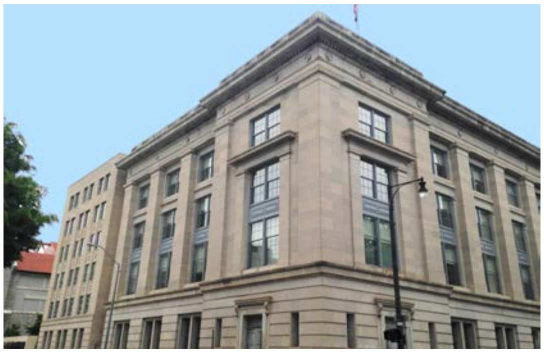
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



Isothermal Community College

Spindale, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2018

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

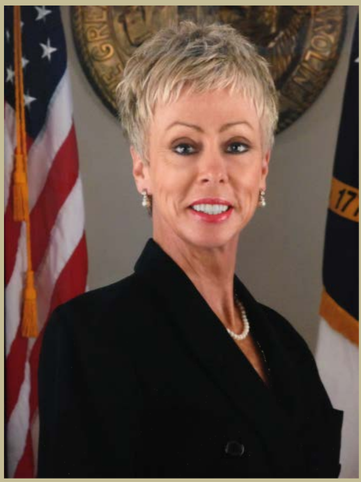
The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Isothermal Community College

We have completed a financial statement audit of Isothermal 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.

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Isothermal Community College
Spindale, North Carolina

Report on the Financial Statements

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

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Isothermal Community College, and its discretely presented component units, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2018, Isothermal 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 22, 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 22, 2019

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Isothermal Community College (College) for the year ended June 30, 2018. The following financial statements, notes to the financial statements, and required supplementary information comprise the complete set of financial information and should be considered together.

In addition to the College's financial statements and accompanying notes, information for two component units is presented. The Statements of Financial Position, Statements of Activities, and certain notes for Isothermal Community College Foundation, Inc. and Polk County Campus I.C.C. Foundation, Inc. are discretely presented alongside the College's financial statements; however, the component units are not included in management's discussion and analysis. More information describing the relationship between the College and its discretely presented component units can be found in Note 1A, Significant Accounting Policies – Financial Reporting Entity.

Using the Financial Statements

The College's financial report includes three financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements are prepared under the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) principles.

This fiscal year, GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB) was implemented which required the College to include its portion of cost-sharing for the Retiree Health Benefit Fund (RHBF) and the Disability Income Plan of North Carolina (DIPNC). As a result, the College must now report a net OPEB asset, net OPEB liability, deferred outflows of resources, deferred inflows of resources, as well as OPEB expense, based on its proportional share of the aggregated net OPEB asset and net OPEB liability of all participating employers in the plans. Net OPEB asset, net OPEB liability, deferred outflows of resources, and deferred inflows of resources are reported in the Statement of Net Position, and OPEB expense is included in salaries and benefits on the Statement of Revenues, Expenses, and Changes in Net Position, and as a reconciling item between operating loss and net cash used by operating activities in the Statement of Cash Flows. The prior year amounts from the Statement of Net Position have been restated. See Note 18 of the Notes to Financial Statements for more information.

Financial Highlights

The College serves the markets of Rutherford and Polk counties. The local economy continues to improve and unemployment has leveled out during the recovery period. This improvement did not have any adverse impact on full-time-equivalent (FTE) enrollments for curriculum during the 2017-2018 fiscal year. The curriculum enrollment calculated for budget allocations increased by 2.6%. Continuing Education and Adult Literacy programs experienced a combined decrease in FTE of 8.4%. The total effect was an overall funded enrollment increase of 0.9%, which results in a positive improvement in state formula funding of 2.3%. Several factors are affecting enrollment in Basic Skills programming, including the lingering effects of changes in adult literacy testing costs that have stifled student participation over the last couple of fiscal periods; however, strong high school enrollments are positively impacting curriculum enrollment through Career and College Promise programs. Another positive factor will continue to be improved retention of traditional college students as a result of continued implementation of the College's quality enhancement plan (QEP). The QEP focuses on student success through retention and completion by engaging students in dynamic advising, requiring orientation, and early exposure to academic success classes.

Looking to the 2018-2019 fiscal year, the College anticipates enrollment to grow slightly and continues to manage investments in programming with the completion of three capital projects designed to both enhance and expand program offerings. As new facilities are commissioned and placed in service, the College plans to aggressively market and program in order to increase public awareness for credentialing opportunities for traditional students. The College also continues to develop strategic partnerships with businesses and sectors actively pursuing specific skills required for the workforce. Overall, the College continues to operate with a strong financial basis and will continue to be responsive to core business functions while looking to capitalize on opportunities presented in the service area.

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, deferred outflows of resources, liabilities, and deferred inflows of resources of the College. The statement also includes the difference between total assets and deferred outflows of resources less total liabilities and deferred inflows of resources (net position) which is an indicator of whether the overall financial condition has improved or worsened. This statement also provides information on assets available to continue operations, liabilities due to outside parties, and the net position available for expenditure by the College. Items on the Statement of Net Position are generally measured using current values, with the exception of capital assets which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2018 and 2017 are as follows:

Condensed Statement of Net Position

	2018	2017 (as Restated)	$ Change
Assets			
Current Assets	$ 5,158,695.30	$ 5,252,294.83	$ (93,599.53)
Noncurrent Assets			
Capital Assets, Net	24,103,482.18	19,861,017.42	4,242,464.76
Other Noncurrent Assets	15,768,796.65	15,467,742.30	301,054.35
Total Assets	45,030,974.13	40,581,054.55	4,449,919.58
Total Deferred Outflows of Resources	3,305,952.00	4,700,474.00	(1,394,522.00)
Liabilities			
Current Liabilities	1,855,097.05	1,085,270.96	769,826.09
Long-Term Liabilities	24,291,534.56	33,142,054.71	(8,850,520.15)
Total Liabilities	26,146,631.61	34,227,325.67	(8,080,694.06)
Total Deferred Inflows of Resources	8,269,514.00	379,975.00	7,889,539.00
Net Position			
Net Investment in Capital Assets	23,098,591.99	19,861,017.42	3,237,574.57
Restricted - Nonexpendable	2,149,048.38	1,790,526.84	358,521.54
Restricted - Expendable	15,145,894.59	15,615,269.15	(469,374.56)
Unrestricted	(26,472,754.44)	(26,592,585.53)	119,831.09
Total Net Position	$ 13,920,780.52	$ 10,674,227.88	$ 3,246,552.64

Current assets, which decreased $93,599.53, consist primarily of cash, receivables expected to be collected within one year, investments expected to be spent within one year, prepaid items, and inventories expected to be used within one year. Within current assets, cash and cash equivalents increased by $521,668.57 because cash was used in fiscal year 2017 to pay grant expenditures for which the College was not reimbursed until fiscal year 2018. This caused an off-setting decrease in receivables of $655,191.07. The College also received a gift of securities for WNCW-FM public radio station with a current value of $117,210.96. This gift resulted in an increase to current investments. Bookstore inventory decreased by $64,176.47 due to lower student demand and increased efficiency.

Other noncurrent assets consist of cash, amounts due from the State of North Carolina for capital projects, investments held in the Lee L. Powers Scholarship Account and the Mildred Furches Scholarship Group Account, and the OPEB asset for DIPNC, which represents the College's pro-rata share of the DIPNC net OPEB asset. The increase of $301,054.35 in other noncurrent assets is driven primarily by robust investment earnings, which increased investment asset values by $312,028.07. Further analysis of investment earnings will follow under the Statement of Revenues, Expenses, and Changes in Net Position section.

Capital assets increased by $4,242,464.76, as construction in progress increased by $4,785,567.84 as the new Applied Sciences and Workforce Development Building nears completion. See the Capital Assets section below for further discussion regarding the College's capital asset activity during the fiscal year.

Deferred outflows of resources relate to the GASB Statement No. 68 pension reporting requirements and the GASB Statement No. 75 OPEB reporting requirements. Total deferred outflows of resources decreased over the prior fiscal year due to differences between actual and projected earnings on investments and actuarial assumptions. See Notes 13 and 14 of the Notes to Financial Statements for further details regarding deferred outflows of resources for pension and OPEB.

Current liabilities are comprised of accounts payable, accrued payroll, contract retainage, unearned revenue, and current portions of long-term liabilities. The net increase of $769,826.09 is primarily driven by increases in accounts payable and contract retainage associated with construction in the amount of $1,004,890.19 and decreases to accrued payroll of $46,964.85 and the current portion of compensated absences of $93,304.06.

Long-term liabilities include compensated absences not expected to be used within the next year, which increased by $105,653.85 due to pay increases. In addition, long-term liabilities include net pension liability, which is the College's portion of the present value of projected benefit payments to be provided through the Teachers' and State Employees' Retirement System (TSERS) plan, and net OPEB liability, which is the College's portion of the present value of projected benefits to be provided through the RHBF OPEB plan. These balances decreased during the fiscal year by $993,601.00 and $7,962,573.00, respectively. The decreases resulted primarily from a change in actuarial assumptions used to determine the liability for the TSERS and RHBF OPEB plans and a difference between the expected and actual experience of the plans.

Deferred inflows of resources relate to the GASB Statement No. 68 pension reporting requirements and the GASB Statement No. 75 OPEB reporting requirements. Overall, deferred inflows of resources increased due to changes in actuarial calculations. See Notes 13 and 14 of the Notes to Financial Statements for further details regarding deferred inflows of resources for pension and OPEB.

Net position represents the residual interest in the College's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. For reporting purposes, they are divided into four categories: net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net position. Net investment in capital assets increased by $3,237,574.57 primarily due to an increase in assets under construction and the purchase of machinery and equipment. Restricted nonexpendable net position increased $358,521.54 primarily due to an increase in the College's donor restricted endowments and an increase in market value of investments. The $469,374.56 decrease in restricted expendable net position is due to a decrease in funds available for scholarships and fellowships and special programs. The deficit in unrestricted net position decreased by $119,831.09 primarily due to the proportionate fluctuations of the pension and other postemployment benefit components. See Note 10 of the Notes to Financial Statements for additional details regarding the deficit in unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in assets, deferred outflows of resources, liabilities, deferred inflows of resources, and 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. The purpose of this statement is to present the revenues received by the institution, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided, i.e., state aid and investment income. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Position for the College as of June 30, 2018 and 2017:

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

	2018	2017*	$ Change
Operating Revenues			
Student Tuition and Fees, Net	$ 900,680.39	$ 863,557.57	$ 37,122.82
Sales and Service, Net	1,321,290.94	1,738,928.56	(417,637.62)
Total Operating Revenues	2,221,971.33	2,602,486.13	(380,514.80)
Operating Expenses			
Salaries and Benefits	15,199,407.08	15,110,045.48	89,361.60
Supplies and Materials	2,161,208.83	1,842,820.02	318,388.81
Services	2,290,570.69	2,456,412.74	(165,842.05)
Scholarships and Fellowships	1,868,629.03	1,585,635.54	282,993.49
Utilities	579,341.99	602,624.16	(23,282.17)
Depreciation	971,089.11	1,015,921.64	(44,832.53)
Total Operating Expenses	23,070,246.73	22,613,459.58	456,787.15
Operating Loss	(20,848,275.40)	(20,010,973.45)	(837,301.95)
Nonoperating Revenues (Expenses)			
State Aid	9,972,573.24	10,139,255.85	(166,682.61)
County Appropriations	2,429,921.99	2,406,281.85	23,640.14
Noncapital Grants - Student Financial Aid	3,700,889.72	3,421,357.40	279,532.32
Noncapital Grants	1,528,000.10	1,987,583.81	(459,583.71)
Noncapital Gifts	809,009.77	736,274.01	72,735.76
Investment Income, Net	906,366.49	1,328,265.60	(421,899.11)
Other Nonoperating Revenues (Expenses)	(36,971.22)	9,616.59	(46,587.81)
Net Nonoperating Revenues	19,309,790.09	20,028,635.11	(718,845.02)
Income (Loss) Before Other Revenues	(1,538,485.31)	17,661.66	(1,556,146.97)
Other Revenues			
State and County Capital Aid	4,633,790.54	1,010,311.38	3,623,479.16
Other Capital Contributions	151,247.41	65,049.30	86,198.11
Increase in Net Position	3,246,552.64	1,093,022.34	2,153,530.30
Net Position at Beginning of Year (Prior to Restatement)	10,674,227.88	35,019,421.54	(24,345,193.66)
GASB 75 Restatement (Note 18)		(25,438,216.00)	25,438,216.00
Net Position at End of Year (as Restated)	$ 13,920,780.52	$ 10,674,227.88	$ 3,246,552.64
Reconciliation of Changes in Net Position			
Total Revenues	$ 26,353,770.59	$ 23,706,481.92	$ 2,647,288.67
Less: Total Expenses	23,107,217.95	22,613,459.58	493,758.37
Changes in Net Position	$ 3,246,552.64	$ 1,093,022.34	$ 2,153,530.30

*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 provide sufficient information to restate these amounts.

The major components of operating revenues are tuition and fees collected from students and revenues generated from auxiliary operations such as the campus bookstore and the public radio station (sales and services, net).

The College's enrollment has stabilized, and even showed a slight increase driven by strong enrollment in summer sessions leading to a corresponding increase in net tuition and fees revenue for our curriculum programs of $73,242.99. Tuition and fees for our continuing education programs declined $36,120.17, from $221,998.62 in fiscal year 2017 to $185,878.44 in fiscal year 2018.

Net sales and services revenue decreased by $417,637.62. The biggest driver of this decline is the campus bookstore, which continues to lose business to online sales and open educational resources; net bookstore revenue decreased by $162,694.57. Also recorded under sales and services is underwriting revenue from the College's public radio station, WNCW-FM, which decreased from $959,141.22 in fiscal year 2017 to $726,323.27 in fiscal year 2018.

Overall operating expenses increased $456,787.15. Salaries and benefits increased $89,361.60 due to state supported salary increases. Supplies and materials increased $318,388.81 driven by expenditures on roofing and HVAC construction projects that are considered repairs and maintenance rather than a capitalized expense. Also, services decreased $165,842.05 primarily due to a reduction in expenses for a North Carolina Community College System grant and expenses for classes taught at local public schools. Scholarships and fellowships increased by $282,993.49 primarily due to an increase in student Pell grants from $2,975,364.97 in fiscal year 2017 to $3,281,193.33 in fiscal year 2018, as the US Department of Education allows awarding Pell in three semesters rather than just two semesters as previously allowed.

Nonoperating revenues consist of aid from the State of North Carolina, Rutherford and Polk counties, financial aid received from the federal and state government and private entities to disburse to students, grants, and investment income. State aid decreased by $166,682.61 due to a decrease in legislative appropriations. Noncapital grants – student financial aid, increased $279,532.32 primarily because of the increase in Pell grants discussed above. Noncapital grants decreased by $459,583.71 primarily due to a reduction in federal grant receivables in the current year.

Investment income from the College's investment and scholarship funds declined due to a decrease in the gain on the sale of securities over the prior year. The College had net investment earnings of $906,366.49 for the year, summarized as follows: Interest, dividends, and capital gain dividends from Lee L. Powers fund, Mildred Furches Scholarship Group, and other scholarship funds of $466,402.68; realized gain on sale of securities of $5,367.34, and unrealized gain or increase in market value of securities of $470,847.78. Investment management fees netted against investment gains were $36,251.31.

Other revenues are made up of capital aid received from the State in the amount of $510,403.11 for equipment purchases, and capital aid received from Rutherford County of $4,123,387.43 for construction of a new building and repair and renovation construction projects. The College also received $100,026.64 in capital grants, as well as capital gifts valued at $51,220.77 for equipment transferred from Cleveland Community College. Other revenues increased $3,709,622.27 over the prior year primarily due to an increase in capital funding from Rutherford County for the new Applied Sciences and Workforce Development Building.

Capital Assets

Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets are land, an art collection, and construction in progress. Depreciable assets are buildings, machinery and equipment, and general infrastructure. The College has $24,103,482.18 invested in capital assets at year end, net of depreciation, which increased $4,242,464.76 from the prior fiscal year. This includes an increase of $4,785,567.84

for projects in construction in progress, bringing the total in construction in progress to $5,274,472.65. In addition, $465,390.53 of equipment purchased was netted against a $1,008,493.61 decrease due to normal deletions and the recording of current depreciation expense. See Note 6 of the Notes to Financial Statements for more information regarding current year capital asset activity.

