

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

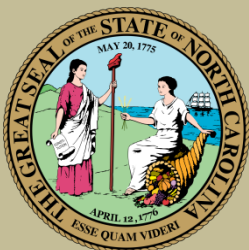


## SURRY COMMUNITY COLLEGE

DOBSON, NORTH CAROLINA

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

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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

## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Surry 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

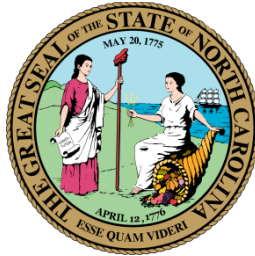


Beth A. Wood, CPA  
State Auditor

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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**



**Beth A. Wood, CPA**  
State Auditor

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

## **INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Surry Community College  
Dobson, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of Surry 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 Surry 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 Surry 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 Surry 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 Surry 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 16 to the financial statements, during the year ended June 30, 2018, Surry 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 26, 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,

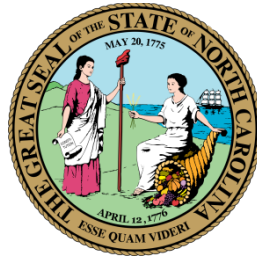
and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 26, 2019



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

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

## Using the Financial Statements

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College's financial activity is considered to be a single business-type activity and accordingly, is reported within a single column on the basic financial statements. The basic financial statements consist of three statements. These statements are featured below with brief descriptions of each.

The first statement, the Statement of Net Position includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The Statement of Net Position is presented in a classified format and is classified by current and noncurrent. The second statement, Statement of Revenues, Expenses, and Changes in Net Position, presents the revenues earned and expenses incurred during the fiscal year. Revenues and expenses are classified as operating or nonoperating. The final statement, Statement of Cash Flows, presents the sources from which the College received cash and uses for which the cash was spent. The Cash Flow Statement is presented in the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

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 17 to the financial statements for more information on the restatement.

**Statement of Net Position**

Comparative data for the current and prior year for the Statement of Net Position is presented in a condensed format as follows:

Condensed Statement of Net Position			
	2018	2017 (as Restated)	Change
<b>Assets</b>			
Current Assets	\$ 5,020,641.24	\$ 4,579,977.55	\$ 440,663.69
Noncurrent Assets			
Capital Assets, Net	25,837,288.18	23,146,287.49	2,691,000.69
Other Noncurrent Assets	<u>698,507.56</u>	<u>1,312,649.79</u>	<u>(614,142.23)</u>
Total Assets	<u>31,556,436.98</u>	<u>29,038,914.83</u>	<u>2,517,522.15</u>
Total Deferred Outflows of Resources	<u>4,211,212.00</u>	<u>5,931,322.00</u>	<u>(1,720,110.00)</u>
<b>Liabilities</b>			
Current Liabilities	2,218,030.01	1,163,284.97	1,054,745.04
Long-Term Liabilities	<u>30,577,591.45</u>	<u>41,026,376.97</u>	<u>(10,448,785.52)</u>
Total Liabilities	<u>32,795,621.46</u>	<u>42,189,661.94</u>	<u>(9,394,040.48)</u>
Total Deferred Inflows of Resources	<u>9,744,701.00</u>	<u>411,987.00</u>	<u>9,332,714.00</u>
<b>Net Position</b>			
Net Investment in Capital Assets	25,333,740.79	23,146,287.49	2,187,453.30
Restricted - Expendable	711,205.07	787,861.45	(76,656.38)
Unrestricted	<u>(32,817,619.34)</u>	<u>(31,565,561.05)</u>	<u>(1,252,058.29)</u>
Total Net Position	<u>\$ (6,772,673.48)</u>	<u>\$ (7,631,412.11)</u>	<u>\$ 858,738.63</u>

For the year ended June 30, 2018, the College's total assets increased by \$2,517,522.15, with the most significant changes occurring in capital assets. Net capital assets increased by \$2,691,000.69, mostly due to ongoing construction projects during fiscal year 2018. See the Capital Assets section for additional details. Current assets increased by \$440,663.69, driven by a new grant receivable from the Golden LEAF Foundation, and an increase in current restricted cash as the College transferred unrestricted funds to cover construction expenses primarily related to the G. Allen Mebane IV Industrial Training Center (Yadkin ITC) in Yadkinville, North Carolina. Other noncurrent assets decreased by \$614,142.23, primarily due to a reduction in noncurrent restricted cash, as \$503,547.39 of noncurrent restricted cash was transferred to current restricted cash to cover construction liabilities.

