

STATE OF NORTH CAROLINA

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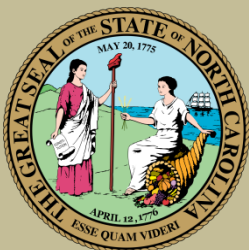
BETH A. WOOD, CPA



ROWAN-CABARRUS COMMUNITY COLLEGE

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

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Rowan-Cabarrus Community College

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

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

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

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

Beth A. Wood, CPA
State Auditor

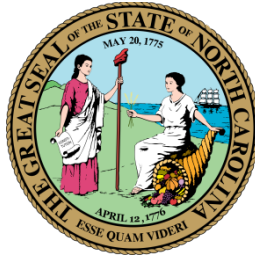


Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rowan-Cabarrus Community College
Salisbury, North Carolina

Report on the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rowan-Cabarrus Community College, and its discretely presented component unit, 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, Rowan-Cabarrus 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.

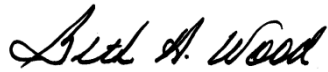
Other Matters – Required Supplementary Information

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 March 11, 2019 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our

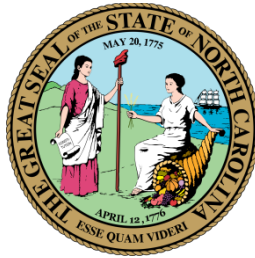
testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 11, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

As prescribed by standards issued by the Governmental Accounting Standards Board (GASB), this Management's Discussion and Analysis (MD&A) section of Rowan-Cabarrus Community College's Annual Financial Report provides an overview of the College's financial position and activities during the fiscal year ended June 30, 2018. The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion, along with the accompanying financial statements and related notes, are the responsibility of the College's management and have been prepared by management to comprise the College's complete financial report.

As required, this report contains three basic financial statements and notes to the financial statements:

Statement of Net Position (Exhibit A-1): This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The College's net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) is an indicator of the College's financial health at a point in time.

Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2): This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize the presentation of the College's services to the students and public.

Statement of Cash Flows (Exhibit A-3): This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability of the College to meet financial obligations as they mature.

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

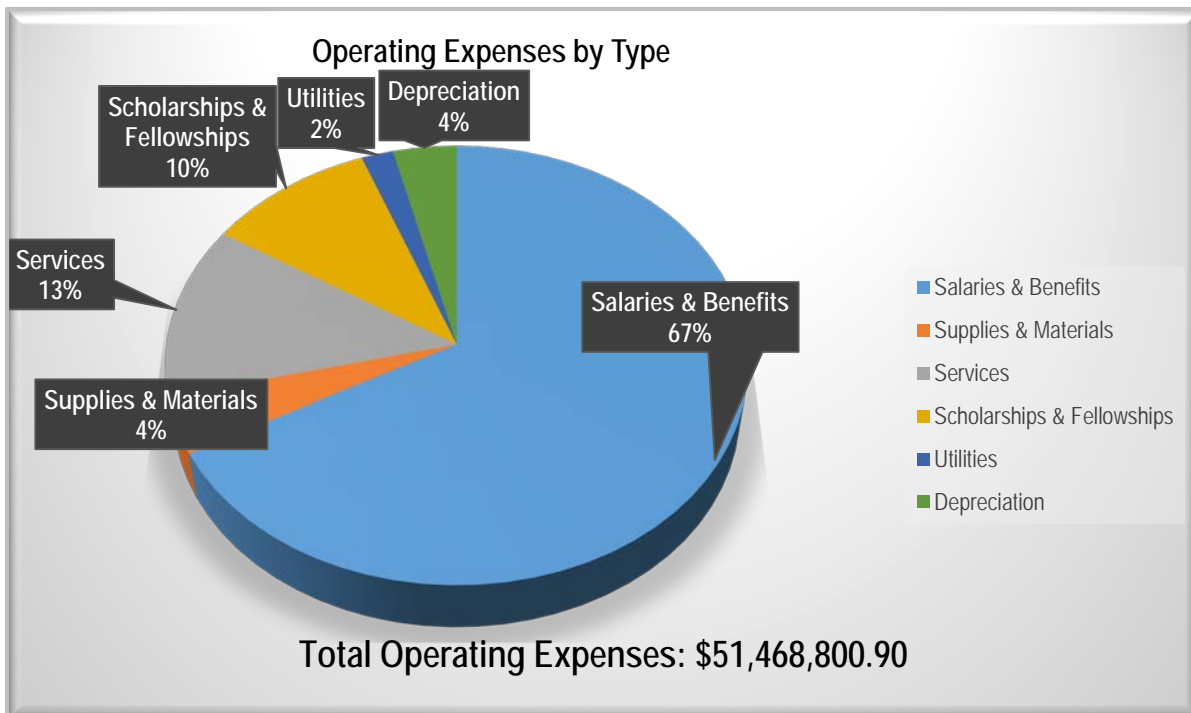
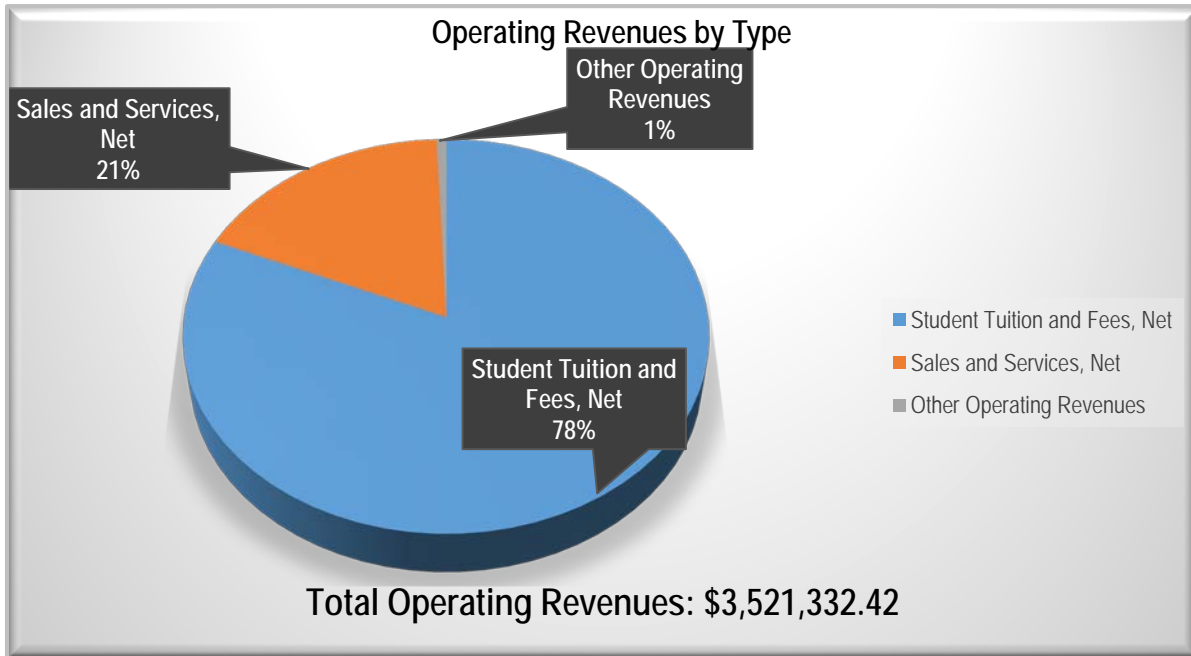
These statements are prepared under the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College is considered to be a business-type activity and is reported in a single column on the statements.

