

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2018

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Beaufort County Community College for the year ended June 30, 2018, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Beaufort County Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Beaufort County Community College Foundation, Inc., which represent 12.3 percent and 2.7 percent, respectively, of the assets and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Beaufort County Community College Foundation, Inc., is 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.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort County Community College, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2018, Beaufort County Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

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*

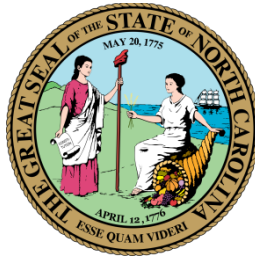
In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 19, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2018. This section should be read in conjunction with the College's basic financial statements and the related notes.

Basic Financial Statements

The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. The financial statements are accompanied by Notes to the Financial Statements that explain some of the information in the financial statements and provide more detail. The College's component unit, the Beaufort County Community College Foundation, Inc. (Foundation), is blended with the financial information of the College in the following financial statements.

Statement of Net Position: The Statement of Net Position presents a fiscal snapshot of the College as of June 30, 2018, and includes all assets, liabilities, deferred outflows, and deferred inflows of the College. The focus of the Statement of Net Position is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portions to give the users of these statements insight into the financial position of the College.

Statement of Revenues, Expenses, and Changes in Net Position: Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. Revenues and expenses are presented in a classified format to distinguish between operating and nonoperating revenues and expenses.

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

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

Condensed Financial Statements and Financial Analysis

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

Analysis of the Statement of Net Position

Condensed Statement of Net Position
(in thousands)

	2018	2017 (As Restated)	Variance
Assets			
Current Assets	\$ 1,390	\$ 1,721	\$ (331)
Capital Assets, net	18,440	19,095	(655)
Other Assets	3,337	2,878	459
Total Assets	23,167	23,694	(527)
Deferred Outflows of Resources	2,560	3,865	(1,305)
Liabilities			
Current Liabilities	798	761	37
Long-Term Liabilities	17,753	24,764	(7,011)
Total Liabilities	18,551	25,525	(6,974)
Deferred Inflows of Resources	6,299	238	6,061
Net Position			
Invested in Capital Assets	18,440	19,095	(655)
Restricted	3,323	2,795	528
Unrestricted	(20,886)	(20,094)	(792)
Total Net Position	\$ 877	\$ 1,796	\$ (919)

Current assets decreased by \$331 thousand due to the decrease in receivables due to the College closing out the bookstore and contracting out the bookstore in the current year and the return of books for a refund reduced the receivable.

Capital assets decreased by \$655 thousand and are discussed in the Analysis of Capital Assets section below.

Other assets increased by \$459 thousand. The increase was the result of an increase in investments as the College invested \$200 thousand. The College is also in the process of building a continuing education building which increased noncurrent restricted cash and cash equivalents.

Long-term liabilities decreased by \$7 million from the prior year. This decrease was primarily the result of changes related to the net pension liability and the net other postemployment benefits liability. The College implemented GASB Statement 75 in fiscal year 2018 to disclose two postemployment benefit plans. This decrease is a result of the implementation of GASB statement 75 related to Other Post-Employment Benefits (OPEB) that was required to be implemented into the financial statements during 2018.

The College's deferred outflows and deferred inflows relate to pensions and other postemployment benefits. The deferred outflows for pensions decreased \$1.3 million and the deferred outflow for other postemployment benefits decreased \$5 thousand. The deferred inflows for pensions increased \$40 thousand and the deferred inflows for other postemployment benefits increased \$6.02 million. These changes are the result of changes in pension and OPEB asset/liability assumptions and calculation inputs, such as differences between projected and actual investment earnings, and changes to the College's proportion of the assets/liabilities.

Restricted net position increased by \$528 thousand primarily due to increases in investments and noncurrent cash and cash equivalents discussed above. The change in investment in capital assets is discussed below in the Analysis of Capital Assets section. See Note 9 for discussion of changes to unrestricted net position.

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

Analysis of Operating Revenues (in thousands)			
	2018	2017	Variance
Operating Revenues			
Student Tuition and Fees, Net	\$ 907	\$ 989	\$ (82)
Sales and Services, Net	190	495	(305)
Other	1		
Total Operating Revenues	<u>\$ 1,098</u>	<u>\$ 1,484</u>	<u>\$ (387)</u>

Total operating revenue showed a decrease of \$387 thousand. A slight decrease in student population is the primary reason for the \$82 thousand decrease to student tuition and fees. The decrease of \$305 thousand in sales and services revenues is a result of the College outsourcing its book sales during the spring semester of 2017.

Analysis of Operating Expenses (in thousands)			
	2018	2017	Variance
Operating Expenses			
Salaries and Benefits	\$ 11,633	\$ 11,908	\$ (275)
Supplies and Materials	2,012	2,099	(87)
Services	1,317	1,483	(166)
Scholarships and Fellowships	1,494	1,388	106
Other	1,350	1,240	110
Total Operating Expenses	<u>\$ 17,806</u>	<u>\$ 18,118</u>	<u>\$ (312)</u>

Operating expenses decreased by \$312 thousand. Salaries and benefits expenses decreased \$275 thousand due to a reduction in full time positions. Supplies and materials and services decreased by \$87 thousand and \$166 thousand, respectively, due to a concerted effort to reduce cost by all departments. In 2018, departments were structured to resemble cost accounting units, thus every VP more closely monitored their spending habits. Other expenses increased by \$110 thousand as a result of increases to utilities of \$128 thousand because of an extremely cold winter and increased security lighting.