Total liabilities at fiscal year ended June 30, 2018 were \$32,795,621.46. Long-term liabilities totaled \$30,577,591.45 at year-end, of which \$755,095.45 represented liabilities for accrued vacation, \$6,678,419.00 represented net pension liability for employees, and \$23,144,077.00 represented the net other postemployment benefits (OPEB) liability. Long-term liabilities decreased by \$10,448,785.52 from the previous fiscal year. This decrease was substantially attributed to the College's proportionate share of the collective net OPEB liability for the Retiree Health Benefit Fund. Refer to Note 7 of the Notes to the Financial Statements for more information about the College's long-term liabilities. Current liabilities, consisting primarily of accounts payable and accrued payroll, totaled \$2,218,030.01 at year end, an increase of \$1,054,745.04 driven primarily by an increase in spending over the prior year associated with construction and related expenses of the Yadkin ITC.

Deferred outflows related to pensions decreased by \$1,752,865.00 from 2017, while deferred outflows related to OPEB increased only \$32,755.00. These changes were the result of differences between actual and projected earnings on investments and actuarial assumptions. Deferred inflows related to pensions decreased by \$121,563.00 from 2017, while the implementation of GASB 75 introduced newly reported deferred inflows related to OPEB of \$9,454,277.00. 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 12 and 13 of the Notes to the Financial Statements for more information about the College's deferred outflows and inflows related to pensions and postemployment benefits.

As a result of the activity noted above, the College's total net position increased by \$858,738.63 to a deficit \$6,772,673.48 from a deficit \$7,631,412.11 at June 30, 2017. The increase of \$2,187,453.30 in net investment in capital assets is due to the completion of multiple construction projects in fiscal year 2018, particularly the P Building and V Building renovations, and the ongoing construction of the Yadkin ITC. Restricted net position decreased \$76,656.38 as the College expended funds restricted for capital projects on construction. The deficit in unrestricted net position increased by \$1,252,058.29 due to a decrease in student enrollment and changes in the amounts related to other postemployment benefits. These OPEB changes from the 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 9 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**

Comparative data for the current and prior year for the Statement of Revenues, Expenses, and Changes in Net Position is presented in a condensed format as follows:

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2018	2017 (as Restated)*	Change
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 2,171,308.94	\$ 2,356,505.53	\$ (185,196.59)
Sales and Services, Net	939,624.12	1,149,956.50	(210,332.38)
Other Operating Revenues	6,022.85	6,594.70	(571.85)
Total Operating Revenues	<u>3,116,955.91</u>	<u>3,513,056.73</u>	<u>(396,100.82)</u>
<b>Operating Expenses</b>			
Salaries and Benefits	19,995,113.37	19,810,951.46	184,161.91
Supplies and Materials	4,219,608.30	4,007,132.58	212,475.72
Services	2,544,583.84	2,679,729.54	(135,145.70)
Scholarships and Fellowships	2,249,257.52	2,041,211.84	208,045.68
Utilities	464,429.47	479,463.91	(15,034.44)
Depreciation	845,943.34	829,256.83	16,686.51
Total Operating Expenses	<u>30,318,935.84</u>	<u>29,847,746.16</u>	<u>471,189.68</u>
Operating Loss	<u>(27,201,979.93)</u>	<u>(26,334,689.43)</u>	<u>(867,290.50)</u>
<b>Nonoperating Revenues (Expenses)</b>			
State Aid	15,937,170.38	15,571,057.25	366,113.13
County Appropriations	2,897,665.47	2,805,534.78	92,130.69
Noncapital Grants and Gifts	5,443,037.49	5,655,877.10	(212,839.61)
Investment Income	33,366.79	34,055.07	(688.28)
Other Nonoperating Expenses	(1,399.36)	(1,643.94)	244.58
Net Nonoperating Revenues	<u>24,309,840.77</u>	<u>24,064,880.26</u>	<u>244,960.51</u>
Loss Before Other Revenues	(2,892,139.16)	(2,269,809.17)	(622,329.99)
Capital Contributions	<u>3,750,877.79</u>	<u>1,721,516.98</u>	<u>2,029,360.81</u>
Increase (Decrease) in Net Position	858,738.63	(548,292.19)	1,407,030.82
Net Position, Beginning of Year	(7,631,412.11)	24,557,829.08	(32,189,241.19)
Restatement	<u>(31,640,949.00)</u>	<u>(31,640,949.00)</u>	<u>31,640,949.00</u>
Net Position, End of Year	<u>\$ (6,772,673.48)</u>	<u>\$ (7,631,412.11)</u>	<u>\$ 858,738.63</u>

\*Note: The restatement related to implementation of GASB 75 is presented as a separate line because actuarial calculations do not provide sufficient information to identify the restated amounts.

Total revenues for June 30, 2018, increased by 6.41% or \$1,877,975.92 to \$31,179,073.83 compared with \$29,301,097.91 for fiscal year 2017. The largest increase, \$2,029,360.81, occurred in capital contributions, primarily the result of Connect NC Bond funding received for construction projects (see Capital Assets section) during fiscal year 2018.

Student tuition and fees, net, decreased by \$185,196.59 and sales and services, net, also decreased by \$210,332.38 as a result of declining full-time student enrollment and reduction in bookstore sales, an additional consequence of the decline in student enrollment.