Rowan-Cabarrus Community College (College) is a comprehensive, public, two-year community college serving Rowan and Cabarrus counties on multiple campuses located across the two-county service area. In fiscal year 2018, the College trained more than 8,700 curriculum students through a broad range of college transfer and associate or technical degree programs, in addition to providing customized corporate training, continuing education courses, and special interest classes for more than 12,800 continuing education students.

In addition to the College's financial statements and accompanying notes, information for a component unit is presented. The Statement of Financial Position, Statement of Activities, and certain notes for Rowan-Cabarrus Community College Foundation, Inc. (Foundation) are discretely presented alongside the financial statements; however, the component unit is not included in management's discussion and analysis. More information describing the relationship between the College and its discretely presented component unit can be found in Note 1A, Significant Accounting Policies - Financial Reporting Entity.

Financial Highlights

At June 30, 2018, the College's net position was \$17,391,441.72, an increase of \$1,987,436.33 from the prior year. Net investment in capital assets at June 30, 2018, increased from June 30, 2017 by \$2,328,885.83. Total operating revenues for the fiscal year decreased by \$1,216,151.63 over the prior year totaling \$3,521,332.42 at year end while operating expenses decreased by \$431,004.78 for a total of \$51,468,800.90 at June 30, 2018. The charts below reflect the distribution of operating revenues and operating expenses for the fiscal year.



Statement of Net Position

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables, inventories, and notes receivable. Noncurrent assets consist of cash and cash equivalents, receivables, investments, net other postemployment benefits asset, and net capital assets. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of \$5,000 or more and a useful life of more than one year. The College's net capital assets are stated at historical cost less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 30 years for equipment.

The Condensed Statement of Net Position presented here is prepared from the College's Statement of Net Position for the year ended June 30, 2018 and the year ended June 30, 2017.

Condensed Statement of Net Position				
	FYE 2018	FYE 2017 (as Restated)	Dollar Change	Percent Change
Assets				
Current Assets	\$ 8,674,292.25	\$ 9,507,532.12	\$ (833,239.87)	(8.76%)
Noncurrent Assets				
Capital Assets, Net of Depreciation	91,992,306.59	89,507,724.26	2,484,582.33	2.78%
Other	1,548,649.52	1,454,408.37	94,241.15	6.48%
Total Assets	102,215,248.36	100,469,664.75	1,745,583.61	1.74%
Total Deferred Outflows of Resources	7,235,498.00	10,603,113.00	(3,367,615.00)	(31.76%)
Liabilities				
Current Liabilities	4,842,097.97	4,599,653.59	242,444.38	5.27%
Long-Term Liabilities	67,403,277.67	90,418,024.77	(23,014,747.10)	(25.45%)
Total Liabilities	72,245,375.64	95,017,678.36	(22,772,302.72)	(23.97%)
Total Deferred Inflows of Resources	19,813,929.00	651,094.00	19,162,835.00	2943.17%
Net Position				
Net Investment in Capital Assets	73,239,144.33	70,910,258.50	2,328,885.83	3.28%
Restricted	2,286,640.25	1,376,095.70	910,544.55	66.17%
Unrestricted	(58,134,342.86)	(56,882,348.81)	(1,251,994.05)	2.20%
Total Net Position	\$ 17,391,441.72	\$ 15,404,005.39	\$ 1,987,436.33	12.90%

During the year ended June 30, 2018, the College implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As part of the GASB 75 implementation, the College was required to make year-end entries to record its proportionate share of the statewide net other postemployment benefits (OPEB) liability, OPEB expense, and associated deferred inflows of resources and deferred outflows of resources for the cost-sharing, multiple-employer OPEB plans in which it participates. The net OPEB liability will be measured as of June 30, 2017. Additionally, a restatement was required to record the beginning balance of the net OPEB liability and the deferred outflow of resources for employer contributions made subsequent to the measurement date of the beginning net OPEB liability but before the start of the College's fiscal year. As a consequence of this new requirement, the prior year amounts in the Condensed Statement of Net Position have been restated. See Note 18 to the financial statements for more information on the restatement.

Total assets increased \$1,745,583.61 from \$100,469,664.75 in 2017 to \$102,215,248.36 in 2018. This increase is primarily due to the completion of capital projects, particularly upgrades

to the North Campus HVAC system. Total current assets decreased by \$833,239.87, driven by a decrease in current cash and cash equivalents of \$577,652.65 as the College spent restricted and unrestricted funds on construction projects. Capital assets, net increased by \$2,484,582.33 primarily due to a large net increase in buildings of \$1,162,514.18 as the College completed upgrades of the North Campus HVAC system, and a net increase of \$821,172.68 in construction in progress primarily due to the Cabarrus Advanced Technology Education Center project.

Total liabilities decreased \$22,772,302.72 from \$95,017,678.36 to \$72,245,375.64 in 2018. The primary drivers of this change are decreases in long-term liabilities, specifically a decrease in the net OPEB liability of \$19,490,111.00 and the net pension liability of \$2,694,405.00. The change in the net OPEB liability is due to changes in actuarial assumptions, and the change in the net pension liability is due to better than expected earnings for retirement system's investments. Current liabilities increased \$242,444.38 primarily due to an increase in capital accounts payable in connection with ongoing construction projects.

Deferred outflows related to pensions decreased \$3,422,035.00 from 2017, while deferred outflows related to OPEB increased only \$54,420.00. These changes were the result of differences between actual and projected earnings on investments and actuarial assumptions. Deferred inflows related to pensions increased \$90,793.00 from 2017, while the implementation of GASB 75 introduced newly reported deferred inflows related to OPEB of \$19,072,042.00. This recorded balance was due to the result of differences between actual and expected experience, changes in proportion and differences between the College's contributions and proportionate share of contributions, and changes in actuarial assumptions performed every five years. See Notes 13 and 14 of the Notes to the Financial Statements for more information about the College's deferred outflows and inflows related to pensions and other postemployment benefits.

