoperating Revenues:			
State Aid	15,216,522.81	14,457,834.63	758,688.18
County Appropriations	2,000,000.00	2,000,000.00	
Noncapital Grants - Student Financial Aid	5,460,653.40	6,455,510.53	(994,857.13)
Noncapital Grants	813,333.42	1,291,081.66	(477,748.24)
Noncapital Gifts	391,429.94	331,572.99	59,856.95
Investment Income	10,734.79	10,291.36	443.43
Other Nonoperating Revenues	29,530.92	23,568.27	5,962.65
Total Nonoperating Revenues	23,922,205.28	24,569,859.44	(647,654.16)
Loss Before Other Revenues	(2,316,009.82)	(542,931.25)	(1,773,078.57)
Capital Aid, Gifts, and Grants	2,306,415.71	1,617,967.39	688,448.32
Increase (Decrease) in Net Position	(9,594.11)	1,075,036.14	(1,084,630.25)
Net Position, July 1	29,989,629.08	28,914,592.94	1,075,036.14
Net Position, June 30	$ 29,980,034.97	$ 29,989,629.08	$ (9,594.11)
Reconciliation of Change in Net Position			
Total Revenues	$ 31,334,537.85	$ 31,675,893.39	$ (341,355.54)
Less: Total Expenses	31,344,131.96	30,600,857.25	743,274.71
Increase (Decrease) in Net Position	$ (9,594.11)	$ 1,075,036.14	$ (1,084,630.25)

Operating revenues at June 30, 2017 decreased by $382 thousand, while operating expenses increased by $743 thousand. Federal grants and contracts decreased by $335 thousand, mostly related to the Mission Critical Operations Grant. Additional information on grants is provided in the Additional Information section. Total nonoperating revenues decreased by $648 thousand. Although the College had a slight decrease in enrollment year over year, additional allocations such as performance funding ($220 thousand), fringe benefit increases ($138 thousand), and compensation bonus funds ($243 thousand) led to an increase in state aid of $759 thousand. Noncapital grants related to student financial aid decreased by $995 thousand related to a reduction in Pell awards. There has been a decrease in the number of students eligible for Pell grants, as many students have reached their lifetime Pell award limit due to a recent change in federal regulations. Other students have been flagged for "unusual enrollment" which is enrollment at multiple schools, and are therefore not eligible for Pell grants. Other noncapital grants decreased by $478 thousand due to reductions in nonoperating grant revenue, specifically CNC EDM and Waterjet Training Grant ($250 thousand), and Duke Critical Robotic Center Training Initiative Grant ($250 thousand). Capital aid, gifts, and grants increased by $688 thousand due to the College receiving funding from the NC Connect Bond in the current year.

The following table charts operating revenues by source.

	2017	2016	Increase/ (Decrease)
Student Tuition and Fees, Net	$ 2,601,535.77	$ 2,703,161.85	$ (101,626.08)
Federal Grants and Contracts	750,694.35	1,086,154.37	(335,460.02)
State and Local Grants and Contracts	177,846.04	203,219.82	(25,373.78)
Sales and Services, Net	1,554,385.70	1,473,946.52	80,439.18
Other Operating Revenues	21,455.00	21,584.00	(129.00)
Total Operating Revenues	$ 5,105,916.86	$ 5,488,066.56	$ (382,149.70)

Total operating expenses for the fiscal year ended June 30, 2017 were $31.3 million, an increase of $743 thousand over the prior year. Salaries and benefits increased by $1.7 million. This increase relates to the 1.5% salary increases totaling $220 thousand, bonuses paid of $72 thousand, and $195 thousand in pay increases related to merit, retention, and changes in responsibility. In addition, pension expense increased by $1.4 million due to the increase in the net pension liability that is required to be recognized immediately. Supplies and materials decreased by $316 thousand due to reduced book purchases in the bookstore. Services decreased by $205 thousand primarily due to decreased advertising and contracted instruction expenses. In addition, services decreased $99 thousand as a result of the completion of the Institutional Technology Department remodel and install of the Network Operations Center (NOC) paid for with Mission Critical Operations Grant funds in the previous fiscal year. Additional information on grants is provided in the Additional Information section. Scholarships and fellowships decreased by $424 thousand due to reduced student financial aid expense associated with Pell grants as previously discussed.