The College receives appropriations from the State and from both Surry and Yadkin Counties. The State provides funds for the operational and administrative needs of the College, while Surry and Yadkin Counties provide funds for the operation and maintenance of facilities in their respective counties. These appropriations are considered nonoperating revenues. Total net nonoperating revenues increased by \$244,960.51, driven by an increase of \$366,113.13 in state aid. The largest portion of this increase in state aid was a \$250,000 nonrecurring

allocation for the NC Center for Viticulture and Enology. This increase in state aid was offset by a \$109,244.42 decrease in noncapital grants - student financial aid due to the decrease in student enrollment in fiscal year 2018 as well as a shift in the type of student enrollment, from full-time to part-time.

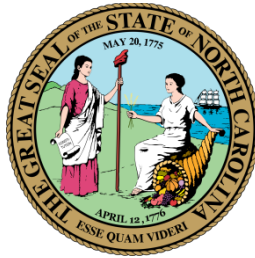
Total expenses for fiscal year 2018 were \$30,320,335.20. This is a 1.58% increase of \$470,945.10 from fiscal year 2017 total expenses of \$29,849,390.10. The most substantial portion of the increase occurred within supplies and materials expense, which increased by \$212,475.72 as the College increased spending on repairs and maintenance. In addition, salaries and benefits increased by \$184,161.91 as a result of raises authorized by the General Assembly in the fiscal year. Services expense decreased by \$135,145.70 primarily due to eliminating maintenance agreement costs related to obsolete software as well as a decrease in marketing expenses compared to fiscal year 2017, as the College promoted the opening of the Yadkin ITC in the prior year. Scholarships and fellowships expense increased by \$208,045.68 primarily due to recording a smaller scholarship discount related to the bookstore in fiscal year 2018. This smaller discount is due to students who received financial aid purchased fewer books from the College's bookstore in fiscal year 2018.

### **Capital Assets**

The College's capital assets, net of accumulated depreciation at June 30, 2018, were \$25,837,288.18. There were significant construction projects completed and in progress at the conclusion of the 2017-2018 fiscal year. The College completed renovations to the P Building, which houses the gym and fitness center, and the V Building, which houses the automotive systems technology and business technologies programs, on its Dobson campus. The largest project still ongoing is the Yadkin ITC, which comprises the bulk of construction in progress at year end. For more information about the College's capital asset holdings, refer to Note 5 of the Notes to the Financial Statements.

### **Economic Outlook**

The economic position of Surry Community College is closely tied to that of the State of North Carolina as well as student enrollment. State and county funding comprised 72% of the total revenues during the fiscal year ended June 30, 2018. Although the State of North Carolina's economy has been improving, student enrollment at Surry Community College continues to decline slightly. This decline could result in less funding for the College in future years from the state and local governments. The future impact on the College is uncertain. Nonetheless, the recent addition of the Yadkin ITC expands the College's programming in Yadkin County and should attract new students in the area of Advanced Manufacturing.



# FINANCIAL STATEMENTS

**Surry Community College**  
**Statement of Net Position**  
**June 30, 2018**

**Exhibit A-1**  
**Page 1 of 2**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,223,423.78
Restricted Cash and Cash Equivalents	874,878.61
Receivables, Net (Note 4)	500,234.15
Due from Community College Component Units	213,086.70
Inventories	209,018.00
	<hr/>
Total Current Assets	5,020,641.24

Noncurrent Assets:

Restricted Cash and Cash Equivalents	248,059.59
Restricted Due from Primary Government	405,145.97
Net Other Postemployment Benefits Asset	45,302.00
Capital Assets - Nondepreciable (Note 5)	3,031,395.95
Capital Assets - Depreciable, Net (Note 5)	22,805,892.23
	<hr/>
Total Noncurrent Assets	26,535,795.74

Total Assets	<hr/> 31,556,436.98
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	3,438,969.00
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	772,243.00
	<hr/>
Total Deferred Outflows of Resources	4,211,212.00

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,844,888.20
Unearned Revenue	194,315.96
Funds Held for Others	81,861.44
Long-Term Liabilities - Current Portion (Note 7)	96,964.41
	<hr/>
Total Current Liabilities	2,218,030.01

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<hr/> 30,577,591.45
Total Liabilities	<hr/> 32,795,621.46

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	290,424.00
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	9,454,277.00
	<hr/>
Total Deferred Inflows of Resources	9,744,701.00

**Surry Community College**  
**Statement of Net Position**  
**June 30, 2018**

**Exhibit A-1**  
**Page 2 of 2**

**NET POSITION**

Net Investment in Capital Assets	25,333,740.79
Restricted for:	
Expendable:	
Loans	2,293.80
Capital Projects	247,196.52
Restricted for Specific Programs	226,572.77
Other	235,141.98
Unrestricted	<u>(32,817,619.34)</u>
Total Net Position	<u><u>\$ (6,772,673.48)</u></u>