The College's total net position at June 30, 2018 was \$17,391,441.72, an increase of \$1,987,436.33 over the prior fiscal year. The increase of \$2,328,885.83 in net investment in capital assets is primarily due to the completion of the North Campus HVAC upgrade and the ongoing construction of the Cabarrus Advanced Technology Education Center. The increase in restricted net position of \$910,544.55 is primarily due to an increase of \$1,249,344.80 in funds designated for capital projects, as several construction projects including the Cabarrus Advanced Technology Education Center are in progress. This increase is offset by a \$321,435.73 decrease in funds restricted for specific program use, as the College expended Golden Leaf grant funds for the College's mechatronics and light diesel engineering programs. The deficit in unrestricted net position increased by \$1,251,994.05 primarily due to a decrease in student enrollment and changes in the amounts related to the other postemployment benefits. These OPEB changes from prior year occurred due to differences between actual and expected experience, changes in proportion and differences between the College's contributions and proportionate share of contributions, and changes in actuarial assumptions. See Note 10 of the Notes to the Financial Statements for details regarding the current year deficit in unrestricted net position.

Statement of Revenues, Expenses, and Changes in Net Position

The Condensed Statement of Revenues, Expenses, and Changes in Net Position presented here is prepared from the College's Statement of Revenues, Expenses, and Change in Net Position for the year ended June 30, 2018 and the year ended June 30, 2017.

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

	FYE 2018	FYE 2017*	Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 2,758,853.99	\$ 3,893,472.90	\$ (1,134,618.91)	(29.14%)
Sales and Services, Net	735,309.77	657,557.77	77,752.00	11.82%
Other Operating Revenues	27,168.66	186,453.38	(159,284.72)	(85.43%)
Total Operating Revenues	3,521,332.42	4,737,484.05	(1,216,151.63)	(25.67%)
Operating Expenses				
Salaries and Benefits	34,540,293.30	34,540,055.53	237.77	0.00%
Supplies and Materials	2,104,155.68	2,028,123.86	76,031.82	3.75%
Services	6,567,206.18	6,851,417.07	(284,210.89)	(4.15%)
Scholarships and Fellowships	5,267,200.20	5,892,680.71	(625,480.51)	(10.61%)
Utilities	992,015.58	896,446.24	95,569.34	10.66%
Depreciation	1,997,929.96	1,691,082.27	306,847.69	18.15%
Total Operating Expenses	51,468,800.90	51,899,805.68	(431,004.78)	(0.83%)
Operating Loss	(47,947,468.48)	(47,162,321.63)	(785,146.85)	1.66%
Nonoperating Revenues (Expenses)				
State Aid	30,340,055.61	30,226,027.35	114,028.26	0.38%
County Appropriations	5,156,638.00	4,806,830.00	349,808.00	7.28%
Noncapital Gifts and Grants	12,214,845.41	12,072,671.33	142,174.08	1.18%
Investment Income, Net	63,987.71	41,934.73	22,052.98	52.59%
Interest and Fees on Debt	(1,272,432.29)	(1,334,978.15)	62,545.86	(4.69%)
Other Nonoperating Expenses	(28,016.39)	(29,476.47)	1,460.08	(4.95%)
Net Nonoperating Revenues	46,475,078.05	45,783,008.79	692,069.26	1.51%
Loss Before Other Revenues	(1,472,390.43)	(1,379,312.84)	(93,077.59)	6.75%
Capital Aid and Gifts	3,459,826.76	3,399,512.73	60,314.03	1.77%
Increase in Net Position	1,987,436.33	2,020,199.89	(32,763.56)	(1.62%)
Net Position, Beginning of Year	15,404,005.39	69,912,146.50	(54,508,141.11)	(77.97%)
Restatement		(56,528,341.00)	56,528,341.00	
Net Position, End of Year	\$ 17,391,441.72	\$ 15,404,005.39	\$ 1,987,436.33	12.90%

*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.

Total revenues were \$54,756,685.91 for 2018 compared to \$55,284,460.19 for 2017. Total expenses were \$52,769,249.58 for 2018 compared to \$53,264,260.30 for 2017, resulting in an overall increase in net position of \$1,987,436.33.

Operating revenues decreased by \$1,216,151.63 to \$3,521,332.42 for fiscal year 2018 primarily due to a decrease in student enrollment. Net nonoperating revenues increased by \$692,069.26 to \$46,475,078.05 in fiscal year 2018. The increase is primarily due to an increase in county appropriations of \$349,808.00 and an increase in noncapital grants of \$299,298.00. The increase in county appropriations is primarily due to an increase in the operating budget, and the increase in noncapital grants is due to the College receiving two new grants from the Golden Leaf Foundation to start and develop mechatronics and light diesel technology programs.

Rowan-Cabarrus Community College is a state supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by state and county appropriations, financial aid, grants, and other nonoperating revenues. The College receives appropriations from the State of North Carolina

and from Rowan and Cabarrus Counties. Tuition and state aid provide funds for the operational and administrative needs of the College based on the number of student Full-Time Equivalents (FTE) enrolled in the previous academic year or the two-year average FTE, whichever is greater. Rowan and Cabarrus Counties provide funds for the operation and maintenance of facilities in the respective counties. Although the College is reliant on these sources of funding by design, they are considered nonoperating revenues for financial reporting purposes. Large operating losses are, therefore, expected every year.

Operating expenses for fiscal year 2018 decreased \$431,004.78 to \$51,468,800.90. The change was primarily due to the decrease in services expense of \$284,210.89 attributable to a decrease in contracted services for maintenance expenses from the prior year. Scholarships and fellowships also decreased by \$625,480.51 primarily due to a decrease in the enrollment of students who qualified for student financial aid. These decreases were offset by an increase in depreciation expense in the amount of \$306,847.69, resulting from the College depreciating new capital assets placed in service.

Capital Assets

The following schedule compares capital assets for the fiscal years 2018 and 2017, net of accumulated depreciation.