	2017	2016	Increase/ (Decrease)
Salaries and Benefits	$ 20,391,811.34	$ 18,736,650.69	$ 1,655,160.65
Supplies and Materials	4,384,916.46	4,700,839.52	(315,923.06)
Services	2,465,191.71	2,669,947.73	(204,756.02)
Scholarships and Fellowships	2,192,719.34	2,616,766.43	(424,047.09)
Utilities	638,957.45	674,201.39	(35,243.94)
Depreciation	1,270,535.66	1,202,451.49	68,084.17
Total Operating Expenses	$ 31,344,131.96	$ 30,600,857.25	$ 743,274.71

Other Information

The full-time equivalents (FTEs) that generate the College's state budget (budget FTEs) decreased overall from 2015-2016 to 2016-2017:

	2016-2017	2015-2016	Increase/ (Decrease)
Curriculum	2,649	2,722	(73)
Occupational Extension	401	411	(10)
Basic Skills	129	149	(20)
Total FTEs	3,179	3,282	(103)

The College had a decrease of 103 in budget FTE from 2015-2016 to 2016-2017. The NC Community College System as a whole has struggled with declining enrollment. The slight improvements in the local economy is putting more people back to work, causing community college enrollment to decline.

Additional Information

On March 15, 2016, the State of North Carolina voted to issue $2 billion in general obligation bonds of the State for the purpose of providing funds to update the State's public facilities for the 21st century. Funds are to be used for the construction and furnishing of new facilities, and the repair and renovation of existing facilities, to enhance the economic development efforts of the State, and attract new and assist existing industry, business, technology, and tourism for the benefit of the State and its citizens. Nash Community College has been allotted $7.7 million of the Connect NC Bonds. Site work is complete and construction will soon begin on two new buildings to house the Advanced Manufacturing and Cosmetology instructional programs. This project is anticipated to cost $4.9 million, and the facilities are expected to be completed by the summer of 2018. The Advanced Manufacturing facility, totaling approximately 16,000 square-feet, will provide academic and training space for students enrolled in Computer-Integrated Machining, Electrical Systems Technology, Industrial Systems Technology, Welding Technology, and Electronics Engineering Technology programs. The Cosmetology building, totaling approximately 10,000 square-feet, will include instructional salon lab areas, academic classrooms, lab instructional areas for manicure and pedicure, and general program support spaces. Other bond projects approved this year are as follows – HVAC replacements ($350 thousand), Health Science and Business Technologies renovations ($354 thousand), roof replacements ($260 thousand), Fire and EMS Program vehicle shelter ($43 thousand), Brewing, Distilling, and Fermenting Classroom renovations ($49 thousand), and ADA safety compliance renovations ($28 thousand).

Nash Community College, as a member of the Mission Critical Operations consortium led by Cleveland Community College, is the recipient of a $2.5 million grant from the Department of Labor Employment Training Administration. Over $23 million was awarded to the consortium of college and university partners for the development of a Mission Critical Operations program. The grant will enhance programs such as Electric Line Construction, Emergency Management, and Networking Technology to create career pathways towards a mission critical workforce that is able to anticipate, prevent, mitigate, and respond to crisis and events of industries and municipalities.

Duke Energy also awarded the College a grant in the amount of $250 thousand for the Critical Robotic Career Training Initiative. Grant funds were used to purchase 2 Lincoln/FANUC robotic welding machines and a Haas VF2 Machining Center used in the advanced manufacturing industry. Equipment purchased with this grant will provide new and enhanced skills training for Integrated Machining, Industrial Systems Technology, and Welding Technology students.