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



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

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 2,171,308.94
Sales and Services, Net (Note 10)	939,624.12
Other Operating Revenues	6,022.85
	<hr/>
Total Operating Revenues	3,116,955.91
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	19,995,113.37
Supplies and Materials	4,219,608.30
Services	2,544,583.84
Scholarships and Fellowships	2,249,257.52
Utilities	464,429.47
Depreciation	845,943.34
	<hr/>

Total Operating Expenses 30,318,935.84

Operating Loss (27,201,979.93)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	15,937,170.38
County Appropriations	2,897,665.47
Noncapital Grants - Student Financial Aid	3,975,294.59
Noncapital Grants	1,197,592.45
Noncapital Gifts	270,150.45
Investment Income	33,366.79
Other Nonoperating Expenses	(1,399.36)
	<hr/>

Net Nonoperating Revenues 24,309,840.77

Loss Before Other Revenues (2,892,139.16)

State Capital Aid	3,554,616.24
County Capital Aid	49,762.55
Capital Grants	146,499.00
	<hr/>

Increase in Net Position 858,738.63

**NET POSITION**

Net Position, July 1, 2017 as Restated (Note 17) 

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 (7,631,412.11)

Net Position, June 30, 2018 

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 \$ (6,772,673.48)

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

**Surry 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	\$ 3,130,473.11
Payments to Employees and Fringe Benefits	(19,408,899.04)
Payments to Vendors and Suppliers	(6,601,721.27)
Payments for Scholarships and Fellowships	(2,249,257.52)
Other Receipts	<u>8,083.63</u>
Net Cash Used by Operating Activities	<u>(25,121,321.09)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	15,937,170.38
County Appropriations	2,897,665.47
Noncapital Grants - Student Financial Aid	3,835,097.42
Noncapital Grants	997,971.48
Noncapital Gifts	<u>270,150.45</u>
Total Cash Provided by Noncapital Financing Activities	<u>23,938,055.20</u>

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

State Capital Aid Received	3,554,616.24
County Capital Aid	49,762.55
Capital Grants	146,499.00
Acquisition and Construction of Capital Assets	<u>(3,035,066.00)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>715,811.79</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>33,366.79</u>
Net Decrease in Cash and Cash Equivalents	(434,087.31)
Cash and Cash Equivalents, July 1, 2017	<u>4,780,449.29</u>
Cash and Cash Equivalents, June 30, 2018	<u>\$ 4,346,361.98</u>

**Surry 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	\$ (27,201,979.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	845,943.34
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(11,583.40)
Inventories	100,076.38
Net Other Postemployment Benefits Asset	1,695.00
Deferred Outflows Related to Pensions	1,752,865.00
Deferred Outflows Related to Other Postemployment Benefits	(32,755.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	501,669.40
Unearned Revenue	25,100.60
Funds Held for Others	8,083.63
Net Pension Liability	(1,140,393.00)
Net Other Postemployment Benefits Liability	(9,283,357.00)
Compensated Absences	(19,400.11)
Deferred Inflows Related to Pensions	(121,563.00)
Deferred Inflows Related to Other Postemployment Benefits	9,454,277.00
Net Cash Used by Operating Activities	<u>\$ (25,121,321.09)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,223,423.78
Restricted Cash and Cash Equivalents	874,878.61
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>248,059.59</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 4,346,361.98</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 503,277.36
Increase in Receivables Related to Nonoperating Income	137,710.05
Loss on Disposal of Capital Assets	(1,399.36)

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

**Surry Community College Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2018**

**Exhibit B-1**

<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 1,499,342
Investments	8,238,422
Property and Equipment, Net	<u>2,386,623</u>
Total Assets	<u><u>\$ 12,124,387</u></u>
<b>LIABILITIES</b>	
Current Portion of Long-Term Debt	\$ 35,000
Accounts Payable	<u>218,643</u>
Total Current Liabilities	<u>253,643</u>
Long-Term Debt	<u>105,000</u>
Total Liabilities	<u>358,643</u>
<b>NET ASSETS</b>	
Unrestricted	3,543,472
Temporarily Restricted	2,266,890
Permanently Restricted	<u>5,955,382</u>
Total Net Assets	<u>11,765,744</u>
Total Liabilities and Net Assets	<u><u>\$ 12,124,387</u></u>

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

**Surry Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2018**

**Exhibit B-2**

**CHANGES IN UNRESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	\$ 1,420,975
Special Events Income	77,442
Capital Campaign Income	186,692
Rental Income	5,700
Investment Income (Net of Fees)	409
Change in Market Value of Investments	24,539
Other Income	898,125
	<hr/>
Total Unrestricted Support and Revenues	2,613,882
	<hr/>
Total Unrestricted Expenses	360,562
	<hr/>
Increase in Unrestricted Net Assets	2,253,320
	<hr/>