	2018	2017	Dollar Change	Percent Change
Land	\$ 3,074,118.80	\$ 3,074,118.80	\$ 0.00	0.00%
Construction in Progress	3,442,757.94	2,621,585.26	821,172.68	31.32%
Buildings, Net	76,247,809.65	75,085,295.47	1,162,514.18	1.55%
Machinery and Equipment, Net	7,664,369.67	7,156,404.57	507,965.10	7.10%
General Infrastructure, Net	1,563,250.53	1,570,320.16	(7,069.63)	(0.45%)
Total Capital Assets, Net	<u>\$ 91,992,306.59</u>	<u>\$ 89,507,724.26</u>	<u>\$ 2,484,582.33</u>	2.78%

Construction in progress increased by \$821,172.68 as the College continued to spend local and state construction dollars for new and continuing construction and renovation projects. These projects include a new Advanced Technology Center in Cabarrus County and various renovation projects in both Rowan and Cabarrus Counties. Net buildings increased by \$1,162,514.18 as the College completed upgrades to the North Campus HVAC system in 2018. Net machinery and equipment increased by \$507,965.10 primarily due to purchases made for education-related equipment such as a firearms simulator for the Basic Law Enforcement Training program and new vehicles. For additional information on capital assets, see Note 6 of the Notes to the Financial Statements.

Financial Commitments and Capital Debt

At June 30, 2018, the College had outstanding commitments on construction contracts totaling \$15,702,183.21, primarily relating to the construction of the Cabarrus Advanced Technology Education Center. The College also pays annual lease payments of \$2,200,184.76 for the North Carolina Research Campus building, and is obligated to make these payments until 2030. This capital lease began in June 2010. This lease expense is being supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease expense while searching for alternative funding. Refer to Notes 8 and 9 of the Notes to the

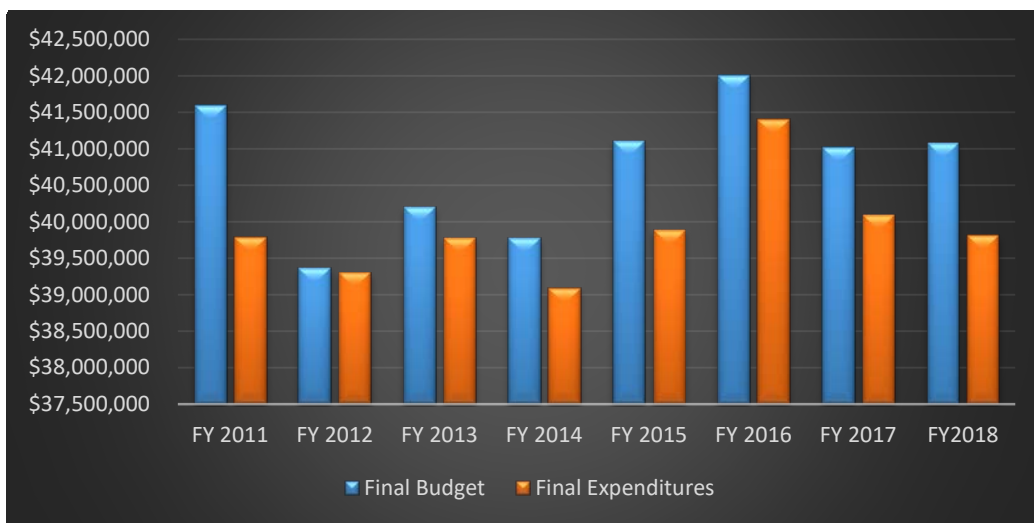
Financial Statements for additional details on the College's capital lease obligations.

Factors Impacting Future Periods

Over a ten-year period from 2002 through 2012, the College saw unprecedented enrollment growth totaling 59%. The increase in enrollment over the period was attributed to a downturn in the economy and the addition of new programs designed to meet community needs. The North Carolina Community College System prides itself in its role in economic recovery and historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. When the economy began a slow recovery following the economic recession, it was not unusual or unexpected to see a decline in FTE as students return to work. In fiscal year 2012, the College's budget FTE was 7,091, but by fiscal year 2018, budget FTE had declined by 18%, dropping to 5,839.

The College's continuing education program grew significantly over the past five years by increasing the amount of customized training programs and other non-credit programs provided for local business and industry. The College has also developed and implemented new student success and student support services aimed at increasing retention and completion for curriculum students. These initiatives are making a positive impact on FTE. Additionally, in fiscal year 2019, the North Carolina Community College System modified the way continuing education occupational extension FTE is calculated, creating an even greater increase in budget FTE for fiscal year 2019. Overall, the College's FTE for fiscal year 2019 is 8% greater at 6,303.

In North Carolina, the majority of financial support for community colleges comes from state funding. Therefore, state support is a key factor influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. As shown on the chart below, while annual state budget appropriations have increased and decreased along with the College's FTE, since fiscal year 2011, state budget and expenditures have remained relatively flat; budget funding has decreased by 1.24% while state expenditures have decreased by only 0.06%. State spending does not match budget because the College intentionally carried forward capital equipment funding as needed to fund larger equipment needs associated with adding new programs and buildings in future years.



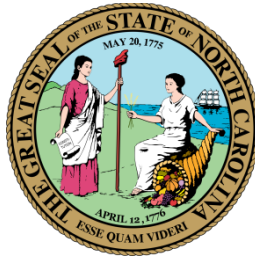
Rowan-Cabarrus Community College is confident in its financial stability and ability to attract

citizens in Rowan and Cabarrus Counties to the life-changing benefits of higher education. The College's Board of Trustees, administration, staff, and faculty are dedicated to the College's mission of *"improving lives and building community through higher education workforce development."*

The College's new 2018-2023 strategic plan centers on four key principles designed to position the College to respond to student and community ongoing higher education needs:

- **LEARN:** *How can Rowan-Cabarrus Community College increase the community's educational attainment that leads individuals, families, and the region to prosperity, sustainability, and success?*
- **ENGAGE:** *How can Rowan-Cabarrus Community College best prepare students to be responsible and productive citizens?*
- **INNOVATE:** *How can Rowan-Cabarrus Community College serve the Community of the Future?*
- **LEAD:** *How can Rowan-Cabarrus Community College be a catalyst for change?*

Rowan-Cabarrus Community College's new strategic plan positions the College for continued growth and continued success. Over the next five years, the College will strategically add programs while serving as a strong partner with the state, local, and federal agencies and private business partners in economic development opportunities, and while remaining financially sound.