The College received a grant from Duke Energy in the amount of $250 thousand for CNC EDM and WaterJet training. Grant funds were used to purchase a Wire EDM machine and a Maxiem Waterjet Cutting Machine. This project will add training on CNC Wire EDM and WaterJet cutting machines to the Computer-Integrated Machining, Welding, and Industrial Systems programs. Students will be trained to use precision machining and cutting processes to fill the product needs of companies in the advanced manufacturing industry.

Duke Energy awarded the College a grant in the amount of $150 thouand for Workforce Development Improvement in the utility industry. Grant funds will be used to purchase a Commercial Driver's License (CDL) driving simulator, and software and supplies necessary to develop new training resources. Equipment purchased with this grant will support enhanced skills for CDL and Electric Line Construction Technology students.

In the spring of 2015, Nash Community College became one of the first community colleges in North Carolina to launch a Brewing, Distillation, and Fermentation (BDF) Associate Degree Program. The degree program comes on the heels of the revitalization efforts of the old Rocky Mount Mills, which will provide incubator spaces for craft breweries. In February 2017, Nash Community College opened its classroom at the historic Rocky Mount Mills. The 360-degree Brewer facility features state of the art distillation and fermentation equipment in approximately 900 square-feet of instructional space. The College is collaborating with the Mill to align program offerings with local efforts. Aspiring brewers can take classes on an entrepreneurial track to learn the trade – from sourcing ingredients to purchasing equipment to marketing and packaging the beer – and others can learn the manufacturing-related tasks like stainless steel welding, plumbing, and wiring. In addition, the BDF curriculum offers value-added certificates that will enhance the already popular Culinary Arts and Hospitality Management degree programs. The BDF program continues to expand at Nash Community College as new equipment is added and community exposure to the program is increased.

Nash Community College has received approval for its Veterinary Medical Technology curriculum by the North Carolina Community College System and the Southern Association of Colleges and Schools, which is the accrediting body for the College. The Veterinary Medical Technology curriculum is designed to prepare individuals to assist veterinarians in preparing animals, equipment, and medications for examination and surgery; collecting specimens; performing laboratory, radiographic, anesthetic, and dental procedures; assisting in surgery; and providing proper husbandry of animals and their environment. Graduates may be employed in veterinary clinics, diagnostic, research or pharmaceutical laboratories, zoos, academic institutions, and other areas associated with animal care. Students may register in the fall of 2017 to take prerequisite courses and general education requirements, and the first cohort of Veterinary Medical Technology students will be enrolled in fall of 2018.

Nash Community College continues to enhance its online offerings to meet the needs of students regardless of a student's location with the "Nash Online" program. An associate in arts or associate in science degree can be obtained completely online through Nash Online. The emphasis on online delivery gives students the same quality service online as the students in face-to-face, on-campus courses. Added services such as e-learning support, login assistance, troubleshooting for instructional delivery systems, tutorials, and other instructional resources are now available to all online students. In addition, the Campus Store, Library services, tutoring, and Tutoring for Life services for alumni are also offered online. Subject Matter Experts (SME) now offer professional development training and resources to online instructors. These SME's also identify classes to offer online, and help develop and expand online course offerings. Nash Community College has also taken a focused approach to retaining and supporting online students. Nash Community College is committed to implementing engaging instructional strategies that are proven to support student success.