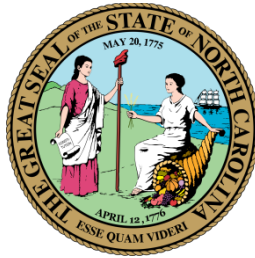
**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	83,048
Investment Income (Net of Fees)	124,231
Change In Market Value of Investments	169,999
	<hr/>
Total Temporarily Restricted Support and Revenues	377,278
	<hr/>
Total Temporarily Restricted Expenses	255,151
	<hr/>
Increase in Temporarily Restricted Net Assets	122,127
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Support and Revenues:	
Contributions	358,645
Special Events Income	1,850
Transfers In	128
	<hr/>
Increase in Permanently Restricted Net Assets	360,623
	<hr/>
Increase in Net Assets	2,736,070
Net Assets at Beginning of Year	9,029,674
	<hr/>
Net Assets at End of Year	\$ 11,765,744
	<hr/> <hr/>

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. Surry 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** - Surry 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 board consists of 12 members and three officers. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2018, the Foundation distributed \$252,058.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of Surry Community College Foundation, Inc., Surry Community College, 630 South Main Street, Dobson, NC 27017.

- 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption, postage, and merchandise for resale, are valued at the lower of cost or market using the first-in, first-out method.

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



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

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10-50 years
Machinery and Equipment	2-45 years
General Infrastructure	10-75 years

- H. **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 or resources whose use is limited by external parties or statute.
- I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability that will not be paid within the next fiscal year.

The net pension liability represents the College’s proportionate share of the collective net pension liability reported in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report*. This liability represents the College’s portion of the collective total pension liability less the fiduciary net position of the Teachers’ and State Employees’ Retirement System. See Note 12 for further information regarding the College’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

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

- J. **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.

- K. 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.

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities.

Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 9 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

**N. 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.

**O. 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**

**College** - 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. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$10,195.00, and deposits in private financial institutions with a carrying value of \$3,954,172.00 and a bank balance of \$4,342,608.16.

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.

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 \$381,994.98, 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.

**Component Unit**

**Deposits** - All funds of the College's discretely presented component unit, Surry Community College Foundation, Inc. (Foundation), are deposited in board-designated official depositories. The Foundation had the following balances in established accounts at June 30, 2018:

	Balance
Cash on Deposit with Private Financial Institutions	\$ 1,089,367
Cash Portion of Investments	409,975
<b>Total Deposits</b>	<b>\$ 1,499,342</b>

The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized to secure all deposits in excess of the federal depository insurance coverage. The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash.

**Investments** - Investments of the College's discretely presented component unit, Surry 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 following is an analysis of investments by type:

	Value
Investment Type	
Certificates of Deposit	\$ 250,000
Common Trust - Equities	7,988,422
<b>Total Investments</b>	<b>\$ 8,238,422</b>

**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, all of the College's investments valued at \$381,994.98 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.

**Component Unit** - The Foundation's investments are reported at fair value in the accompanying statement of financial position as follows for the period ended June 30, 2018.



	Fair Value Measurements Using			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Certificates of Deposit	\$ 250,000	\$ 250,000	\$ 0	\$ 0
Common Trust - Equities	7,988,422	7,988,422		
<b>Total Investments Measured at Fair Value</b>	<b>\$ 8,238,422</b>	<b>\$ 8,238,422</b>	<b>\$ 0</b>	<b>\$ 0</b>

FASB ASC 820-10, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. If no Level 1 inputs were available, Level 2 inputs were used where available to the Foundation, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted net asset values of the shares held by the Foundation at year-end. The fair values of common stock, corporate bonds, and U.S. Government securities are based on quoted market prices.

Level 2 Fair Value Measurements

Inputs to the valuation methodology include:

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

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

Level 3 Fair Value Measurements

The fair value of these types of investments is based upon other methods since these investments are not actively traded and significant other observable inputs are not available.

Gains and losses (realized and unrealized) are reported on the statement of activities for the year ended June 30, 2018.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 650,847.65	\$ 435,661.11	\$ 215,186.54
Student Sponsors	10,443.00		10,443.00
Accounts	134,407.44		134,407.44
Intergovernmental	140,197.17		140,197.17
<b>Total Current Receivables</b>	<b>\$ 935,895.26</b>	<b>\$ 435,661.11</b>	<b>\$ 500,234.15</b>