FINANCIAL STATEMENTS

Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,650,635.49
Restricted Cash and Cash Equivalents	913,094.31
Receivables, Net (Note 5)	3,051,894.56
Inventories	49,628.36
Notes Receivable, Net (Note 5)	9,039.53

Total Current Assets	8,674,292.25
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	738,673.03
Restricted Due from Primary Government	88,993.27
Restricted Investments	148,659.69
Other Investments	497,243.53
Net Other Postemployment Benefits Asset	75,080.00
Capital Assets - Nondepreciable (Note 6)	6,516,876.74
Capital Assets - Depreciable, Net (Note 6)	85,475,429.85

Total Noncurrent Assets	93,540,956.11
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Total Assets	102,215,248.36
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	5,932,087.00
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	1,303,411.00

Total Deferred Outflows of Resources	7,235,498.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,846,890.61
Unearned Revenue	873,547.23
Long-Term Liabilities - Current Portion (Note 8)	1,121,660.13

Total Current Liabilities	4,842,097.97
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Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	67,403,277.67
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Total Liabilities	72,245,375.64
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	741,887.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	19,072,042.00

Total Deferred Inflows of Resources	19,813,929.00
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Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	73,239,144.33
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	227,382.79
Restricted for Specific Programs	24,000.00
Expendable:	
Scholarships and Fellowships	53,488.01
Loans	19,028.42
Capital Projects	1,429,380.34
Restricted for Specific Programs	387,629.69
Other	145,731.00
Unrestricted	<u>(58,134,342.86)</u>
Total Net Position	<u>\$ 17,391,441.72</u>

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

Rowan-Cabarrus 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)	\$ 2,758,853.99
Sales and Services, Net (Note 11)	735,309.77
Other Operating Revenues	27,168.66
	<hr/>
Total Operating Revenues	3,521,332.42
	<hr/>

EXPENSES

Operating Expenses:

Salaries and Benefits	34,540,293.30
Supplies and Materials	2,104,155.68
Services	6,567,206.18
Scholarships and Fellowships	5,267,200.20
Utilities	992,015.58
Depreciation	1,997,929.96
	<hr/>
Total Operating Expenses	51,468,800.90
	<hr/>

Operating Loss	<u>(47,947,468.48)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	30,340,055.61
County Appropriations	5,156,638.00
Noncapital Grants - Student Financial Aid	11,890,773.91
Noncapital Grants	299,298.00
Noncapital Gifts	24,773.50
Investment Income (Net of Investment Expense of \$146.80)	63,987.71
Interest and Fees on Debt	(1,272,432.29)
Other Nonoperating Expenses	(28,016.39)
	<hr/>

Net Nonoperating Revenues	46,475,078.05
	<hr/>

Loss Before Other Revenues	(1,472,390.43)
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State Capital Aid	861,086.69
County Capital Aid	2,588,740.07
Capital Gifts	10,000.00
	<hr/>

Increase in Net Position	1,987,436.33
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NET POSITION

Net Position, July 1, 2017 as Restated (Note 18)	<u>15,404,005.39</u>
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Net Position, June 30, 2018	<u>\$ 17,391,441.72</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,164,117.82
Payments to Employees and Fringe Benefits	(34,041,814.70)
Payments to Vendors and Suppliers	(10,202,145.61)
Payments for Scholarships and Fellowships	(5,267,200.20)
Other Payments	(588,614.35)
	<u>(45,935,657.04)</u>
Net Cash Used by Operating Activities	<u>(45,935,657.04)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	30,340,055.61
County Appropriations	5,156,638.00
Noncapital Grants - Student Financial Aid	12,551,964.67
Noncapital Grants	299,298.00
Noncapital Gifts	24,773.50
	<u>48,372,729.78</u>
Total Cash Provided by Noncapital Financing Activities	<u>48,372,729.78</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	861,086.69
County Capital Aid	1,778,814.81
Capital Gifts	10,000.00
Acquisition and Construction of Capital Assets	(3,427,079.71)
Principal Paid on Capital Debt and Leases	(927,752.45)
Interest Paid on Capital Debt and Leases	(1,272,432.29)
	<u>(2,977,362.95)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,977,362.95)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	67,180.51
Net Decrease in Cash and Cash Equivalents	(473,109.70)
Cash and Cash Equivalents, July 1, 2017	<u>6,775,512.53</u>
Cash and Cash Equivalents, June 30, 2018	<u>\$ 6,302,402.83</u>

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (47,947,468.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,997,929.96
Write-Offs	619,328.32
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(113,055.43)
Inventories	(48,696.54)
Net Other Postemployment Benefits Asset	7,109.00
Deferred Outflows Related to Pensions	3,422,035.00
Deferred Outflows Related to Other Postemployment Benefits	(54,420.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(454,382.72)
Unearned Revenue	136,512.51
Funds Held for Others	(588,614.35)
Net Pension Liability	(2,694,405.00)
Net Other Postemployment Benefits Liability	(19,490,111.00)
Compensated Absences	109,746.69
Deferred Inflows Related to Pensions	90,793.00
Deferred Inflows Related to Other Postemployment Benefits	19,072,042.00
Net Cash Used by Operating Activities	<u>\$ (45,935,657.04)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,650,635.49
Restricted Cash and Cash Equivalents	913,094.31
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>738,673.03</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 6,302,402.83</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 899,676.61
Increase in Receivables Related to Nonoperating Income	201,989.13
Loss on Disposal of Capital Assets	(28,016.39)

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

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Financial Position
June 30, 2018

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 3,289,750
Receivables	4,852
Unconditional Promises to Give	51,068
Beneficial Interest in Assets Held by Others	5,213,085
Land	101,246
Construction in Progress	723,844
	<hr/>
Total Assets	<u><u>\$ 9,383,845</u></u>

LIABILITIES AND NET ASSETS

Accrued Expenses	\$ 138
	<hr/>
Total Liabilities	138
	<hr/>
Net Assets	
Unrestricted	1,256,690
Temporarily Restricted	6,046,253
Permanently Restricted	2,080,764
	<hr/>
Total Net Assets	9,383,707
	<hr/>
Total Liabilities and Net Assets	<u><u>\$ 9,383,845</u></u>

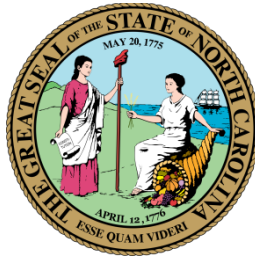
The accompanying notes to the financial statements are an integral part of this statement.