FINANCIAL STATEMENTS

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

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	823,916.08
Restricted Cash and Cash Equivalents		788,109.64
Short-Term Investments		11,793.68
Receivables, Net (Note 4)		645,879.55
Inventories		394,495.75
Total Current Assets		2,664,194.70
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		216,622.68
Due from Private Grantors		8,600.00
Restricted Investments		10,128.71
Capital Assets - Nondepreciable (Note 5)		2,385,120.00
Capital Assets - Depreciable, Net (Note 5)		30,140,804.40
Total Noncurrent Assets		32,761,275.79
Total Assets		35,425,470.49
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		6,026,000.94
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		547,205.65
Due to Primary Government		2,296.35
Unearned Revenue		142,418.18
Funds Held for Others		3,281.75
Long-Term Liabilities - Current Portion (Note 7)		303,751.58
Total Current Liabilities		998,953.51
Noncurrent Liabilities:		
Funds Held for Others		195,652.25
Long-Term Liabilities (Note 7)		9,867,339.70
Total Noncurrent Liabilities		10,062,991.95
Total Liabilities		11,061,945.46
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		409,491.00

NET POSITION	
Net Investment in Capital Assets	32,511,279.60
Restricted for:	
Expendable:	
Scholarships and Fellowships	278,013.43
Restricted for Specific Programs	300,313.90
Other	196,064.88
Unrestricted	(3,305,636.84)
Total Net Position	$ 29,980,034.97

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

Nash 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)	$	2,601,535.77
Federal Grants and Contracts		750,694.35
State and Local Grants and Contracts		177,846.04
Sales and Services, Net (Note 9)		1,554,385.70
Other Operating Revenues		21,455.00
Total Operating Revenues		5,105,916.86
EXPENSES		
Operating Expenses:		
Salaries and Benefits		20,391,811.34
Supplies and Materials		4,384,916.46
Services		2,465,191.71
Scholarships and Fellowships		2,192,719.34
Utilities		638,957.45
Depreciation		1,270,535.66
Total Operating Expenses		31,344,131.96
Operating Loss		(26,238,215.10)
NONOPERATING REVENUES		
State Aid		15,216,522.81
County Appropriations		2,000,000.00
Noncapital Grants - Student Financial Aid		5,460,653.40
Noncapital Grants		813,333.42
Noncapital Gifts		391,429.94
Investment Income		10,734.79
Other Nonoperating Revenues		29,530.92
Total Nonoperating Revenues		23,922,205.28
Loss Before Other Revenues		(2,316,009.82)
State Capital Aid		1,878,027.44
County Capital Aid		250,000.00
Capital Grants		159,460.92
Capital Gifts		18,927.35
Decrease in Net Position		(9,594.11)
NET POSITION		
Net Position, July 1, 2016		29,989,629.08
Net Position, June 30, 2017	$	29,980,034.97

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,842,320.37
Payments to Employees and Fringe Benefits	(20,057,586.41)
Payments to Vendors and Suppliers	(7,560,299.00)
Payments for Scholarships and Fellowships	(2,196,167.57)
Other Receipts	65,699.84
Net Cash Used by Operating Activities	(24,906,032.77)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	15,216,522.81
County Appropriations	2,000,000.00
Noncapital Grants - Student Financial Aid	5,460,653.40
Noncapital Grants	817,090.06
Noncapital Gifts	391,429.94
Total Cash Provided by Noncapital Financing Activities	23,885,696.21
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,878,027.44
County Capital Aid	250,000.00
Capital Grants	181,860.92
Capital Gifts	18,927.35
Acquisition and Construction of Capital Assets	(1,433,145.02)
Net Cash Provided by Capital and Related Financing Activities	895,670.69
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	10,734.79
Purchase of Investments and Related Fees	(92.75)
Net Cash Provided by Investing Activities	10,642.04
Net Decrease in Cash and Cash Equivalents	(114,023.83)
Cash and Cash Equivalents, July 1, 2016	1,942,672.23
Cash and Cash Equivalents, June 30, 2017	$ 1,828,648.40