### NOTE 5 - 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 (As Restated)	Increases	Decreases	Balance June 30, 2018
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 253,062.00	\$ 0.00	\$ 0.00	\$ 253,062.00
Construction in Progress	656,420.87	2,630,333.33	508,420.25	2,778,333.95
<b>Total Capital Assets, Nondepreciable</b>	<b>909,482.87</b>	<b>2,630,333.33</b>	<b>508,420.25</b>	<b>3,031,395.95</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	32,109,944.14	943,921.25		33,053,865.39
Machinery and Equipment	4,995,779.58	472,509.06	11,704.18	5,456,584.46
General Infrastructure	756,173.44			756,173.44
<b>Total Capital Assets, Depreciable</b>	<b>37,861,897.16</b>	<b>1,416,430.31</b>	<b>11,704.18</b>	<b>39,266,623.29</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	12,585,356.47	593,211.01		13,178,567.48
Machinery and Equipment	2,590,216.85	233,076.33	10,304.82	2,812,988.36
General Infrastructure	449,519.22	19,656.00		469,175.22
<b>Total Accumulated Depreciation</b>	<b>15,625,092.54</b>	<b>845,943.34</b>	<b>10,304.82</b>	<b>16,460,731.06</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>22,236,804.62</b>	<b>570,486.97</b>	<b>1,399.36</b>	<b>22,805,892.23</b>
<b>Capital Assets, Net</b>	<b>\$ 23,146,287.49</b>	<b>\$ 3,200,820.30</b>	<b>\$ 509,819.61</b>	<b>\$ 25,837,288.18</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 875,162.52
Accounts Payable - Capital Assets	382,800.44
Accrued Payroll	466,178.29
Contract Retainage	120,746.95
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,844,888.20</b>



**NOTE 7 - LONG-TERM LIABILITIES**

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

	Balance July 1, 2017 (as Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Compensated Absences	\$ 871,459.97	\$ 617,847.87	\$ 637,247.98	\$ 852,059.86	\$ 96,964.41
Net Pension Liability	7,818,812.00		1,140,393.00	6,678,419.00	
Net Other Postemployment Benefits Liability	32,427,434.00		9,283,357.00	23,144,077.00	
<b>Total Long-Term Liabilities</b>	<b>\$ 41,117,705.97</b>	<b>\$ 617,847.87</b>	<b>\$ 11,060,997.98</b>	<b>\$ 30,674,555.86</b>	<b>\$ 96,964.41</b>

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

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

**NOTE 8 - OPERATING LEASE OBLIGATIONS**

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

Fiscal Year	Amount
2019	\$ 28,804.56
2020	28,804.56
2021	27,814.96
2022	22,866.96
2023	4,965.21
<b>Total Minimum Lease Payments</b>	<b>\$ 113,256.25</b>

Rental expense for all operating leases during the year was \$23,839.35.

**NOTE 9 - NET POSITION**

The deficit in unrestricted net position of \$32,817,619.34 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:

## NOTES TO THE FINANCIAL STATEMENTS

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 3,438,969.00	\$ 0.00	\$ 3,438,969.00
Deferred Outflows Related to OPEB		732,402.98	732,402.98
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	6,678,419.00		6,678,419.00
Net OPEB Liability		23,144,077.00	23,144,077.00
Deferred Inflows Related to Pensions	290,424.00		290,424.00
Deferred Inflows Related to OPEB		9,454,277.00	9,454,277.00
<b>Net Effect on Unrestricted Net Position</b>	<b>\$ (3,529,874.00)</b>	<b>\$ (31,865,951.02)</b>	<b>\$ (35,395,825.02)</b>

See Notes 12 and 13 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

### NOTE 10 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 4,126,983.37	\$ 1,954,640.95	\$ 1,033.48	\$ 2,171,308.94
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 373,613.60	\$ 0.00	\$ 0.00	\$ 373,613.60
Bookstore	813,778.75	407,158.09		406,620.66
Parking	3,348.00			3,348.00
Athletic	13,561.00			13,561.00
Other	2,820.32			2,820.32
Sales and Services of Education and Related Activities	139,660.54			139,660.54
<b>Total Sales and Services, Net</b>	<b>\$ 1,346,782.21</b>	<b>\$ 407,158.09</b>	<b>\$ 0.00</b>	<b>\$ 939,624.12</b>

### NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,887,732.82	\$ 1,074,653.36	\$ 436,912.83	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,399,299.01
Academic Support	3,065,026.02	395,142.56	526,301.59				3,986,470.17
Student Services	1,411,815.08	36,622.26	92,702.92				1,541,140.26
Institutional Support	3,193,928.30	838,929.03	973,385.58				5,006,242.91
Operations and Maintenance of Plant	1,070,789.97	957,023.84	431,898.87		464,429.47		2,924,142.15
Student Financial Aid				2,249,257.52			2,249,257.52
Auxiliary Enterprises	365,821.18	917,237.25	83,382.05				1,366,440.48
Depreciation						845,943.34	845,943.34
<b>Total Operating Expenses</b>	<b>\$ 19,995,113.37</b>	<b>\$ 4,219,608.30</b>	<b>\$ 2,544,583.84</b>	<b>\$ 2,249,257.52</b>	<b>\$ 464,429.47</b>	<b>\$ 845,943.34</b>	<b>\$ 30,318,935.84</b>

## NOTE 12 - PENSION PLANS

**Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

*Benefits Provided:* TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$726,350.06, and the College's contributions were \$1,305,008.94 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 \$6,678,419.00 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 0.08417%, which was a decrease of 0.0009 from its proportion measured as of June 30, 2016, which was 0.08507%.