Analysis of Nonoperating Revenues and Expenses

	(in thousands)		
	2018	2017	Variance
Nonoperating Revenues and Expenses			
State Aid	\$ 8,806	\$ 9,359	\$ (553)
County Appropriations	2,574	2,464	110
State Capital Aid	863	613	250
County Capital Aid	224	49	175
Grants and Contracts	2,647	2,890	(243)
Additions to Endowments	64	44	20
Other	611	308	303
Total Nonoperating Revenues and Expenses	\$ 15,789	\$ 15,727	\$ 62

Nonoperating revenues and expenses increased by \$62 thousand. State aid decreased \$553 thousand due to a 216 reduction in budgeted full-time equivalents. State capital aid increased \$250 thousand due to Connect NC Bond Funds for repairs and maintenance and the beginning phases of the Emergency Services Training Complex. County capital aid increased \$175 thousand which was used to replace several HVAC systems and aging vehicles. Grants and contracts decreased \$243 thousand primarily due to a decrease of \$197 thousand in Federal Pell grants. This resulted from decreases in enrollment which led to fewer Pell eligible students.

Analysis of Change in Net Position

(in thousands)

	2018	2017*	Variance
Revenues			
Operating Revenues	\$ 1,098	\$ 1,484	\$ (386)
Nonoperating Revenues	15,823	15,866	(43)
Total Revenues	16,921	17,350	(429)
Total Expenses	17,840	18,257	(417)
Decrease in Net Position	(919)	(907)	(12)
Net Position, July 1 (As restated)	1,796	21,727	(19,931)
Less: Restatement		(19,024)	
Net Position, June 30	\$ 877	\$ 1,796	\$ (919)

* Note: The year ended June 30, 2017 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 75 do not provided sufficient information to restate these amounts.

Analysis of Capital Assets, Net

	Capital Assets (in thousands)		
	2018	2017	Variance
Capital Assets, Net			
Land	\$ 574	\$ 574	\$ 0
Construction in Progress	146		146
Buildings	14,100	14,562	(462)
Machinery and Equipment	2,763	3,068	(305)
General Infrastructure	857	891	(34)
Total Capital Assets, Net	<u>\$ 18,440</u>	<u>\$ 19,095</u>	<u>\$ (655)</u>

Capital Assets decreased by \$655 thousand during fiscal year 2018. During the year the College added \$146 thousand to construction in progress for the planning stages of the Emergency Services Training Complex. The College also purchased machinery and equipment totaling \$108 thousand and included three vehicles and IT equipment. These increases to capital assets were offset by \$211 thousand of equipment disposals for aging vehicles and depreciation of \$855 thousand.

Analysis of the Overall Financial Position

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

Future Financial Influences

The College's financial position continues to be affected by various funding issues. Beaufort County continues to provide financial support for the College. The overall County budget provided to the College for next fiscal year increased by \$54 thousand when compared to last year's appropriations. However, the College's current operations budget increased by \$91 thousand from last fiscal year from a cost of living increase for employees and additional funding for an additional police officer.

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

There is a good probability that state funding will increase in the next fiscal year. While decline in community college curriculum enrollment across the State continues to provide some uncertainty for the amount of state funding, BCCC's curriculum FTE percentages are showing positive growth in the 2018 summer and fall semesters which will result in increased funding through NCCCS formula budget process. The College's enrollment in curriculum courses has increased by approximately 4% as compared to the previous fiscal year due to both economic influences and increased efforts in marketing. In addition, the North Carolina General

Assembly passed S.L. 1805-5 authorizing equivalent FTE funding for continuing education tiered courses resulting in approximately 33% increase in continuing education funding. These combined factors will produce an increase of available state funds by approximately \$300 thousand to \$400 thousand in the next fiscal year.

The College President continues to develop and refine strategies to increase enrollment by strengthening our high school recruitment programs and restructuring the marketing programs to better connect with the target audiences in the service area. Continuing education has potential for FTE growth due to a robust engagement effort within all four counties and the renewal of the prison programs. The State's authorization to earn curriculum FTE during the summer semesters will continue to enhance the revenue potential associated with curriculum enrollment. The marketing efforts in both divisions over the next year could potentially bring another 2% to 3% in estimated FTE growth in the next fiscal. The College President continues to review course relevancy, amend staffing levels, and balance funding priorities to provide adequate support to both curriculum and continuing education. This strategy will ensure a mutual supporting effort to increase earning potential for the entire College. However, continuing education's enrollment decreased by approximately 1% compared to the previous year. This decrease was associated with an interruption in prison instruction which was beyond continuing education's control.

BCCC's service area is the largest in the State and includes Beaufort, Hyde, Tyrrell, and Washington Counties. Unemployment rates in this mostly rural area continues to affect enrollment. Based on North Carolina Department of Commerce July 2018 statistics, the most recent figures have North Carolina's unemployment rate at 4.1%, as compared to the national average of 3.9%, both adjusted for seasonal employment. North Carolina's unemployment rate has shown a steady decline of 0.3% over the last year which may result in a continued slight downward trend of statewide curriculum enrollment over the next several years.