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(26,238,215.10)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,270,535.66
Nonoperating Other Income		39,788.61
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(249,024.80)
Inventories		37,123.05
Deferred Outflows for Pensions		(4,549,066.94)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(146,725.85)
Due to Primary Government		740.54
Unearned Revenue		(11,658.87)
Net Pension Liability		5,341,812.00
Funds Held for Others		19,550.18
Deferred Inflows for Pensions		(328,259.00)
Compensated Absences		(92,632.25)
Net Cash Used by Operating Activities	$	(24,906,032.77)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	823,916.08
Restricted Cash and Cash Equivalents		788,109.64
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		216,622.68
Total Cash and Cash Equivalents - June 30, 2017	$	1,828,648.40

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	14,644.80
Increase in Receivables Related to Nonoperating Income		1,725.15
Loss on Disposal of Capital Assets		(10,257.69)

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

Nash Community College Foundation, Inc.
Statement of Financial Position
June 30, 2017 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash with State Treasurer	$	27,757
Cash in Private Institutions		14,744
Investments		193,949
Pledges Receivable		137,984
Total Current Assets		374,434
Endowment Assets:		
Cash and Cash Equivalents		70,989
Long-Term Investments		4,946,834
Total Endowment Investments		5,017,823
Property and Equipment:		
Software		15,725
Less: Accumulated Depreciation		(15,725)
Net Property and Equipment		0
Other Assets:		
Land Held as Investment		51,500
Total Assets	$	5,443,757
LIABILITIES		
Current Liabilities:		
Accounts Payable	$	11,833
Funds Held for Others		4,589
Total Liabilities		16,422
NET ASSETS		
Unrestricted		230,208
Temporarily Restricted		859,942
Permanently Restricted		4,337,185
Total Net Assets		5,427,335
Total Liabilities and Net Assets	$	5,443,757

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUES				
SUPPORT				
Contributions	$ 45,362	$ 141,233	$ 350,973	$ 537,568
In-Kind Contributions	173,793			173,793
Total Support	219,155	141,233	350,973	711,361
OTHER REVENUE				
Interest Income	372			372
Interest Earned on Investments	25,080	122,043		147,123
Net Gain (Loss) on Investments	12,131	313,825	(10,000)	315,956
Fundraising Income	70,310			70,310
Total Other Revenue	107,893	435,868	(10,000)	533,761
Net Assets Released from Restrictions	258,970	(258,970)		
Total Support and Other Revenue	586,018	318,131	340,973	1,245,122
EXPENSES				
Program Services:				
Contributions to Nash Community College:				
Grants	1,725			1,725
Scholarships	204,216			204,216
Program Support	88,069			88,069
Total Program Services	294,010			294,010
Supporting Services:				
Management and General	185,434			185,434
Fundraising	102,904			102,904
Total Supporting Services	288,338			288,338
Total Expenses	582,348			582,348
Change in Net Assets	3,670	318,131	340,973	662,774
Net Assets, Beginning of Year	226,538	541,811	3,996,212	4,764,561
Net Assets, End of Year	$ 230,208	$ 859,942	$ 4,337,185	$ 5,427,335

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

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The bylaws of the Foundation indicate the Board of Directors shall consist of not less than 20 and not more than 35 members. As of June 30, 2017, the Foundation board consisted of 23 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2017, the Foundation distributed $294,009.98 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from

Nash Community College Foundation, Inc., 522 North Old Carriage Road, Rocky Mount, North Carolina 27804, or by calling (252) 451-8329.

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 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** - This classification includes a mutual fund holding by the College through the North Carolina Capital Management Trust. Investments in the Trust are recorded at cost, which approximates market value. Additional information regarding the fair value measurement of investments is disclosed in Note 3.

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. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at cost using the average cost inventory method.

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

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

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

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

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

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 July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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 resources (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:

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

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

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

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

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

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

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

P. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the Bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

Q. 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 $4,097.52. The carrying amount of the College's deposits not with the State Treasurer was $838,311.14, and the bank balance was $1,081,824.83.

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

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 $986,239.74, 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.