Economic Forecast

The College is operating on the basis of a strong financial foundation. The stabilization of enrollment will allow the College to pursue new program investments such as Agribusiness, Dental Assisting, and Human Services. The College must continue to develop strategies to recruit traditional first time college students and promote the availability of scholarships including the Powers Promise and other institutional scholarships. The promotion of new programming is essential to securing enrollment but existing programming such as College Transfer will remain a critical part of the College's operations. The College will complete three capital projects and have new facilities designed to provide programming in the areas of applied science and advanced manufacturing, agribusiness, and emergency services. The College continues to look for effective marketing strategies which will be critical to helping the service area gain awareness of opportunities for improving life through learning. The College is projecting overall enrollment to increase slightly. Contributing factors will be completion of capital projects and the value of the added service capability provided by these investments. The College will also continue to be cautious in regards to expanding staffing levels in order to make sure any increases are sustainable and new program costs are supported.

A critical element of the College's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and the role of community colleges is viewed as critical in the preparation of a well-trained workforce. As the economy changes and the unemployment rate stabilizes, the College will have to continue focusing efforts on maximizing efficiencies.

While it is not possible to predict the ultimate results, management believes that the College's financial condition is strong enough to withstand the economic uncertainties. Conservative and realistic approaches have been made to ensure that operating costs required to offer services to the students and community who rely on the College are covered by revenues and allocations allotted to the College.

Contacting the College's Financial Management

This financial report is designed to provide our citizens, donors, and creditors 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 Stephen Matheny, Vice President of Administrative Services for Isothermal Community College at (828) 395-1293.

FINANCIAL STATEMENTS

Isothermal Community College
Statement of Net Position
June 30, 2018

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,421,602.68
Restricted Cash and Cash Equivalents		1,604,196.33
Restricted Short-Term Investments		120,210.96
Receivables, Net (Note 5)		624,839.71
Inventories		369,787.32
Prepaid Items		18,058.30
Total Current Assets		5,158,695.30
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		238,983.92
Restricted Due from Primary Government		9,107.26
Restricted Investments		15,485,494.47
Net Other Postemployment Benefits Asset		35,211.00
Capital Assets - Nondepreciable (Note 6)		6,665,355.82
Capital Assets - Depreciable, Net (Note 6)		17,438,126.36
Total Noncurrent Assets		39,872,278.83
Total Assets		45,030,974.13
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		2,696,305.00
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		609,647.00
Total Deferred Outflows of Resources		3,305,952.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		1,528,431.43
Unearned Revenue		208,569.88
Funds Held for Others		67,027.51
Long-Term Liabilities - Current Portion (Note 8)		51,068.23
Total Current Liabilities		1,855,097.05
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		24,291,534.56
Total Liabilities		26,146,631.61
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		297,582.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)		7,971,932.00
Total Deferred Inflows of Resources		8,269,514.00

NET POSITION	
Net Investment in Capital Assets	23,098,591.99
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,022,371.55
Other	126,676.83
Expendable:	
Scholarships and Fellowships	14,030,243.60
Loans	75,712.51
Restricted for Specific Programs	972,583.34
Other	67,355.14
Unrestricted	(26,472,754.44)
Total Net Position	$ 13,920,780.52

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

Isothermal 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 11)	$	900,680.39
Sales and Services, Net (Note 11)		1,321,290.94
Total Operating Revenues		2,221,971.33
EXPENSES		
Operating Expenses:		
Salaries and Benefits		15,199,407.08
Supplies and Materials		2,161,208.83
Services		2,290,570.69
Scholarships and Fellowships		1,868,629.03
Utilities		579,341.99
Depreciation		971,089.11
Total Operating Expenses		23,070,246.73
Operating Loss		(20,848,275.40)
NONOPERATING REVENUES (EXPENSES)		
State Aid		9,972,573.24
County Appropriations		2,429,921.99
Noncapital Grants - Student Financial Aid		3,700,889.72
Noncapital Grants		1,528,000.10
Noncapital Gifts		809,009.77
Investment Income (Net of Investment Expense of $36,251.31)		906,366.49
Other Nonoperating Expenses		(36,971.22)
Net Nonoperating Revenues		19,309,790.09
Loss Before Other Revenues		(1,538,485.31)
State Capital Aid		510,403.11
County Capital Aid		4,123,387.43
Capital Grants		100,026.64
Capital Gifts		51,220.77
Increase in Net Position		3,246,552.64
NET POSITION		
Net Position, July 1, 2017 as Restated (Note 18)		10,674,227.88
Net Position, June 30, 2018	$	13,920,780.52

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,292,954.28
Payments to Employees and Fringe Benefits	(14,905,063.14)
Payments to Vendors and Suppliers	(5,080,348.67)
Payments for Scholarships and Fellowships	(1,868,629.03)
Other Payments	(2,575.70)
Net Cash Used by Operating Activities	(19,563,662.26)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	9,972,573.24
County Appropriations	2,429,921.99
Noncapital Grants - Student Financial Aid	3,700,759.59
Noncapital Grants	2,146,997.39
Noncapital Gifts	694,724.58
Cash Provided by Noncapital Financing Activities	18,944,976.79
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	510,403.11
County Capital Aid	4,107,509.12
Capital Grants	118,851.64
Proceeds from Sale of Capital Assets	433.28
Acquisition and Construction of Capital Assets	(4,199,111.06)
Net Cash Provided by Capital and Related Financing Activities	538,086.09
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,211,920.20
Investment Income	466,402.68
Purchase of Investments and Related Fees	(2,085,010.65)
Net Cash Provided by Investing Activities	593,312.23
Net Increase in Cash and Cash Equivalents	512,712.85
Cash and Cash Equivalents, July 1, 2017	3,752,070.08
Cash and Cash Equivalents, June 30, 2018	$ 4,264,782.93