While unemployment numbers in BCCC's service area have shown a steady decline over the past year they are still above the State and national averages. Statistics show Washington and Hyde both are currently at 5.8% with Tyrrell and Beaufort at 4.5% and 4.7%, respectively. Generally, as the economy improves curriculum enrollment declines while at the same time continuing education enrollment increases. Based on the continued downward unemployment trends, enrollment projections in the BCCC service area over the next few years indicate a possible flat to slight decrease in curriculum and a continued gradual growth in continuing education. Targeted marketing may mitigate this trend by positively increasing market share in the four county region. Given the rural nature of the BCCC service area it is unlikely to reach State level unemployment rates. However, as the local economy approaches its saturation point both curriculum and continuing education enrollment levels will stabilize.

Population analyses over the next ten years is another factor that will influence enrollment projections at BCCC. The total population of Hyde and Washington Counties will decline by 2.6% and 6.3%, respectively, while the total population of Beaufort will decline by 1.9% and Tyrrell County will remain steady near current levels. The percentage of Hispanic population is projected to grow in all four counties. The population trends will affect the level of market availability in terms of high school students. Over the next 5 years, the graduating class size in Beaufort County will decline by over 100 students. Hyde County will peak in 2019 and return to current levels. Tyrrell and Washington Counties will remain relatively flat. This analysis indicates increased market availability over the next few years but eventual flattening by the end of the five year projections. BCCC will need to continually adjust the marketing strategies to maintain or increase market share in regards to high school students.

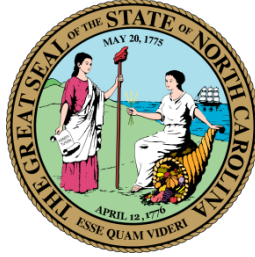
Transportation and access to training facilities in these rural areas are an inhibitor to obtaining an education at a reasonable cost. To provide better opportunities for potential students, BCCC in conjunction with the separate county governments have established training centers in Hyde and Washington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

Grants provide a major opportunity for the College to seek alternate funding for many different projects not provided for in the County or State funding streams. The BCCC grant writer has been very conscientious in searching for grants to support the mission of the College. The outlook for grants in the next fiscal year is promising. BCCC has already secured several grants and is currently working on a number of others. These grants will provide additional equipment and upgraded facilities to better serve business and industry needs by providing a work force ready to meet the challenges of today's global economy. This will result in increased student enrollment in both curriculum and continuing education and in turn improve state FTE funding in future years. Some of the grants include: the Minority Male Mentoring grant; the Federal Skills grant; the Carl D. Perkins Federal grant; and the Student Support Services (TRIO) grant. The efforts in obtaining grants help support requests from local communities and industry to provide a quality workforce which has the potential to increase economic development engagements in the service area. These funds also provide the College with the means to generate additional FTE in both curriculum and continuing education.

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

Contacting the College's Financial Management

Our financial statements are designed to provide the citizens of North Carolina with a general overview of the College's finances and show accountability of all funds received. If you have any questions or need additional financial information, please contact Beaufort County Community College at (252) 940-6248.



FINANCIAL STATEMENTS

Beaufort County Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 283,174.87
Restricted Cash and Cash Equivalents	809,762.67
Receivables, Net (Note 5)	88,518.90
Inventories	208,838.71
Total Current Assets	<u>1,390,295.15</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	421,155.96
Restricted Due from Primary Government	43,923.77
Endowment Investments	2,209,494.65
Restricted Investments	426,134.68
Other Investments	210,471.97
Net Other Postemployment Benefits Asset	26,178.00
Capital Assets - Nondepreciable (Note 6)	719,970.22
Capital Assets - Depreciable, Net (Note 6)	<u>17,719,563.33</u>
Total Noncurrent Assets	<u>21,776,892.58</u>
Total Assets	<u>23,167,187.73</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	2,116,518.00
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	<u>443,600.90</u>
Total Deferred Outflows of Resources	<u>2,560,118.90</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	626,697.10
Unearned Revenue	45,964.59
Long-Term Liabilities - Current Portion (Note 8)	<u>125,725.95</u>
Total Current Liabilities	<u>798,387.64</u>

Noncurrent Liabilities:

Funds Held for Others	29,518.73
Long-Term Liabilities (Note 8)	<u>17,723,838.63</u>
Total Noncurrent Liabilities	<u>17,753,357.36</u>
Total Liabilities	<u>18,551,745.00</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	278,911.00
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	<u>6,019,728.00</u>
Total Deferred Inflows of Resources	<u>6,298,639.00</u>

Beaufort County Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	18,439,533.55
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,157,983.23
Expendable:	
Scholarships and Fellowships	482,085.41
Loans	1,586.50
Capital Projects	192,175.11
Specific Programs	391,614.03
Other	98,082.97
Unrestricted	<u>(20,886,138.17)</u>
Total Net Position	<u><u>\$ 876,922.63</u></u>

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

Beaufort County Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 907,226.05
Sales and Services, Net (Note 10)	190,453.39
Other Operating Revenues	<u>712.77</u>