At June 30, 2017, the College’s investment outside of the STIF consisted of $21,922.39 in the North Carolina Capital Management Trust (NCCMT), an SEC registered mutual fund. This investment is subject to the following risks:

Interest Rate Risk: 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 fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The NCCMT had an average maturity of less than one year at June 30, 2017.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2017, the NCCMT carried a credit rating of AAA by Standard & Poor’s.

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

Investment Type	Fair Value
Cash and Money Market Funds	$ 70,989
Domestic Equity Mutual Funds	2,586,821
Fixed Income Mutual Funds	2,250,389
International Equity Mutual Funds	303,573
Total Investments	$ 5,211,772

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	$ 4,097.52
Carrying Amount of Deposits with Private Financial Institutions	838,311.14
Investments in the Short-Term Investment Fund	986,239.74
Other Investments	21,922.39
Total Deposits and Investments	$ 1,850,570.79
Deposits	
Current:	
Cash and Cash Equivalents	$ 823,916.08
Restricted Cash and Cash Equivalents	788,109.64
Noncurrent:	
Restricted Cash and Cash Equivalents	216,622.68
Total Deposits	1,828,648.40
Investments	
Current:	
Short-Term Investments	11,793.68
Noncurrent:	
Restricted Investments	10,128.71
Total Investments	21,922.39
Total Deposits and Investments	$ 1,850,570.79

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Short-Term Investment Fund	$ 986,239.74	$ 0.00	$ 986,239.74	$ 0.00
Investments Measured at the Net Asset Value (NAV)				
North Carolina Capital Management Trust	21,922.39			
Total Investments Measured at Fair Value	$ 1,008,162.13			

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.

North Carolina Capital Management Trust - This fund seeks to obtain as high a level of current income as is consistent with the preservation of capital and liquidity and to maintain a constant NAV of $1.00 per share. Management of the fund normally invests at least 99.5% of the fund's total in cash, U.S.

government securities, and/or repurchase agreements that are fully collateralized.

Component Unit - In accordance with guidance on fair value measurements for financial statements measured at fair value, fair value is defined as the price that the Foundation would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The fair value guidance establishes a three-tier hierarchy to distinguish between 1) inputs that reflect the assumptions that market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reported entity (observable inputs), and 2) inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the fair value of the Foundation's financial statements. The inputs are summarized in the three broad levels listed below:

Level 1: Quoted prices (unadjusted) in active markets for identical securities and liabilities the Foundation has access to on the measurement date. The quoted prices provide the most reliable evidence, except when a significant event occurs that may affect the fair value measurement. Level 1 assets include fixed income mutual funds, equity mutual funds, and money market funds.

Level 2: Quoted prices for similar assets and liabilities in active markets; and inputs other than quoted prices that are observable, such as models or other valuation methodologies. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions. The Foundation has no Level 2 investments.

Level 3: Unobservable inputs for the valuation of the asset or liability. Level 3 assets include investments for which there is little, if any, market activity. These inputs require significant management judgement or estimation. These financial instruments have inputs that cannot be validated by readily determinable market data and generally involve considerable judgement by management. The Foundation has no Level 3 investments.

At June 30, 2017, the Foundation reported the following investment assets:

	Fair Value Measurements at June 30, 2017 Using			
	Level 1	Level 2	Level 3	Total
Cash and Money Market Funds	$ 70,989	$ 0	$ 0	$ 70,989
Domestic Equity Mutual Funds	2,586,821			2,586,821
Fixed Income Mutual Funds	2,250,389			2,250,389
International Equity Mutual funds	303,573			303,573
Total Investments at Fair Value	$ 5,211,772	$ 0	$ 0	$ 5,211,772

Professional investment advisors manage the investments with periodic review by the Foundation's management and Board of Directors. This group does not believe these investments pose unusual market or credit risks.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 394,179.41	$ 10,335.60	$ 383,843.81
Student Sponsors	58,147.82		58,147.82
Intergovernmental	1,725.15		1,725.15
Employee	4,300.04		4,300.04
Vendor	191,941.13		191,941.13
Other	5,921.60		5,921.60
Total Current Receivables	$ 656,215.15	$ 10,335.60	$ 645,879.55