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (20,848,275.40)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	971,089.11
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	42,587.72
Inventories	64,176.47
Prepaid Items	13,111.52
Net Other Postemployment Benefits Asset	2,018.00
Deferred Outflows Related to Pensions	1,416,728.00
Deferred Outflows Related to Other Postemployment Benefits	(22,206.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(174,075.20)
Due to Primary Government	(350.80)
Unearned Revenue	28,395.23
Funds Held for Others	(2,575.70)
Net Pension Liability	(993,601.00)
Net Other Postemployment Benefits Liability	(7,962,573.00)
Compensated Absences	12,349.79
Deferred Inflows Related to Pensions	(82,393.00)
Deferred Inflows Related to Other Postemployment Benefits	7,971,932.00
Net Cash Used by Operating Activities	$ (19,563,662.26)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 2,421,602.68
Restricted Cash and Cash Equivalents	1,604,196.33
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	238,983.92
Total Cash and Cash Equivalents - June 30, 2018	$ 4,264,782.93

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 1,004,890.19
Assets Acquired through a Gift	167,405.54
Change in Fair Value of Investments	470,847.78
Increase in Receivables Related to Nonoperating Income	6,831.94
Loss on Disposal of Capital Assets	(36,971.22)

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

Isothermal Community College Foundations
Statement of Financial Position
June 30, 2018

Exhibit B-1

	Isothermal Community College Foundation, Inc.	Polk County Campus I.C.C. Foundation, Inc.
ASSETS		
Cash and Cash Equivalents	$ 396,628	$ 45,673
Investments	2,241,051	234,660
Investment in Polk County Community Foundation		140,412
Total Assets	$ 2,637,679	$ 420,745
LIABILITIES AND NET ASSETS		
Total Liabilities	$ 0	$ 0
Net Assets:		
Unrestricted	191,552	312,862
Temporarily Restricted	2,446,127	107,883
Total Liabilities and Net Assets	$ 2,637,679	$ 420,745

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

Isothermal Community College Foundations
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Exhibit B-2

	Isothermal Community College Foundation, Inc.	Polk County Campus I.C.C. Foundation, Inc.
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Support:		
Contributions	$ 4,050	$ 849
Other Revenues	55,094	1,000
Fund Raising		2,000
Interest and Investment Earnings	4,527	10,087
Unrealized Gain on Investments	417	394
Realized Gain on Investments	3,429	6,906
In-Kind Contributions	23,377	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	125,502	4,878
Total Unrestricted Revenues and Support	216,396	26,114
Expenses:		
Program Contributions:		
Awards and Grants		1,400
College Support	30,459	6,713
Scholarships	18,249	
Mentoring	30,948	
Professional Development	690	
Performing Arts	52,682	
Management and General	9,572	7,742
In-Kind Expenses	23,377	
Fundraising	23,227	379
Total Expenses	189,204	16,234
Increase in Unrestricted Net Assets	27,192	9,880
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	60,640	
Other	1,555	
Interest and Investment Earnings	72,485	7,943
Unrealized Gain on Investments	7,563	
Realized Gain on Investments	60,609	
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions	(125,502)	(4,878)
Increase in Temporarily Restricted Net Assets	77,350	3,065
Increase in Net Assets	104,542	12,945
Net Assets at Beginning of Year	2,533,137	407,800
Net Assets at End of Year	$ 2,637,679	$ 420,745

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

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

Discretely Presented Component Units – Isothermal Community College Foundation, Inc. (Foundation) and Polk County Campus I.C.C. Foundation, Inc. (PCC ICC Foundation) are legally separate, nonprofit corporations and are reported as discretely presented component units based on the nature and significance of their relationship to the College.

The Foundation and the PCC ICC Foundation act primarily as fundraising organizations to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 34 members and the PCC ICC Foundation board consists of 11 members. Although the College does not control the timing or amount of receipts from the Foundation or the PCC ICC Foundation, the majority of resources, or income thereon, that the Foundation and PCC ICC Foundation hold and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation and PCC ICC Foundation can only be used by, or for the benefit of the College, the Foundation and PCC ICC Foundation are considered component units of the College and are reported in separate financial statements because of the difference in their reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed $77,687.00 to the College for both restricted and unrestricted purposes. The PCC ICC Foundation distributed $5,246.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation and PCC ICC Foundation can be obtained from the College Controller's office at P.O. Box 804, Spindale, NC 28160 or calling (828) 395-1492.

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, cash with fiscal agent, 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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. 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. Interest costs incurred are capitalized during the period of construction.

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

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

Asset Class	Estimated Useful Life
Buildings	10-62 years
Machinery and Equipment	2-40 years
General Infrastructure	10-75 years

The Andrew and Flora Major Art collection, acquired prior to July 1, 2015, is capitalized at fair value as of the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include long-term liabilities that will not be paid within the next fiscal year. Long-term liabilities include: compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

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 13 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 14 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 fiscal 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:

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

Restricted Net Position - **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 10 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. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the campus bookstore, public radio station, and performing arts center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank, 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 $2,110.00. The carrying amount of the College's deposits not with the State Treasurer was $2,698,098.11, and the bank balance was $2,922,206.97.

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

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

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

At June 30, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,564,574.82, 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.

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 College does not have a formal investment policy that addresses interest rate risk.

Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 14,000.00	$ 0.00	$ 0.00	$ 0.00	$ 14,000.00
Debt Mutual Funds - Domestic	4,781,652.61	221,587.92	1,238,637.23	399,785.15	2,921,642.31
Debt Mutual Funds - Foreign	741,765.08	95,304.60	398,086.22	184,831.89	63,542.37
Total Debt Securities	5,537,417.69	$ 316,892.52	$ 1,636,723.45	$ 584,617.04	$ 2,999,184.68
Other Securities					
Balanced Mutual Funds	707,417.59				
International Mutual Funds	3,522,271.86				
Equity Mutual Funds	4,753,224.03				
Investments in Real Estate	3,000.00				
Alternative Mutual Funds	1,082,374.26				
Total Investments	$ 15,605,705.43				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2018, the College's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds - Domestic	$ 4,781,652.61	$ 2,370,149.91	$ 147,954.92	$ 368,166.54	$ 332,963.31	$ 524,747.73	$ 1,037,670.20
Debt Mutual Funds - Foreign	741,765.08	115,331.46	51,452.63	127,405.86	258,036.35	189,538.78	
Totals	$ 5,523,417.69	$ 2,485,481.37	$ 199,407.55	$ 495,572.40	$ 590,999.66	$ 714,286.51	$ 1,037,670.20

Rating Agency: Standard & Poor's; Moody's

Component Units

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

	Foundation	PCC ICC Foundation
Money Market Fund	$ 81,196	$ 2,538
Common Stock	1,078,927	113,141
Fixed Income	1,080,928	118,981
Polk County Community Foundation, Inc.		140,412
Total Investments	$ 2,241,051	$ 375,072

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	$	2,110.00
Carrying Amount of Deposits with Private Financial Institutions		2,698,098.11
Investments in the Short-Term Investment Fund		1,564,574.82
Other Investments		15,605,705.43
Total Deposits and Investments	$	19,870,488.36
Deposits		
Current:		
Cash and Cash Equivalents	$	2,421,602.68
Restricted Cash and Cash Equivalents		1,604,196.33
Noncurrent:		
Restricted Cash and Cash Equivalents		238,983.92
Total Deposits		4,264,782.93
Investments		
Current:		
Restricted Short-Term Investments		120,210.96
Noncurrent:		
Restricted Investments		15,485,494.47
Total Investments		15,605,705.43
Total Deposits and Investments	$	19,870,488.36

NOTE 3 - FAIR VALUE MEASUREMENTS

College - 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 Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
U.S. Treasuries	$ 14,000.00	$ 14,000.00	$ 0.00	$ 0.00
Debt Mutual Funds - Domestic	4,781,652.61	4,781,652.61		
Debt Mutual Funds - Foreign	741,765.08	741,765.08		
Total Debt Securities	5,537,417.69	5,537,417.69		
Other Securities				
Balanced Mutual Funds	707,417.59	707,417.59		
International Mutual Funds	3,522,271.86	3,522,271.86		
Equity Mutual Funds	4,753,224.03	4,753,224.03		
Investments in Real Estate	3,000.00			3,000.00
Alternative Mutual Funds	1,082,374.26	1,082,374.26		
Total Investments by Fair Value Level	15,605,705.43	$ 15,602,705.43	$ 0.00	$ 3,000.00
Investments as a Position in an External Investment Pool				
Short-Term Investment Fund	1,564,574.82			
Total Investments Measured at Fair Value	$ 17,170,280.25			

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 within 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.

Investments in Real Estate - Investments in real estate classified in Level 3 of the fair value hierarchy are valued by comparing the value to the county tax value.

Component Units - FASB Accounting Standards Codification 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level I - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Organization has the ability to access.

Level II - Inputs to the valuation methodology include

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

If an asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

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

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Fair Value Measured on a Recurring Basis

The fair value of each financial instrument in the table below was measured using FASB ASC 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments.

		Level 1
Foundation:		
Money Market Fund	$	81,196
Common Stock		1,078,927
Fixed Income		1,080,928
Total	$	2,241,051
PCC ICC Foundation:		
Polk County Community Foundation, Inc.	$	140,412
Marketable Securities:		
Money Market Fund		2,538
Common Stock		113,141
Fixed Income		118,981
Total	$	375,072

NOTE 4 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2018, net appreciation of $113,969.47 was available to be spent, which was classified in net position as restricted – expendable: scholarships 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	$ 554,290.90	$ 472,568.00	$ 81,722.90
Student Sponsors	102,956.34		102,956.34
Accounts	164,339.92	9,136.46	155,203.46
Intergovernmental	266,812.07		266,812.07
Radio Station Pledges	7,180.00	4,667.00	2,513.00
Other	15,631.94		15,631.94
Total Current Receivables	$ 1,111,211.17	$ 486,371.46	$ 624,839.71

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	$ 1,328,578.17	$ 0.00	$ 0.00	$ 1,328,578.17
Art, Literature, and Artifacts	62,305.00			62,305.00
Construction in Progress	488,904.81	4,785,567.84		5,274,472.65
Total Capital Assets, Nondepreciable	1,879,787.98	4,785,567.84		6,665,355.82
Capital Assets, Depreciable:				
Buildings	28,142,557.73		28,800.00	28,113,757.73
Machinery and Equipment	6,927,406.07	465,390.53	64,861.72	7,327,934.88
General Infrastructure	805,692.82			805,692.82
Total Capital Assets, Depreciable	35,875,656.62	465,390.53	93,661.72	36,247,385.43
Less Accumulated Depreciation for:				
Buildings	14,657,916.89	606,061.18	2,940.00	15,261,038.07
Machinery and Equipment	2,808,010.17	341,000.49	53,317.22	3,095,693.44
General Infrastructure	428,500.12	24,027.44		452,527.56
Total Accumulated Depreciation	17,894,427.18	971,089.11	56,257.22	18,809,259.07
Total Capital Assets, Depreciable, Net	17,981,229.44	(505,698.58)	37,404.50	17,438,126.36
Capital Assets, Net	$ 19,861,017.42	$ 4,279,869.26	$ 37,404.50	$ 24,103,482.18

The capital assets schedule above includes land and buildings with a cost of $2,618,177.49 and a carrying value of $489,981.27 for which the College does not hold title. On April 26, 2017, the College signed a general warranty deed whereas the College deeded two buildings on the main campus to Rutherford County for the purpose of constructing the Applied Sciences and Workforce Development Building, currently under construction. In order for the County to obtain the financing needed to provide the resources for this project, the College transferred the titles for land and buildings to the County for use as collateral until the debt is satisfied, at which time the titles revert back to the College.