Total Operating Revenues	<u>1,098,392.21</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	11,633,090.27
Supplies and Materials	2,012,185.04
Services	1,316,589.40
Scholarships and Fellowships	1,494,121.62
Utilities	495,182.62
Depreciation	<u>855,278.44</u>

Total Operating Expenses	<u>17,806,447.39</u>
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Operating Loss	<u>(16,708,055.18)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	8,806,082.00
County Appropriations	2,574,000.04
Noncapital Grants - Student Financial Aid	1,871,056.63
Noncapital Grants	624,201.82
Noncapital Gifts	284,449.85
Investment Income (Net of Investment Expense of \$13,347.41)	222,902.99
Other Nonoperating Expenses	<u>(33,603.06)</u>

Net Nonoperating Revenues	<u>14,349,090.27</u>
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Loss Before Other Revenues	(2,358,964.91)
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State Capital Aid	863,226.74
County Capital Aid	223,999.96
Capital Grants	152,220.19
Capital Gifts	136,370.27
Additions to Endowments	<u>64,156.00</u>

Decrease in Net Position	(918,991.75)
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NET POSITION

Net Position, July 1, 2017 as Restated (Note 18)	<u>1,795,914.38</u>
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Net Position, June 30, 2018	<u>\$ 876,922.63</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3

Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,363,291.69
Payments to Employees and Fringe Benefits	(11,321,460.35)
Payments to Vendors and Suppliers	(3,752,575.77)
Payments for Scholarships and Fellowships	(1,494,121.62)
Other Receipts	26,103.10
	<hr/>
Net Cash Used by Operating Activities	(15,178,762.95)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,806,082.00
County Appropriations	2,574,000.04
Noncapital Grants - Student Financial Aid	1,871,056.63
Noncapital Grants	685,058.96
Noncapital Gifts	284,449.85
Additions to Endowments	64,156.00
	<hr/>
Cash Provided by Noncapital Financing Activities	14,284,803.48

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

State Capital Aid Received	863,226.74
County Capital Aid Received	223,999.96
Capital Grants Received	152,220.19
Capital Gifts Received	136,370.27
Acquisition and Construction of Capital Assets	(254,086.79)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,121,730.37

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	285,833.47
Investment Income	119,713.66
Purchase of Investments and Related Fees	(468,299.98)
	<hr/>
Net Cash Used by Investing Activities	(62,752.85)
	<hr/>
Net Increase in Cash and Cash Equivalents	165,018.05
Cash and Cash Equivalents, July 1, 2017	1,349,075.45
	<hr/>
Cash and Cash Equivalents, June 30, 2018	\$ 1,514,093.50

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (16,708,055.18)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	855,278.44
Nonoperating Other Income	21,228.62
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	246,229.45
Inventories	11,964.42
Net Other Postemployment Benefits Asset	3,096.00
Deferred Outflows Related to Pensions	1,299,667.00
Deferred Outflows Related to Other Postemployment Benefits	5,198.10
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(10,213.90)
Unearned Revenue	22,986.28
Funds Held for Others	11,453.13
Net Pension Liability	(1,010,622.00)
Net Other Postemployment Benefits Liability	(6,042,121.00)
Compensated Absences	54,581.69
Deferred Inflows Related to Pensions	40,838.00
Deferred Inflows Related to Other Postemployment Benefits	6,019,728.00
Net Cash Used by Operating Activities	<u><u>\$ (15,178,762.95)</u></u>

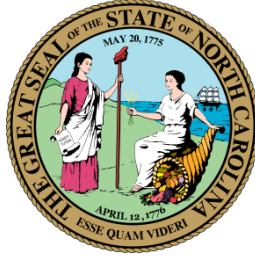
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 283,174.87
Restricted Cash and Cash Equivalents	809,762.67
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>421,155.96</u>
Total Cash and Cash Equivalents - June 30, 2018	<u><u>\$ 1,514,093.50</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	103,189.33
Increase in Receivables Related to Nonoperating Income	1,617.86
Loss on Disposal of Capital Assets	(54,831.68)

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, Beaufort County Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 26-member board consisting of three ex officio directors and 23 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Beaufort County Community College Board of Trustees and the Foundation's sole purpose is to benefit Beaufort County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, Beaufort County Community College, Business Office, 5337 Highway 264 East, Washington, NC 27889, or by calling 252-940-6248.

Condensed combining information regarding blended component unit is provided in Note 16.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities

is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	2-25 years
General Infrastructure	10-50 years

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability 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 2017 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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. The College has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. It also includes the net position of accrued employee benefits such as compensated absences, pension plans, and other postemployment benefits.

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. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank, savings and loan association, or trust company 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, 2018 was \$1,500.00. The carrying amount of the College's deposits not with the State Treasurer was \$549,207.24 and the bank balance was \$549,207.24.

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, 2018, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF);

obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$963,386.26, 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 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

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

All investments of the College's component unit, Beaufort County Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the investments by type and investments subject to interest rate risk at June 30, 2018, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3*, as the risk a government may face should interest rate variances affect the

value of investments. The Foundation's investment policy recommends that the investment committee avoid bunching the maturity dates of its investments. Additionally, the policy sets defined limit amounts for the types of investments to be held.