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 1,845,937.70	$ 0.00	$ 0.00	$ 1,845,937.70
Construction in Progress		539,182.30		539,182.30
Total Capital Assets, Nondepreciable	1,845,937.70	539,182.30		2,385,120.00
Capital Assets, Depreciable:				
Buildings	34,294,757.22	42,963.31		34,337,720.53
Machinery and Equipment	7,876,388.60	747,794.71	55,871.41	8,568,311.90
General Infrastructure	3,153,622.12	12,100.00		3,165,722.12
Total Capital Assets, Depreciable	45,324,767.94	802,858.02	55,871.41	46,071,754.55
Less Accumulated Depreciation for:				
Buildings	10,292,635.68	815,109.62		11,107,745.30
Machinery and Equipment	2,759,867.64	399,263.51	45,613.72	3,113,517.43
General Infrastructure	1,653,524.89	56,162.53		1,709,687.42
Total Accumulated Depreciation	14,706,028.21	1,270,535.66	45,613.72	15,930,950.15
Total Capital Assets, Depreciable, Net	30,618,739.73	(467,677.64)	10,257.69	30,140,804.40
Capital Assets, Net	$ 32,464,677.43	$ 71,504.66	$ 10,257.69	$ 32,525,924.40

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

		Amount
Accounts Payable and Accrued Liabilities:		
Accounts Payable	$	238,380.40
Accrued Payroll		294,180.45
Construction Payable		14,644.80
Total Accounts Payable and Accrued Liabilities	$	547,205.65

NOTE 7 - 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	$ 3,322,575.00	$ 5,341,812.00	$ 0.00	$ 8,664,387.00	$ 0.00
Compensated Absences	1,599,336.53	1,160,107.96	1,252,740.21	1,506,704.28	303,751.58
Total Long-Term Liabilities	$ 4,921,911.53	$ 6,501,919.96	$ 1,252,740.21	$ 10,171,091.28	$ 303,751.58

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

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year		Amount
2018	$	90,621.00
2019		82,018.40
2020		80,297.88
2021		15,801.93
Total Minimum Lease Payments	$	268,739.21

Rental expense for all operating leases during the year was $96,337.62.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 5,177,645.09	$ 0.00	$ 2,580,456.17	$ 4,346.85	$ 2,601,535.77
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Food Service	$ 240,594.75	$ 0.00	$ 0.00	$ 0.00	$ 240,594.75
Vending	41,613.94				41,613.94
Bookstore	2,186,004.79	35,408.10	1,359,482.69		791,114.00
Child Development Center	321,690.37				321,690.37
Brown Auditorium	135,058.83				135,058.83
Other	8,248.31				8,248.31
Sales and Services of Education and Related Activities-Cosmetology	16,065.50				16,065.50
Total Sales and Services, Net	$ 2,949,276.49	$ 35,408.10	$ 1,359,482.69	$ 0.00	$ 1,554,385.70

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	$ 12,870,603.59	$ 995,398.77	$ 778,936.28	$ 1,204.50	$ 0.00	$ 0.00	$ 14,646,143.14
Academic Support	1,581,039.27	43,950.58	22,593.31				1,647,583.16
Student Services	1,404,983.12	89,778.81	147,614.13	37,854.79			1,680,230.85
Institutional Support	2,973,193.84	188,881.98	913,328.47	3,755.73			4,079,160.02
Operations and Maintenance of Plant	657,849.37	1,251,539.68	391,914.52		638,957.45		2,940,261.02
Student Financial Aid			937.50	2,149,904.32			2,150,841.82
Auxiliary Enterprises	904,142.15	1,815,366.64	209,867.50				2,929,376.29
Depreciation						1,270,535.66	1,270,535.66
Total Operating Expenses	$ 20,391,811.34	$ 4,384,916.46	$ 2,465,191.71	$ 2,192,719.34	$ 638,957.45	$ 1,270,535.66	$ 31,344,131.96