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Activities
Year Ended June 30, 2018

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUES, AND GAINS				
Contributions and Support	\$ 684,937	\$ 2,815,009	\$ 25,839	\$ 3,525,785
Special Events, Net	(24,393)			(24,393)
Investment Income, Net	3,641			3,641
Change in Beneficial Interest	190,402			190,402
Total Support, Revenues, and Gains	<u>854,587</u>	<u>2,815,009</u>	<u>25,839</u>	<u>3,695,435</u>
EXPENSES AND LOSSES				
Program Expenses	<u>557,583</u>			<u>557,583</u>
Supporting Services:				
General Administration	<u>36,802</u>			<u>36,802</u>
Total Expenses and Losses	<u>594,385</u>			<u>594,385</u>
Change in Net Assets	260,202	2,815,009	25,839	3,101,050
Net Assets at Beginning of Year	<u>996,488</u>	<u>3,231,244</u>	<u>2,054,925</u>	<u>6,282,657</u>
Net Assets at End of Year	<u>\$ 1,256,690</u>	<u>\$ 6,046,253</u>	<u>\$ 2,080,764</u>	<u>\$ 9,383,707</u>

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

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a board that consists of no fewer than 15 and no more than 30 members as determined by the bylaws. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed \$474,296.16 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Director, P.O. Box 1595, Salisbury, NC 28145-1595 or by calling (704) 216-3876.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - 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.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the College for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- 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 and state and local

governments. Receivables are recorded net of estimated uncollectible amounts.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-75 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years

- I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, 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 principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes capital lease obligations. Other 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 July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at 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 June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal 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 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** - The Copy Center is the only institutional auxiliary operation that provides goods and services to College departments. All internal sales activities to College departments from this auxiliary operation have been eliminated in the accompanying financial statements. The elimination is recorded by removing the revenue and expense in the auxiliary operation 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 \$2,595.00. The carrying amount of the College's deposits not with the State Treasurer was \$1,073,880.55, and the bank balance was \$1,603,453.20.

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 - 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 \$5,225,927.28, 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.

At June 30, 2018, the amount shown on the Statement of Net Position as restricted and other investments includes \$645,903.22, which represents the College's equity position in the State Treasurer's Bond Index Fund (BIF). The BIF (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 formal regulatory oversight and does not have a credit rating) had a weighted average maturity of 8.24 years at June 30, 2018. Assets and shares of the BIF are valued at fair market value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's BIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

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

The Foundation established a Quasi-Endowed Agency Fund in 2015 with an initial transfer of \$2,148,568 to the Foundation for the Carolinas. The Quasi-Endowed Agency Fund is treated like an Endowed Agency Fund, such that an annual spendable income is calculated and available for distribution. However, unlike an Endowed Agency Fund, the entire balance may be made available for distribution. The general purpose of the Gift Fund is to raise and manage funds and enhance relationships that support the work and mission of Rowan-Cabarrus Community College. The

Foundation for the Carolinas has “variance power” granting its board of directors the authority and discretion as to the investment and distribution of the assets of the fund. Distributions of net income and principal are made on the recommendation of the Board of Directors of the Foundation.

The Foundation's beneficial interest in assets held by others at June 30, 2018 is as follows:

	<u>Amount</u>
Beginning Balance	\$ 2,657,856
Transfers To	2,364,826
Change in Value - Increase	<u>190,403</u>
Total Assets Held by Others	<u>\$ 5,213,085</u>

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	\$ 2,595.00
Carrying Amount of Deposits with Private Financial Institutions	1,073,880.55
Investments in the Short-Term Investment Fund	5,225,927.28
Investments in the Bond Index Fund	<u>645,903.22</u>
Total Deposits and Investments	\$ 6,948,306.05
Deposits	
Current:	
Cash and Cash Equivalents	\$ 4,650,635.49
Restricted Cash and Cash Equivalents	913,094.31
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>738,673.03</u>
Total Deposits	<u>6,302,402.83</u>
Investments	
Noncurrent:	
Restricted Investments	148,659.69
Other Investments	<u>497,243.53</u>
Total Investments	<u>645,903.22</u>
Total Deposits and Investments	\$ 6,948,306.05

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.

Short-Term Investment Fund - At year-end, a portion of the College's investments valued at \$5,225,927.28 were held in the STIF. 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.

Bond Index Fund - At year-end, a portion of the College's investments valued at \$645,903.22 were held in the Bond Index Fund (BIF). Ownership interest in the BIF is determined monthly at fair market value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings. 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 BIF is not required to be categorized within the fair value hierarchy.

Component Unit - The Foundation's endowment assets are invested in marketable securities and are reported as beneficial interest in assets held by others on the Statement of Financial Position. The Foundation accounts for investments in accordance with FASB ASC 958-320. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. All of the beneficial interest in assets held by others valued at \$5,213,085 were classified in Level 1 of the fair value hierarchy and valued using prices quoted in active markets for those securities.

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 noncurrent restricted cash and cash equivalents 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 \$1,907.05 was available to be spent and was classified in net position as restricted expendable for scholarships and fellowships as it is restricted for specific purposes.

On March 1, 2013, the College placed additional endowment assets in the State Treasurer’s Bond Index Fund. These assets are pooled with state agencies and similar institutions in long-term investments with the State Treasurer’s Investment Pool and are reported as noncurrent restricted and other investments 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; however, it is generally expected that the amount of annual spending will approximate a range of 2% to 7% of the previous 12-quarter average market value portfolio assets determined at December 31 each year. Initially, the annual spending will be based on the market value of portfolio assets for the previous year and the previous two years until a three-year average is available. At June 30, 2018, there was \$70,207.22 appreciation available to be spent.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
	<u> </u>	<u> </u>	<u> </u>
Current Receivables:			
Students	\$ 2,399,749.78	\$ 539,901.03	\$ 1,859,848.75
Accounts	233,816.94		233,816.94
Intergovernmental	910,009.29		910,009.29
Other	<u>48,219.58</u>		<u>48,219.58</u>
Total Current Receivables	<u>\$ 3,591,795.59</u>	<u>\$ 539,901.03</u>	<u>\$ 3,051,894.56</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 14,096.64</u>	<u>\$ 5,057.11</u>	<u>\$ 9,039.53</u>

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	\$ 3,074,118.80	\$ 0.00	\$ 0.00	\$ 3,074,118.80
Construction in Progress	2,621,585.26	3,232,307.48	2,411,134.80	3,442,757.94
Total Capital Assets, Nondepreciable	5,695,704.06	3,232,307.48	2,411,134.80	6,516,876.74
Capital Assets, Depreciable:				
Buildings	87,110,029.87	2,411,134.80		89,521,164.67
Machinery and Equipment	11,201,814.88	1,254,449.55	46,978.30	12,409,286.13
General Infrastructure	2,129,066.93	23,771.65		2,152,838.58
Total Capital Assets, Depreciable	100,440,911.68	3,689,356.00	46,978.30	104,083,289.38
Less Accumulated Depreciation for:				
Buildings	12,024,734.40	1,248,620.62		13,273,355.02
Machinery and Equipment	4,045,410.31	718,468.06	18,961.91	4,744,916.46
General Infrastructure	558,746.77	30,841.28		589,588.05
Total Accumulated Depreciation	16,628,891.48	1,997,929.96	18,961.91	18,607,859.53
Total Capital Assets, Depreciable, Net	83,812,020.20	1,691,426.04	28,016.39	85,475,429.85
Capital Assets, Net	\$ 89,507,724.26	\$ 4,923,733.52	\$ 2,439,151.19	\$ 91,992,306.59