*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%)
\$ 13,746,951.00	\$ 6,678,419.00	\$ 755,890.00

*Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* For the year ended June 30, 2018, the College recognized pension expense of \$1,794,723.00. 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	\$ 144,776.00	\$ 218,486.00
Changes of Assumptions	1,055,089.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	903,817.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	30,278.06	71,938.00
Contributions Subsequent to the Measurement Date	1,305,008.94	
<b>Total</b>	<b>\$ 3,438,969.00</b>	<b>\$ 290,424.00</b>

The amount of \$1,305,008.94 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:

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 358,233.00
2020	1,249,301.00
2021	597,719.06
2022	<u>(361,717.00)</u>
Total	<u>\$ 1,843,536.06</u>

**NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS**

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan’s financial information, including all information about the plans’ assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina’s fiscal year 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller’s website at <https://www.osc.nc.gov/> or by calling the State Controller’s Financial Reporting Section at (919) 707-0500.

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

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

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



position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

## B. Plan Descriptions

### 1. Health Benefits

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

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. 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 \$732,402.98 for the year ended June 30, 2018.

## 2. Disability Income

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

*Benefits Provided:* Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements

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

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

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to

Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

*Contributions:* Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The College's contributions to DIPNC were \$16,948.17 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 \$23,144,077.00 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 0.07059%, which was a decrease of 0.00395 from its proportion measured as of June 30, 2016, which was 0.07454%.

*Net OPEB Asset:* At June 30, 2018, the College reported an asset of \$45,302.00 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 0.07412%, which was a decrease of 0.00156 from its proportion measured as of June 30, 2016, which was 0.07568%.

*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	\$	27,609,556.00	\$ 23,144,077.00	\$ 19,602,321.00
		1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$	(38,514.00)	\$ (45,302.00)	\$ (52,106.00)

*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	\$	18,906,581.00	\$ 23,144,077.00	\$ 28,776,254.00
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 \$864,962.00 for RHBF and \$24,249.00 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:

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Differences Between Actual and Expected Experience	\$ 0.00	\$ 12,421.00	\$ 12,421.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		9,930.00	9,930.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		540.85	540.85
Contributions Subsequent to the Measurement Date	<u>732,402.98</u>	<u>16,948.17</u>	<u>749,351.15</u>
<b>Total</b>	<b><u>\$ 732,402.98</u></b>	<b><u>\$ 39,840.02</u></b>	<b><u>\$ 772,243.00</u></b>

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	\$ 1,659,473.00	\$ 0.00	\$ 1,659,473.00
Changes of Assumptions	6,373,773.00		6,373,773.00
Net Difference Between Projected and Actual Earnings on Plan Investments	8,601.00		8,601.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	<u>1,412,430.00</u>		<u>1,412,430.00</u>
<b>Total</b>	<b><u>\$ 9,454,277.00</u></b>	<b><u>\$ 0.00</u></b>	<b><u>\$ 9,454,277.00</u></b>

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

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

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (1,891,286.00)	\$ 6,804.00
2020	(1,891,286.00)	6,804.00
2021	(1,891,286.00)	6,802.00
2022	(1,891,286.00)	2,481.85
2023	<u>(1,889,133.00)</u>	
<b>Total</b>	<b><u>\$ (9,454,277.00)</u></b>	<b><u>\$ 22,891.85</u></b>



**NOTE 14 - RISK MANAGEMENT**

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

**A. Employee Benefit Plans**

**1. State Health Plan**

College employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 13, Other Postemployment Benefits, for additional information regarding retiree health benefits.

**2. Death Benefit Plan of North Carolina**

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was 0.16% for the current fiscal year.

**3. Disability Income Plan**

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

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property Losses**

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



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

## **2. Public Officers' and Employees' Liability Insurance**

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

## **3. Employee Dishonesty and Computer Fraud**

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$100,000 deductible. Losses from county and institutional fund paid employees are covered with 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 15 - COMMITMENTS**

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$997,198.80 at June 30, 2018.

**NOTE 16 - 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*

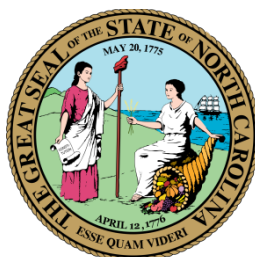
GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other 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 17 - NET POSITION RESTATEMENTS**

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

	Amount
July 1, 2017 Net Position as Previously Reported	\$ 23,459,593.21
Restatements:	
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(31,640,949.00)
Correct Prior Period Understatement of Capital Assets.	549,943.68
July 1, 2017 Net Position as Restated	\$ (7,631,412.11)



# **REQUIRED SUPPLEMENTARY INFORMATION**

**Surry 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	0.08417%	0.08507%	0.08435%	0.08588%	0.08460%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 6,678,419.00	\$ 7,818,812.00	\$ 3,108,465.00	\$ 1,006,875.00	\$ 5,136,082.00
Covered Payroll	\$ 11,959,516.14	\$ 11,756,738.39	\$ 11,735,858.15	\$ 11,784,302.70	\$ 11,805,799.22
Net Pension Liability as a Percentage of Covered Payroll	55.84%	66.50%	26.49%	8.54%	43.50%
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.