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 $802,464.49, and the College's contributions were $1,334,765.94 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 $8,664,387.00 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 .09427%, which was an increase of .00411 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 16,296,037.28	$ 8,664,387.00	$ 2,247,214.86

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 $1,797,949.00. 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	$ 409,491.00
Changes of Assumptions	1,277,786.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,089,998.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	323,451.00	
Contributions Subsequent to the Measurement Date	1,334,765.94	
Total	$ 6,026,000.94	$ 409,491.00

The amount of $1,334,765.94 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 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	$ 796,557.00
2019	792,512.00
2020	1,728,694.00
2021	963,981.00
Total	$ 4,281,744.00

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $776,403.62, $730,430.38, and $691,691.59, 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 $50,822.75, $53,477.94, and $51,656.38, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible. For employees paid with non-state funds, the College has acquired coverage of $100,000 per occurrence with a $500 deductible through a private insurer.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

The College supplements the State's liability coverage by acquiring additional general liability coverage up to $6,000,000 with a elf-retention of $10,000. As part of the College's insurance portfolio, professional liability coverage is provided for the Board of Trustees, faculty, and staff up to $1,000,000 with retention of $1,000. Additional coverage of $3,000,000 with a retention of $10,000 is provided via the College's excess liability policy. The College also has a cyber risk insurance policy in the amount of $1,000,000 with retention of $10,000.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $74,851.20 and on other purchases were $124,861.75 at June 30, 2017.

B. Contingent Liabilities - The College has conveyed to the U.S. Department of Commerce, Economic Development Administration (EDA) a mortgage lien on the Science & Technology Center in the amount of $1,000,000. This lien secures the EDA's investment in the building should the College no longer use the building for educational or economic development purposes. This mortgage lien shall terminate and be dismissed 20 years from September 1, 2004.

The College has been granted permission by the North Carolina Community College System Office to enter into a Security Interest Agreement with the U.S. Department of Commerce, Economic Development Administration (EDA) to secure $1,500,000 in funding to be used for the construction of the Continuing Education and Public

Services Facility. The Security Interest Agreement gives the EDA a first lien position on the building for 20 years from July 15, 2013.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

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

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

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

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.09427%	0.09016%	0.08946%	0.08270%
Proportionate Share of TSERS Collective Net Pension Liability	$ 8,664,387.00	$ 3,322,575.00	$ 1,048,848.00	$ 5,020,733.00
Covered Payroll	$ 13,043,399.73	$ 12,599,118.13	$ 12,089,880.17	$ 11,371,751.45
Net Pension Liability as a Percentage of Covered Payroll	66.43%	26.37%	8.68%	44.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

Exhibit C-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,334,765.94	$ 1,193,471.08	$ 1,152,819.31	$ 1,050,610.59	$ 947,266.90
Contributions in Relation to the Contractually Determined Contribution	1,334,765.94	1,193,471.08	1,152,819.31	1,050,610.59	947,266.90
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 13,374,408.23	$ 13,043,399.73	$ 12,599,118.13	$ 12,089,880.17	$ 11,371,751.45
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	$ 796,506.79	$ 515,642.40	$ 361,172.79	$ 345,029.82	$ 294,545.36
Contributions in Relation to the Contractually Determined Contribution	796,506.79	515,642.40	361,172.79	345,029.82	294,545.36
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,705,736.44	$ 10,459,277.83	$ 10,116,884.96	$ 10,268,744.70	$ 9,657,224.83
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

Nash 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

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

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

Board of Trustees
Nash Community College
Rocky Mount, 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 Nash Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 19, 2018. Our report includes a reference to other auditors who audited the financial statements of Nash Community College Foundation, Inc. (Foundation), as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 19, 2018

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

This audit required 346 hours at an approximate cost of $35,638.