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	\$ 95,782.44
Accounts Payable - Capital Assets	1,051,174.16
Accrued Payroll	1,614,404.57
Contract Retainage	32,274.81
Intergovernmental Payables	53,254.63
Total Current Accounts Payable and Accrued Liabilities	\$ 2,846,890.61

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
Long-Term Debt					
Capital Leases Payable	\$ 18,597,465.76	\$ 0.00	\$ 927,752.45	\$ 17,669,713.31	\$ 994,819.75
Other Long-Term Liabilities					
Compensated Absences	1,294,033.80	824,190.43	714,443.74	1,403,780.49	126,840.38
Net Pension Liability	13,776,439.00		2,694,405.00	11,082,034.00	
Net Other Postemployment Benefits Liability	57,859,521.00		19,490,111.00	38,369,410.00	
Total Other Long-Term Liabilities	72,929,993.80	824,190.43	22,898,959.74	50,855,224.49	126,840.38
Total Long-Term Liabilities	\$ 91,527,459.56	\$ 824,190.43	\$ 23,826,712.19	\$ 68,524,937.80	\$ 1,121,660.13

Additional information regarding capital lease obligations is included in Note 9.

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 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to the North Carolina Research Campus (NCRC) building are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	\$ 2,200,184.76
2020	2,200,184.76
2021	2,200,184.76
2022	2,200,184.76
2023	2,200,184.76
2024-2028	11,000,923.80
2029-2030	4,033,672.06
Total Minimum Lease Payments	26,035,519.66
Amount Representing Interest (7% Rate of Interest)	8,365,806.35
Present Value of Future Lease Payments	<u>\$ 17,669,713.31</u>

The NCRC building and land acquired in fiscal year 2010 under a capital lease amounted to \$26,786,729.97 at June 30, 2018. The capital lease payments are supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease expense while searching for alternative funding.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$2,665,458.43 at June 30, 2018.

B. Operating Lease Obligations - The College entered into operating leases for equipment and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 263,522.02
2020	256,435.62
2021	256,300.80
2022	<u>256,300.80</u>
Total Minimum Lease Payments	<u>\$ 1,032,559.24</u>

Rental expense for all operating leases during the year was \$218,151.46.

NOTE 10 - NET POSITION

The deficit in unrestricted net position of \$58,134,342.86 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:

	<u>TSERS</u>	<u>Retiree Health Benefit Fund</u>	<u>Total</u>
Deferred Outflows Related to Pensions	\$ 5,932,087.00	\$ 0.00	\$ 5,932,087.00
Deferred Outflows Related to OPEB		1,232,760.40	1,232,760.40
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	11,082,034.00		11,082,034.00
Net OPEB Liability		38,369,410.00	38,369,410.00
Deferred Inflows Related to Pensions	741,887.00		741,887.00
Deferred Inflows Related to OPEB		<u>19,072,042.00</u>	<u>19,072,042.00</u>
Net Effect on Unrestricted Net Position	<u>\$ (5,891,834.00)</u>	<u>\$ (56,208,691.60)</u>	<u>\$ (62,100,525.60)</u>

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	\$ 9,210,644.01	\$ 0.00	\$ 5,783,291.21	\$ 668,498.81	\$ 2,758,853.99
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	\$ 467,129.30	\$ 0.00	\$ 0.00	\$ 0.00	\$ 467,129.30
Vending Commissions	28,692.85				28,692.85
Copy Center	29,226.99	29,226.99			
Rent	97,580.00				97,580.00
Other	22,105.78				22,105.78
Sales and Services of Education and Related Activities	119,801.84				119,801.84
Total Sales and Services, Net	\$ 764,536.76	\$ 29,226.99	\$ 0.00	\$ 0.00	\$ 735,309.77

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	\$ 18,712,993.41	\$ 1,265,518.59	\$ 1,673,550.76	\$ 0.00	\$ 164,899.26	\$ 0.00	\$ 21,816,962.02
Academic Support	5,329,823.49	190,050.05	394,201.14				5,914,074.68
Student Services	3,838,670.06	57,463.60	508,702.48				4,404,836.14
Institutional Support	5,290,736.36	457,479.53	1,747,614.25				7,495,830.14
Operations and Maintenance of Plant	1,368,069.98	124,425.49	1,772,559.58		827,116.32		4,092,171.37
Student Financial Aid			21,708.80	5,267,200.20			5,288,909.00
Auxiliary Enterprises		9,218.42	448,869.17				458,087.59
Depreciation						1,997,929.96	1,997,929.96
Total Operating Expenses	\$ 34,540,293.30	\$ 2,104,155.68	\$ 6,567,206.18	\$ 5,267,200.20	\$ 992,015.58	\$ 1,997,929.96	\$ 51,468,800.90

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 \$1,222,572.30, and the College's contributions were \$2,196,554.89 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 \$11,082,034.00 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 0.13967%, which was a decrease of 0.01022 from its proportion measured as of June 30, 2016, which was 0.14989%.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
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%)
\$ 22,811,413.00	\$ 11,082,034.00	\$ 1,254,309.00

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 \$3,012,963.00. 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	\$ 240,238.00	\$ 362,551.00
Changes of Assumptions	1,750,794.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	1,499,775.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	244,725.11	379,336.00
Contributions Subsequent to the Measurement Date	2,196,554.89	
Total	\$ 5,932,087.00	\$ 741,887.00

The amount of \$2,196,554.89 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	\$ 624,001.00
2020	2,057,099.00
2021	912,771.00
2022	(600,225.89)
Total	\$ 2,993,645.11

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 \$1,232,760.40 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 \$28,526.69 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 \$38,369,410.00 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 0.11703%, which was a decrease of 0.01597 from its proportion measured as of June 30, 2016, which was 0.13300%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of \$75,080.00 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 0.12284%, which was a decrease of 0.00951 from its proportion measured as of June 30, 2016, which was 0.13235%.