**Surry 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	\$ 1,305,008.94	\$ 1,193,559.71	\$ 1,075,741.56	\$ 1,073,831.02	\$ 1,024,055.90
Contributions in Relation to the Contractually Determined Contribution	<u>1,305,008.94</u>	<u>1,193,559.71</u>	<u>1,075,741.56</u>	<u>1,073,831.02</u>	<u>1,024,055.90</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	\$ 12,105,834.33	\$ 11,959,516.14	\$ 11,756,738.39	\$ 11,735,858.15	\$ 11,784,302.70
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	\$ 983,423.08	\$ 854,503.46	\$ 568,632.67	\$ 409,767.98	\$ 397,206.38
Contributions in Relation to the Contractually Determined Contribution	<u>983,423.08</u>	<u>854,503.46</u>	<u>568,632.67</u>	<u>409,767.98</u>	<u>397,206.38</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	\$ 11,805,799.22	\$ 11,485,261.62	\$ 11,534,131.30	\$ 11,478,094.62	\$ 11,821,618.46
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.

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

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*Changes of Benefit Terms:*

**Cost of Living Increase**

<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
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*.

**Surry 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>
<b>Retiree Health Benefit Fund</b>		
Proportionate Share Percentage of Collective Net OPEB Liability	0.07059%	0.07454%
Proportionate Share of Collective Net OPEB Liability	\$ 23,144,077.00	\$ 32,427,434.00
Covered Payroll	\$ 11,959,516.14	\$ 11,756,738.39
Net OPEB Liability as a Percentage of Covered Payroll	193.52%	275.82%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>		
Proportionate Share Percentage of Collective Net OPEB Asset	0.07412%	0.07568%
Proportionate Share of Collective Net OPEB Asset	\$ 45,302.00	\$ 46,997.00
Covered Payroll	\$ 11,959,516.14	\$ 11,756,738.39
Net OPEB Asset as a Percentage of Covered Payroll	0.38%	0.40%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

**Surry 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>
<b>Retiree Health Benefit Fund</b>					
Contractually Required Contribution	\$ 732,402.98	\$ 694,847.89	\$ 658,377.35	\$ 644,298.61	\$ 636,352.35
Contributions in Relation to the Contractually Determined Contribution	<u>732,402.98</u>	<u>694,847.89</u>	<u>658,377.35</u>	<u>644,298.61</u>	<u>636,352.35</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	\$ 12,105,834.33	\$ 11,959,516.14	\$ 11,756,738.39	\$ 11,735,858.15	\$ 11,784,302.70
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	\$ 625,707.36	\$ 574,263.08	\$ 565,172.43	\$ 516,514.26	\$ 484,686.36
Contributions in Relation to the Contractually Determined Contribution	<u>625,707.36</u>	<u>574,263.08</u>	<u>565,172.43</u>	<u>516,514.26</u>	<u>484,686.36</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	\$ 11,805,799.22	\$ 11,485,261.62	\$ 11,534,131.30	\$ 11,478,094.62	\$ 11,821,618.46
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
<b>Disability Income Plan of North Carolina</b>					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 16,948.17	\$ 45,446.16	\$ 48,202.63	\$ 48,117.02	\$ 51,850.93
Contributions in Relation to the Contractually Determined Contribution	<u>16,948.17</u>	<u>45,446.16</u>	<u>48,202.63</u>	<u>48,117.02</u>	<u>51,850.93</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	\$ 12,105,834.33	\$ 11,959,516.14	\$ 11,756,738.39	\$ 11,735,858.15	\$ 11,784,302.70
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	\$ 51,945.52	\$ 59,723.36	\$ 59,977.48	\$ 59,686.09	\$ 61,472.42
Contributions in Relation to the Contractually Determined Contribution	<u>51,945.52</u>	<u>59,723.36</u>	<u>59,977.48</u>	<u>59,686.09</u>	<u>61,472.42</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	\$ 11,805,799.22	\$ 11,485,261.62	\$ 11,534,131.30	\$ 11,478,094.62	\$ 11,821,618.46
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.



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

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

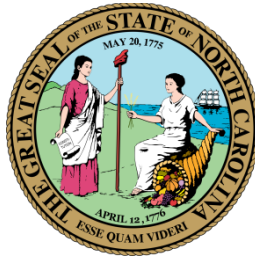
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

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

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

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

The Notes to Required Supplementary Information reflect 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**



**Beth A. Wood, CPA**  
State Auditor

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

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Board of Trustees  
Surry Community College  
Dobson, 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 Surry 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 26, 2019. Our report includes a reference to other auditors who audited the financial statements of Surry Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Surry 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 Surry 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 26, 2019

# ORDERING INFORMATION

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Office of the State Auditor  
State of North Carolina  
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For additional information contact:  
Brad Young  
Director of External Affairs  
**919-807-7513**



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This audit required 404 hours at an approximate cost of \$41,612.