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	$ 94,664.60
Accounts Payable - Capital Assets	787,952.60
Accrued Payroll	414,359.39
Contract Retainage	216,937.59
Intergovernmental Payables	11,110.08
Other	3,407.17
Total Current Accounts Payable and Accrued Liabilities	$ 1,528,431.43

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	$ 936,874.00	$ 506,937.76	$ 494,587.97	$ 949,223.79	$ 51,068.23
Net Pension Liability	6,286,667.00		993,601.00	5,293,066.00	
Net Other Postemployment Benefits Liability	26,062,886.00		7,962,573.00	18,100,313.00	
Total Long-Term Liabilities	$ 33,286,427.00	$ 506,937.76	$ 9,450,761.97	$ 24,342,602.79	$ 51,068.23

Additional information regarding the net pension liability is included in Note 13.
Additional information regarding the net other postemployment benefits liability is included in Note 14.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for WNCW-FM Public Radio transmitter site locations. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	$ 55,869.94
2020	10,710.00
2021	11,085.00
2022	11,473.00
2023	11,875.00
2024-2026	38,176.00
Total Minimum Lease Payments	$ 139,188.94

Rental expense for all operating leases during the year was $73,043.57.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of $26,472,754.44 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	$ 2,696,305.00	$ 0.00	$ 2,696,305.00
Deferred Outflows Related to OPEB		577,502.86	577,502.86
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	5,293,066.00		5,293,066.00
Net OPEB Liability		18,100,313.00	18,100,313.00
Deferred Inflows Related to Pensions	297,582.00		297,582.00
Deferred Inflows Related to OPEB		7,971,932.00	7,971,932.00
Net Effect on Unrestricted Net Position	$ (2,894,343.00)	$ (25,494,742.14)	$ (28,389,085.14)

See Notes 13 and 14 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 11 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees, Net	$ 4,025,288.30	$ 0.00	$ 3,098,876.24	$ 25,731.67	$ 900,680.39
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 893,684.85	$ 1,447.24	$ 582,617.48	$ 19,915.06	$ 289,705.07
Public Radio Station	737,963.27	11,640.00			726,323.27
Performing Arts Center	231,134.01	2,145.00			228,989.01
Vending Operations	7,931.91				7,931.91
Rent	22,400.00				22,400.00
Sales and Services of Education and Related Activities	45,941.68				45,941.68
Total Sales and Services, Net	$ 1,939,055.72	$ 15,232.24	$ 582,617.48	$ 19,915.06	$ 1,321,290.94

NOTE 12 - 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	$ 7,158,288.39	$ 237,561.47	$ 300,412.12	$ 0.00	$ 0.00	$ 0.00	$ 7,696,261.98
Public Service	887,479.19	136,488.94	610,827.07		438.67		1,635,233.87
Academic Support	2,183,005.97	184,304.65	87,397.97				2,454,708.59
Student Services	1,130,830.80	4,495.66	112,229.38				1,247,555.84
Institutional Support	2,627,693.50	321,403.89	615,521.92				3,564,619.31
Operations and Maintenance of Plant	974,237.08	512,489.38	408,668.98		577,588.34		2,472,983.78
Student Financial Aid				1,868,629.03			1,868,629.03
Auxiliary Enterprises	237,872.15	764,464.84	155,513.25		1,314.98		1,159,165.22
Depreciation						971,089.11	971,089.11
Total Operating Expenses	$ 15,199,407.08	$ 2,161,208.83	$ 2,290,570.69	$ 1,868,629.03	$ 579,341.99	$ 971,089.11	$ 23,070,246.73

NOTE 13 - 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 $572,730.11, and the College's contributions were $1,029,005.09 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 $5,293,066.00 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 0.06671%, which was a decrease of 0.00169 from its proportion measured as of June 30, 2016, which was 0.06840%.

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 includes inflation assumption and is net of pension plan investment expense.

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%)
$ 10,895,320.00	$ 5,293,066.00	$ 599,090.00

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 $1,368,793.00. 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	$ 114,744.00	$ 173,164.00
Changes of Assumptions	836,225.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	716,330.91	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		124,418.00
Contributions Subsequent to the Measurement Date	1,029,005.09	
Total	$ 2,696,305.00	$ 297,582.00

The amount of $1,029,005.09 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	$ 235,479.00
2020	964,168.00
2021	456,755.00
2022	(286,684.09)
Total	$ 1,369,717.91

NOTE 14 - 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 15. 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 $577,502.86 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 15, 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 $13,363.70 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 $18,100,313.00 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 0.05521%, which was a decrease of 0.00470 from its proportion measured as of June 30, 2016, which was 0.05991%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of $35,211.00 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 0.05761%, which was a decrease of 0.00234 from its proportion measured as of June 30, 2016, which was 0.05995%.

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	$ 21,594,004.00	$ 18,100,313.00	$ 15,331,408.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	$ (29,935.00)	$ (35,211.00)	$ (40,450.00)

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	$ 14,787,255.00	$ 18,100,313.00	$ 22,506,545.00
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 $560,861.00 for RHBF and $19,177.00 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	$ 9,654.00	$ 9,654.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		7,718.00	7,718.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		1,408.44	1,408.44
Contributions Subsequent to the Measurement Date	577,502.86	13,363.70	590,866.56
Total	$ 577,502.86	$ 32,144.14	$ 609,647.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	$ 1,297,826.00	$ 0.00	$ 1,297,826.00
Changes of Assumptions	4,984,744.00		4,984,744.00
Net Difference Between Projected and Actual Earnings on Plan Investments	6,727.00		6,727.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	1,682,635.00		1,682,635.00
Total	$ 7,971,932.00	$ 0.00	$ 7,971,932.00

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:

Year Ended June 30:	RHBF	DIPNC
2019	$ (1,594,723.00)	$ 5,618.00
2020	(1,594,723.00)	5,618.00
2021	(1,594,723.00)	5,616.00
2022	(1,594,723.00)	1,928.44
2023	(1,593,040.00)	
Total	$ (7,971,932.00)	$ 18,780.44

NOTE 15 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees 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 14, 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 14, 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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. The 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. In addition, losses from all other employees are covered by a contract with a private insurance company with coverage of $100,000 per occurrence with a $500 deductible.