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	\$ 45,773,429.00	\$ 38,369,410.00	\$ 32,498,365.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (63,829.00)	\$ (75,080.00)	\$ (86,357.00)

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	\$ 31,344,909.00	\$ 38,369,410.00	\$ 47,707,679.00
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 \$754,323.00 for RHBF and \$41,584.00 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	\$ 20,586.00	\$ 20,586.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		16,457.00	16,457.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		5,080.91	5,080.91
Contributions Subsequent to the Measurement Date	1,232,760.40	28,526.69	1,261,287.09
Total	\$ 1,232,760.40	\$ 70,650.60	\$ 1,303,411.00

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 2,751,157.00	\$ 0.00	\$ 2,751,157.00
Changes of Assumptions	10,566,760.00		10,566,760.00
Net Difference Between Projected and Actual Earnings on Plan Investments	14,260.00		14,260.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>5,739,865.00</u>		<u>5,739,865.00</u>
Total	<u>\$ 19,072,042.00</u>	<u>\$ 0.00</u>	<u>\$ 19,072,042.00</u>

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

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in OPEB Expense:

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (3,815,121.00)	\$ 12,672.00
2020	(3,815,121.00)	12,672.00
2021	(3,815,121.00)	12,668.00
2022	(3,815,121.00)	4,111.91
2023	<u>(3,811,558.00)</u>	
Total	<u>\$ (19,072,042.00)</u>	<u>\$ 42,123.91</u>

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.

During the fiscal year ended June 30, 1995, the College Board of Trustees voted to establish a self-insured reserve fund by transferring \$125,000.00 from the Construction Fund. These funds are to be used for liability claims against the College, which are not covered by insurance. The reserve fund had a balance of \$30,293.80 at June 30, 2018.

3. Employee Dishonesty and Computer Fraud

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

4. Statewide Workers' Compensation Program

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

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

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 \$15,702,183.21 and on other purchases were \$381,975.47 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

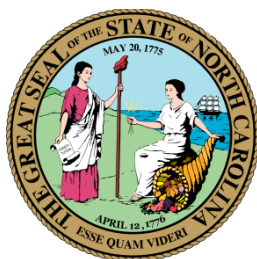
GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other 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:

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ 71,932,346.39
Restatement:	
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	<u>(56,528,341.00)</u>
July 1, 2017 Net Position as Restated	<u>\$ 15,404,005.39</u>



REQUIRED SUPPLEMENTARY INFORMATION

Rowan-Cabarrus 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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Proportionate Share Percentage of Collective Net Pension Liability	0.13967%	0.14989%	0.14445%	0.14295%	0.13940%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 11,082,034.00	\$ 13,776,439.00	\$ 5,323,269.00	\$ 1,675,976.00	\$ 8,463,000.00
Covered Payroll	\$ 20,157,078.34	\$ 20,844,385.10	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09
Net Pension Liability as a Percentage of Covered Payroll	54.98%	66.09%	25.20%	8.37%	41.68%
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.

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

Exhibit C-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 2,196,554.89	\$ 2,011,676.42	\$ 1,907,261.24	\$ 1,932,978.77	\$ 1,740,308.22
Contributions in Relation to the Contractually Determined Contribution	<u>2,196,554.89</u>	<u>2,011,676.42</u>	<u>1,907,261.24</u>	<u>1,932,978.77</u>	<u>1,740,308.22</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10	\$ 21,125,451.01	\$ 20,026,561.80
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 1,691,361.36	\$ 1,427,744.42	\$ 871,827.66	\$ 581,978.14	\$ 586,367.46
Contributions in Relation to the Contractually Determined Contribution	<u>1,691,361.36</u>	<u>1,427,744.42</u>	<u>871,827.66</u>	<u>581,978.14</u>	<u>586,367.46</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95	\$ 16,301,908.56	\$ 17,451,412.48
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.

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

Changes of Benefit Terms:

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

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. The discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

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

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

**Rowan-Cabarrus 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

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.11703%	0.13300%
Proportionate Share of Collective Net OPEB Liability	\$ 38,369,410.00	\$ 57,859,521.00
Covered Payroll	\$ 20,157,078.34	\$ 20,844,385.10
Net OPEB Liability as a Percentage of Covered Payroll	190.35%	277.58%
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	0.12284%	0.13235%
Proportionate Share of Collective Net OPEB Asset	\$ 75,080.00	\$ 82,189.00
Covered Payroll	\$ 20,157,078.34	\$ 20,844,385.10
Net OPEB Asset as a Percentage of Covered Payroll	0.37%	0.39%
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*.

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

Exhibit C-4

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 1,232,760.40	\$ 1,171,126.25	\$ 1,167,285.57	\$ 1,159,787.26	\$ 1,081,434.34
Contributions in Relation to the Contractually Determined Contribution	<u>1,232,760.40</u>	<u>1,171,126.25</u>	<u>1,167,285.57</u>	<u>1,159,787.26</u>	<u>1,081,434.34</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10	\$ 21,125,451.01	\$ 20,026,561.80
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 1,076,136.28	\$ 959,505.66	\$ 866,522.42	\$ 733,585.89	\$ 715,507.91
Contributions in Relation to the Contractually Determined Contribution	<u>1,076,136.28</u>	<u>959,505.66</u>	<u>866,522.42</u>	<u>733,585.89</u>	<u>715,507.91</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95	\$ 16,301,908.56	\$ 17,451,412.48
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Disability Income Plan of North Carolina					
Contractually Required Contribution	\$ 28,526.69	\$ 76,596.90	\$ 85,461.98	\$ 86,614.35	\$ 88,116.87
Contributions in Relation to the Contractually Determined Contribution	<u>28,526.69</u>	<u>76,596.90</u>	<u>85,461.98</u>	<u>86,614.35</u>	<u>88,116.87</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10	\$ 21,125,451.01	\$ 20,026,561.80
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 89,339.62	\$ 99,788.59	\$ 91,957.48	\$ 84,769.92	\$ 90,747.34
Contributions in Relation to the Contractually Determined Contribution	<u>89,339.62</u>	<u>99,788.59</u>	<u>91,957.48</u>	<u>84,769.92</u>	<u>90,747.34</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95	\$ 16,301,908.56	\$ 17,451,412.48
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.

Rowan-Gabarrus 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.

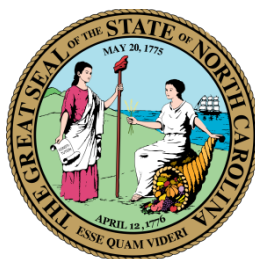
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

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
Office of the State Auditor



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State Auditor

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

Board of Trustees
Rowan-Cabarrus Community College
Salisbury, 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 Rowan-Cabarrus Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 March 11, 2019. Our report includes a reference to other auditors who audited the financial statements of Rowan-Cabarrus Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Rowan-Cabarrus Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Rowan-Cabarrus Community College Foundation, Inc.

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, CPA
State Auditor

Raleigh, North Carolina

March 11, 2019

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



This audit required 495.5 hours at an approximate cost of \$51,037.