Investments

Investment Type	Amount	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Mutual Bond Funds	\$ 336,507.95	\$ 0.00	\$ 106,235.56	\$ 121,075.56	\$ 109,196.83
Money Market Mutual Funds	5,112.19	5,112.19			
Total Debt Securities	341,620.14	\$ 5,112.19	\$ 106,235.56	\$ 121,075.56	\$ 109,196.83
Other Securities					
Equity Mutual Funds	2,504,481.16				
Total Investments	\$ 2,846,101.30				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy lists authorized investment categories and defines quality and limit amounts. The policy states that mutual fund shares must be registered with the SEC and its investments must be restricted to those that conform to regulations. As of June 30, 2018, the College's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Mutual Bond Funds	\$ 336,507.95	\$ 198,034.93	\$ 13,393.02	\$ 36,612.06	\$ 50,476.19	\$ 15,984.13	\$ 22,007.62
Money Market Mutual Funds	5,112.19	5,112.19					
Totals	\$ 341,620.14	\$ 203,147.12	\$ 13,393.02	\$ 36,612.06	\$ 50,476.19	\$ 15,984.13	\$ 22,007.62

Rating Agency: Morningstar

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2018, is as follows:

Cash on Hand	\$	1,500.00
Carrying Amount of Deposits with Private Financial Institutions		549,207.24
Investments in the Short-Term Investment Fund		963,386.26
Other Investments		<u>2,846,101.30</u>
Total Deposits and Investments	\$	<u>4,360,194.80</u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	283,174.87
Restricted Cash and Cash Equivalents		809,762.67
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>421,155.96</u>
Total Deposits		<u>1,514,093.50</u>
Investments		
Noncurrent:		
Endowment Investments		2,209,494.65
Restricted Investments		426,134.68
Other Investments		<u>210,471.97</u>
Total Investments		<u>2,846,101.30</u>
Total Deposits and Investments	\$	<u>4,360,194.80</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2018:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Mutual Bond Funds	\$ 336,507.95	\$ 336,507.95	\$ 0.00	\$ 0.00
Money Market Mutual Funds	5,112.19	5,112.19		
Total Debt Securities	341,620.14	341,620.14		
Other Securities				
Equity Mutual Funds	2,504,481.16	2,504,481.16		
Total Investments by Fair Value Level	2,846,101.30	\$ 2,846,101.30	\$ 0.00	\$ 0.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	963,386.26			
Total Investments Measured at Fair Value	\$ 3,809,487.56			

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. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the STIF is not required to be categorized with the fair value hierarchy.

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

NOTE 4 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to 80% of the prior year interest earnings unless the donor has stipulated otherwise. At June 30, 2018, net appreciation of \$194,142.79 was available to be spent, all of which was classified in net position as expendable for scholarship and fellowships as it is restricted for specific purposes.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 211,668.64	\$ 179,220.22	\$ 32,448.52
Student Sponsors	46,463.87		46,463.87
Accounts	1,410.00		1,410.00
Intergovernmental	1,617.86		1,617.86
Other	6,578.65		6,578.65
Total Current Receivables	\$ 267,739.02	\$ 179,220.22	\$ 88,518.90

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	\$ 573,899.72	\$ 0.00	\$ 0.00	\$ 573,899.72
Construction in Progress		146,070.50		146,070.50
Total Capital Assets, Nondepreciable	573,899.72	146,070.50		719,970.22
Capital Assets, Depreciable:				
Buildings	23,052,501.29			23,052,501.29
Machinery and Equipment	5,708,673.32	108,016.29	211,106.77	5,605,582.84
General Infrastructure	1,506,077.93			1,506,077.93
Total Capital Assets, Depreciable	30,267,252.54	108,016.29	211,106.77	30,164,162.06
Less Accumulated Depreciation for:				
Buildings	8,489,977.54	462,941.16		8,952,918.70
Machinery and Equipment	2,641,052.89	357,882.88	156,275.09	2,842,660.68
General Infrastructure	614,564.95	34,454.40		649,019.35
Total Accumulated Depreciation	11,745,595.38	855,278.44	156,275.09	12,444,598.73
Total Capital Assets, Depreciable, Net	18,521,657.16	(747,262.15)	54,831.68	17,719,563.33
Capital Assets, Net	\$ 19,095,556.88	\$ (601,191.65)	\$ 54,831.68	\$ 18,439,533.55

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 129,385.67
Accrued Payroll	497,311.43
Total Current Accounts Payable and Accrued Liabilities	\$ 626,697.10

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Compensated Absences	\$ 419,676.89	\$ 412,877.66	\$ 358,295.97	\$ 474,258.58	\$ 125,725.95
Net Pension Liability	4,925,475.00		1,010,622.00	3,914,853.00	
Net Other Postemployment Benefit Liability	19,502,574.00		6,042,121.00	13,460,453.00	
Total Long-Term Liabilities	\$ 24,847,725.89	\$ 412,877.66	\$ 7,411,038.97	\$ 17,849,564.58	\$ 125,725.95

Additional information regarding the net pension liability is included in Note 12.

Additional information regarding the net other postemployment benefit liability is included in Note 13.