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 retained the following risks as of June 30, 2018: Professional Liability and Medical Malpractice, Employment Practices, and Cyber Liability.

The College purchased other authorized coverage from a private insurance company through the North Carolina Department of Insurance. This coverage includes Employers' Liability Insurance with limits of $100,000 per occurrence limit; Professional Liability insurance with limits of $1,000,000 per occurrence covering students and instructors in Allied Health and Cosmetology programs; Director's and Officer's Liability Insurance with a limit of $3,000,000 and a $25,000 deductible; and Cyber Liability Insurance with limits up to $1,000,000 and a $5,000 deductible.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $2,476,879.44 and on other purchases were $155,648.65 at June 30, 2018.

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

NOTE 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:

		Amount
July 1, 2017 Net Position as Previously Reported	$	36,112,443.88
Restatement:		
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.		(25,438,216.00)
July 1, 2017 Net Position as Restated	$	10,674,227.88

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.06671%	0.06840%	0.06856%	0.07024%	0.07080%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,293,066.00	$ 6,286,667.00	$ 2,526,572.00	$ 823,509.00	$ 4,298,281.00
Covered Payroll	$ 9,457,676.30	$ 9,386,587.49	$ 9,435,794.58	$ 9,368,268.38	$ 9,361,352.66
Net Pension Liability as a Percentage of Covered Payroll	55.97%	66.98%	26.78%	8.79%	45.92%
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.

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

Exhibit C-2

	2018	2017	2016	2015	2014
Contractually Required Contribution	$ 1,029,005.09	$ 943,876.09	$ 858,872.76	$ 863,375.20	$ 814,102.52
Contributions in Relation to the Contractually Determined Contribution	1,029,005.09	943,876.09	858,872.76	863,375.20	814,102.52
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,545,501.78	$ 9,457,676.30	$ 9,386,587.49	$ 9,435,794.58	$ 9,368,268.38
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	$ 779,800.68	$ 680,252.89	$ 445,270.89	$ 308,643.75	$ 295,527.97
Contributions in Relation to the Contractually Determined Contribution	779,800.68	680,252.89	445,270.89	308,643.75	295,527.97
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,361,352.66	$ 9,143,184.04	$ 9,031,863.91	$ 8,645,483.25	$ 8,795,475.30
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.

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

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
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* .

Isothermal 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 C-3*

	2017	2016
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.05521%	0.05991%
Proportionate Share of Collective Net OPEB Liability	$ 18,100,313.00	$ 26,062,886.00
Covered Payroll	$ 9,457,676.30	$ 9,386,587.49
Net OPEB Liability as a Percentage of Covered Payroll	191.38%	277.66%
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	0.05761%	0.05995%
Proportionate Share of Collective Net OPEB Asset	$ 35,211.00	$ 37,229.00
Covered Payroll	$ 9,457,676.30	$ 9,386,587.49
Net OPEB Asset as a Percentage of Covered Payroll	0.37%	0.40%
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* .

Isothermal Community College
Required Supplementary Information
Schedule of College Contributions
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Ten Fiscal Years — *Exhibit C-4*

Retiree Health Benefit Fund	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 577,502.86	$ 549,490.99	$ 525,648.90	$ 518,025.12	$ 505,886.49
Contributions in Relation to the Contractually Determined Contribution	577,502.86	549,490.99	525,648.90	518,025.12	505,886.49
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,545,501.78	$ 9,457,676.30	$ 9,386,587.49	$ 9,435,794.58	$ 9,368,268.38
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 496,151.69	$ 457,159.20	$ 442,561.33	$ 389,046.75	$ 360,614.49
Contributions in Relation to the Contractually Determined Contribution	496,151.69	457,159.20	442,561.33	389,046.75	360,614.49
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,361,352.66	$ 9,143,184.04	$ 9,031,863.91	$ 8,645,483.25	$ 8,795,475.30
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Disability Income Plan of North Carolina	**2018**	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 13,363.70	$ 35,939.17	$ 38,485.01	$ 38,686.76	$ 41,220.38
Contributions in Relation to the Contractually Determined Contribution	13,363.70	35,939.17	38,485.01	38,686.76	41,220.38
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,545,501.78	$ 9,457,676.30	$ 9,386,587.49	$ 9,435,794.58	$ 9,368,268.38
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	**2012**	**2011**	**2010**	**2009**
Contractually Required Contribution	$ 41,189.95	$ 47,544.56	$ 46,965.69	$ 44,956.51	$ 45,736.47
Contributions in Relation to the Contractually Determined Contribution	41,189.95	47,544.56	46,965.69	44,956.51	45,736.47
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,361,352.66	$ 9,143,184.04	$ 9,031,863.91	$ 8,645,483.25	$ 8,795,475.30
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.

Isothermal 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 14 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 information included in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

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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
Isothermal Community College
Spindale, 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 Isothermal Community College (College), a component unit of the State of North Carolina, and its discretely presented component units, 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 22, 2019. Our report includes a reference to other auditors who audited the financial statements of Isothermal Community College Foundation, Inc. and Polk County Campus I.C.C. Foundation, Inc., as described in our report on the College's financial statements. The financial statements of those entities were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with those entities.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 22, 2019

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This audit required 377 hours at an approximate cost of $38,831.