NOTE 9 - NET POSITION

The deficit in unrestricted net position of \$20,886,138.17 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 2,116,518.00	\$ 0.00	\$ 2,116,518.00
Deferred Outflows Related to OPEB		418,117.00	418,117.00
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	3,914,853.00		3,914,853.00
Net OPEB Liability		13,460,453.00	13,460,453.00
Deferred Inflows Related to Pensions	278,911.00		278,911.00
Deferred Inflows Related to OPEB		6,019,728.00	6,019,728.00
Net Effect on Unrestricted Net Position	<u>\$ (2,077,246.00)</u>	<u>\$ (19,062,064.00)</u>	<u>\$ (21,139,310.00)</u>

See Notes 12 and 13 for detailed information regarding the amortization of the Deferred Outflows of Resources and Deferred Inflows of Resources relating to pensions and OPEB, respectively.

NOTE 10 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 1,730,770.68</u>	<u>\$ 680,216.05</u>	<u>\$ 143,328.58</u>	<u>\$ 907,226.05</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 224,076.88	\$ 30,637.52	\$ 34,538.30	\$ 158,901.06
Other	16,982.95		1,353.35	15,629.60
Sales and Services of Education and Related Activities	<u>15,922.73</u>			<u>15,922.73</u>
Total Sales and Services, Net	<u>\$ 256,982.56</u>	<u>\$ 30,637.52</u>	<u>\$ 35,891.65</u>	<u>\$ 190,453.39</u>

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,810,575.91	\$ 519,927.61	\$ 234,174.12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,564,677.64
Academic Support	1,301,696.35	105,866.85	57,660.27				1,465,223.47
Student Services	1,242,776.80	31,504.64	111,490.58				1,385,772.02
Institutional Support	2,703,031.25	98,291.56	533,513.19				3,334,836.00
Operations and Maintenance of Plant	1,508,147.26	1,031,979.39	338,243.32		495,182.62		3,373,552.59
Student Financial Aid				1,494,121.62			1,494,121.62
Auxiliary Enterprises	66,862.70	224,614.99	41,507.92				332,985.61
Depreciation						855,278.44	855,278.44
Total Operating Expenses	\$ 11,633,090.27	\$ 2,012,185.04	\$ 1,316,589.40	\$ 1,494,121.62	\$ 495,182.62	\$ 855,278.44	\$ 17,806,447.39

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools 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, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$414,661.39, and the College's contributions were \$745,008.00 for the year ended June 30, 2018.

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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the College reported a liability of \$3,914,853.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. 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, 2017, the College's proportion was 0.04934%, which was a decrease of 0.00425 from its proportion measured as of June 30, 2016, which was 0.05359%.

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	12/31/2016
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.20%

* 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 mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience review for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment 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, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually 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, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
\$ 8,058,388.00	\$ 3,914,853.00	\$ 443,099.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the College recognized pension expense of \$1,085,786.00. At June 30, 2018, 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	\$ 84,867.00	\$ 128,075.00
Changes of Assumptions	618,488.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	529,811.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	138,344.00	150,836.00
Contributions Subsequent to the Measurement Date	745,008.00	
Total	\$ 2,116,518.00	\$ 278,911.00

The amount of \$745,008.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as 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
2019	\$ 238,175.00
2020	736,710.00
2021	329,751.00
2022	(212,037.00)
Total	\$ 1,092,599.00

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information

about the plans' 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions

1. Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible

former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 13. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North

Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The College's contributions to the RHBF were \$418,116.90 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The College's contributions to DIPNC were \$9,675.00 for the year ended June 30, 2018.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the College reported a liability of \$13,460,453.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016,

and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The College's proportion of the net OPEB 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, 2017, the College's proportion was 0.04105%, which was a decrease of 0.00378 from its proportion measured as of June 30, 2016, which was 0.04483%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of \$26,178.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The College's proportion of the net OPEB asset 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, 2017, the College's proportion was 0.04283%, which was a decrease of 0.00431 from its proportion measured as of June 30, 2016, which was 0.04714%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (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%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	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. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

Net OPEB Liability (Asset)			
	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
RHBF	\$ 16,055,705.88	\$ 13,460,453.00	\$ 11,399,281.23
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (22,254.90)	\$ (26,178.00)	\$ (30,109.49)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease (Medical - 4.00 - 5.50% , Pharmacy - 4.00 - 6.25% , Med. Advantage - 3.00 - 4.00% , Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00 - 6.50% , Pharmacy - 5.00 - 7.25% , Med. Advantage - 4.00 - 5.00% , Administrative - 3.00%)	1% Increase (Medical - 6.00 - 7.50% , Pharmacy - 6.00 - 8.25% , Med. Advantage - 5.00 - 6.00% , Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 16,055,705.88	\$ 13,460,453.00	\$ 11,399,281.23
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the College recognized OPEB expense of \$398,820.90 for RHBF and \$14,873.00 for DIPNC. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0.00	\$ 7,177.00	\$ 7,177.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		5,738.00	5,738.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		2,894.00	2,894.00
Contributions Subsequent to the Measurement Date	418,116.90	9,675.00	427,791.90
Total	\$ 418,116.90	\$ 25,484.00	\$ 443,600.90

Employer Balances of Deferred Inflows of Resources
Related to OPEB by Classification:

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 965,139.00	\$ 0.00	\$ 965,139.00
Changes of Assumptions	3,706,947.00		3,706,947.00
Net Difference Between Projected and Actual Earnings on Plan Investments	5,002.00		5,002.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,342,640.00		1,342,640.00
Total	\$ 6,019,728.00	\$ 0.00	\$ 6,019,728.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB 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 OPEB Expense:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (1,204,196.00)	\$ 4,793.00
2020	(1,204,196.00)	4,793.00
2021	(1,204,196.00)	4,791.00
2022	(1,204,196.00)	1,432.00
2023	(1,202,944.00)	
Total	<u>\$ (6,019,728.00)</u>	<u>\$ 15,809.00</u>

Note 14 - Risk Management

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

A. 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 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 contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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 0.16% for the current fiscal year.

3. Disability Income Plan

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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. Employee dishonesty and computer fraud losses for employees are paid from county funds. These funds are covered by contracts with private insurance companies.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

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

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

NOTE 15 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$5,559,845.52 at June 30, 2018.

NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2018, is presented as follows:

*Condensed Statement of Net Position
For the Fiscal Year Ended June 30, 2018*

	BCCC	BCCC Foundation, Inc.	Eliminations	Total
ASSETS				
Current Assets	\$ 1,390,295.15	\$ 610,259	\$ (610,259)	\$ 1,390,295.15
Capital Assets, net	18,439,533.55			18,439,533.55
Other Noncurrent Assets	491,258.03	2,235,842	610,259	3,337,359.03
Primary Government Receivable from Component Unit	101,631.00		(101,631)	
Total Assets	20,422,717.73	2,846,101	(101,631)	23,167,187.73
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,560,118.90			2,560,118.90
LIABILITIES				
Current Liabilities	797,092.82	1,295		798,387.64
Long-Term Liabilities	17,753,357.36			17,753,357.36
Component Unit Payable to Primary Government		101,631	(101,631)	
Total Liabilities	18,550,450.18	102,926	(101,631)	18,551,745.00
TOTAL DEFERRED INFLOWS OF RESOURCES	6,298,639.00			6,298,639.00
NET POSITION				
Net Investment in Capital Assets	18,439,533.55			18,439,533.55
Restricted - Nonexpendable		2,157,983		2,157,983.23
Restricted - Expendable	738,589.02	426,955		1,165,544.02
Unrestricted	(21,044,375.17)	158,237		(20,886,138.17)
Total Net Position	\$ (1,866,252.60)	\$ 2,743,175	\$ 0	\$ 876,922.63

*Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2018*

	BCCC	BCCC Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, net	\$ 907,226.05	\$ 0	\$ 0	\$ 907,226.05
Sales and Services, net	190,453.39			190,453.39
Investment Income		208,837	(208,837)	0.00
Contributions		243,328	(243,328)	0.00
Other Operating Revenues	712.77			712.77
Total Operating Revenues	1,098,392.21	452,165	(452,165)	1,098,392.21
OPERATING EXPENSES				
Operating Expenses	16,790,796.95	160,372		16,951,168.95
Depreciation	855,278.44			855,278.44
Total Operating Expenses	17,646,075.39	160,372		17,806,447.39
Operating Income (Loss)	(16,547,683.18)	291,793	(452,165)	(16,708,055.18)
NONOPERATING REVENUES (EXPENSES)				
State Aid	8,806,082.00			8,806,082.00
County Appropriations	2,574,000.04			2,574,000.04
Noncapital Grants	2,495,258.45			2,495,258.45
Noncapital Gifts	105,277.40		179,172	284,449.85
Investment Income	14,066.21		208,837	222,902.99
Other Nonoperating Revenues	21,228.62			21,228.62
Other Nonoperating Expenses	(54,831.68)			(54,831.68)
Net Nonoperating Revenues	13,961,081.04		388,009	14,349,090.27
Capital Contributions	1,375,817.16			1,375,817.16
Additions to Endowments	0.00		64,156	64,156.00
Increase (Decrease) in Net Position	(1,210,784.98)	291,793		(918,991.75)
NET POSITION				
Net Position, July 1, 2017 (as Restated)	(655,467.62)	2,451,382		1,795,914.38
Net Position, June 30, 2018	\$ (1,866,252.60)	\$ 2,743,175	\$ 0	\$ 876,922.63

*Condensed Statement of Cash Flows
June 30, 2018*

	BCCC	BCCC Foundation, Inc.	Total
Net Cash Used by Operating Activities	\$ (15,019,685.95)	\$ (159,077.00)	\$ (15,178,762.95)
Cash Provided by Noncapital Financing Activities	14,042,770.48	242,033.00	14,284,803.48
Net Cash Provided by Capital and Related Financing Activities	1,121,730.37		1,121,730.37
Net Cash Provided (Used) by Investing Activities	14,065.99	(76,818.84)	(62,752.85)
Net Increase in Cash and Cash Equivalents	158,880.89	6,137.16	165,018.05
Cash and Cash Equivalents, July 1, 2017	1,467,785.19	(118,709.74)	1,349,075.45
Cash and Cash Equivalents, June 30, 2018	\$ 1,626,666.08	\$ (112,572.58)	\$ 1,514,093.50

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB Statement No. 85, Omnibus 2017

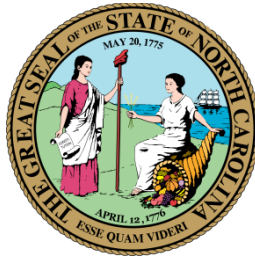
GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 18 - NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ 20,820,415.38
Restatement:	
Record the College's Net OPEB Asset and Liability and OPEB Related	
Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(19,024,501.00)</u>
July 1, 2017 Net Position as Restated	<u>\$ 1,795,914.38</u>



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.04934%	0.05359%	0.04969%	0.05119%	0.04920%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 3,914,853.00	\$ 4,925,475.00	\$ 1,831,175.00	\$ 600,162.31	\$ 2,986,941.35
Covered Payroll	\$ 7,143,105.46	\$ 7,537,448.04	\$ 7,529,191.63	\$ 7,496,073.77	\$ 7,483,093.55
Net Pension Liability as a Percentage of Covered Payroll	54.81%	65.35%	24.32%	8.01%	39.92%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

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

Exhibit B-2

	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 745,008.00	\$ 712,882.00	\$ 689,676.50	\$ 688,921.03	\$ 651,408.81
Contributions in Relation to the Contractually Determined Contribution	<u>745,008.00</u>	<u>712,882.00</u>	<u>689,676.50</u>	<u>688,921.03</u>	<u>651,408.81</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 6,911,023.16	\$ 7,143,105.46	\$ 7,537,448.04	\$ 7,529,191.63	\$ 7,496,073.77
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 623,341.69	\$ 581,772.70	\$ 383,285.73	\$ 285,917.53	\$ 264,741.88
Contributions in Relation to the Contractually Determined Contribution	<u>623,341.69</u>	<u>581,772.70</u>	<u>383,285.73</u>	<u>285,917.53</u>	<u>264,741.88</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 7,483,093.55	\$ 7,819,525.51	\$ 7,774,558.41	\$ 8,008,894.49	\$ 7,879,222.51
Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

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

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

Changes of Benefit Terms:

<u>Cost of Living Increase</u>									
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 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 discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.

Beaufort County Community College
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability or Asset
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years **Exhibit B-3**

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.04105%	0.04483%
Proportionate Share of Collective Net OPEB Liability	\$ 13,460,453.00	\$ 19,502,574.00
Covered Payroll	\$ 7,143,105.46	\$ 7,537,448.04
Net OPEB Liability as a Percentage of Covered Payroll	188.44%	258.74%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.04283%	0.04714%
Proportionate Share of Collective Net OPEB Asset	\$ 26,178.00	\$ 3,096.00
Covered Payroll	\$ 7,143,105.46	\$ 7,537,448.04
Net OPEB Liability as a Percentage of Covered Payroll	0.37%	0.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Beaufort County Community College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Exhibit B-4

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 418,116.90	\$ 415,014.43	\$ 422,097.09	\$ 413,352.62	\$ 404,787.99
Contributions in Relation to the Contractually Determined Contribution	<u>418,116.90</u>	<u>415,014.43</u>	<u>422,097.09</u>	<u>413,352.62</u>	<u>404,787.99</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 6,911,023.16	\$ 7,143,105.46	\$ 7,537,448.04	\$ 7,529,191.63	\$ 7,496,073.77
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 396,603.96	\$ 390,976.28	\$ 380,953.36	\$ 360,400.25	\$ 323,084.12
Contributions in Relation to the Contractually Determined Contribution	<u>396,603.96</u>	<u>390,976.28</u>	<u>380,953.36</u>	<u>360,400.25</u>	<u>323,084.12</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 7,483,093.55	\$ 7,819,525.51	\$ 7,774,558.41	\$ 8,008,894.49	\$ 7,879,222.51
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 9,675.00	\$ 27,143.80	\$ 30,903.54	\$ 30,869.69	\$ 32,982.73
Contributions in Relation to the Contractually Determined Contribution	<u>9,675.00</u>	<u>27,143.80</u>	<u>30,903.54</u>	<u>30,869.69</u>	<u>32,982.73</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 6,911,023.16	\$ 7,143,105.46	\$ 7,537,448.04	\$ 7,529,191.63	\$ 7,496,073.77
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 32,925.61	\$ 40,661.53	\$ 40,427.70	\$ 41,646.25	\$ 40,971.96
Contributions in Relation to the Contractually Determined Contribution	<u>32,925.61</u>	<u>40,661.53</u>	<u>40,427.70</u>	<u>41,646.25</u>	<u>40,971.96</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 7,483,093.55	\$ 7,819,525.51	\$ 7,774,558.41	\$ 8,008,894.49	\$ 7,879,222.51
Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

Beaufort County Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

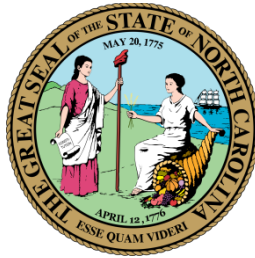
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 13 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

Changes of assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's 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 Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina. 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 and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Beaufort County Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, 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, 2019. Our report includes a reference to other auditors who audited the financial statements of Beaufort County Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 19, 2019

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