

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



TRI-COUNTY COMMUNITY COLLEGE

MURPHY, NORTH CAROLINA

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

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tri-County Community College
Murphy, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Tri-County Community College Foundation, Inc., which represent 3.07 percent and 0.39 percent, respectively, of the assets and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Tri-County Community College Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Tri-County 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 opinion.

Opinion

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

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2018, Tri-County Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 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

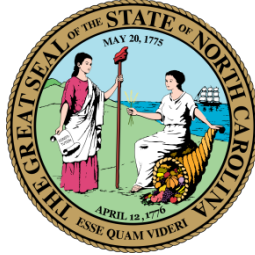
report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Beth A. Wood". The signature is written in a cursive style with a large, stylized "B" and "W".

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 28, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS

Purpose

The information in this section is intended to provide a general overview of Tri-County Community College's (College) financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the detailed supporting information.

The College reports as a special purpose government engaged in business-type activities. Under this provision, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this provision are the following: Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows, along with the Notes to the Financial Statements.

The Statement of Net Position reports all financial and capital resources available to the College as of the end of the fiscal year. This statement presents assets, deferred outflows of resources, liabilities, and deferred inflows of resources in order of their relative liquidity, meaning those assets that are most easily converted to cash are presented first, and liabilities whose maturity dates are nearest to the end of the fiscal year are presented first. Net position is presented in three categories: investment in capital assets, restricted, and unrestricted. This statement details the College's financial strength and its ability to meet current and future obligations.

The Statement of Revenues, Expenses, and Changes in Net Position reports revenues and expenses by major source. Revenues are shown as operating, nonoperating, or as an addition to endowments or a capital contribution. Expenses are also shown by major use as either operating or nonoperating. This statement is used to determine the extent the College is dependent upon operating or nonoperating sources of funding to continue operations.

The Statement of Cash Flows displays the cash receipts and cash payments of the College for the fiscal year. This statement is used to assess the College's ability to generate future net cash flows, to meet obligations, to identify needs for external financing, to identify the reasons for differences between operating income on the Statement of Revenues, Expenses, and Changes in Net Position and associated cash receipts and payments, and to identify the effects on the College's financial position of both its cash and noncash investing, capital, and financing transactions through the fiscal year. A reconciliation of operating income to net cash flow from operating activities is provided to detail the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods.

The Notes to the Financial Statements are an integral component of the basic financial statements and should be read in conjunction with the other statements in order to achieve a fuller understanding of the line-items presented in the financial statements.

The financial statements of Tri-County Community College Foundation, Inc. (Foundation) have been blended with those of the College. See Note 1A and Note 15 of the Notes to Financial Statements for further details.

Effective beginning with the fiscal year ended June 30, 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The new standard requires the

College to recognize its proportionate share of the total net OPEB assets, deferred outflows of resources, net OPEB liabilities, deferred inflows of resources, and benefit expenses related to the State's Disability Income Plan of North Carolina (DIPNC) and the Retiree Health Benefit Fund (RHBF). Given this new requirement, the prior year amounts in the Statement of Net Position tables have been restated while the Statement of Revenues, Expenses, and Changes in Net Position tables are not restated for GASB 75 because actuarial calculations performed relative to the implementation do not provide sufficient information to restate those amounts. See Note 17 of the financial statements for more information on the restatement.

Total Assets

The total assets of the College increased by \$1,811,134.80 or 14.57%. The assets of the College are divided between current and noncurrent holdings.

Current Assets

Current assets include cash, short-term certificates of deposit, receivables, inventories, and prepaid items. Cash decreased by \$94,388.27 or 8.94% because of amounts due for the Health Alliances Training Facility that have been paid as well as the acquisition of new assets.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
Cash	\$ 961,323.63	\$ 1,055,711.90	\$ (94,388.27)	(8.94%)
Investments	207,000.00	207,000.00		
Receivables, Net	140,143.91	128,679.25	11,464.66	8.91%
Inventories	80,795.99	100,867.14	(20,071.15)	(19.90%)
Prepaid Items	34,859.78	36,870.67	(2,010.89)	(5.45%)
Total Current Assets	\$ 1,424,123.31	\$ 1,529,128.96	\$ (105,005.65)	(6.87%)

Noncurrent Assets

Noncurrent assets include cash, receivables, certificates of deposit, net OPEB asset, and capital assets (land, construction in progress, buildings, general infrastructure, and machinery and equipment). Receivables increased by \$105,527.50 because of reimbursement payments pending regarding existing capital projects. Net capital assets increased by \$1,809,821.95 or 17.18% due to significant construction projects underway or completed and the purchase of new equipment. For more information, see Note 5 of the Notes to Financial Statements.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
Cash	\$ 1,414.70	\$ 414.70	\$ 1,000.00	241.14%
Receivables	240,000.00	134,472.50	105,527.50	78.48%
Investments	214,500.00	214,500.00		
Net OPEB Asset	17,713.00	17,922.00	(209.00)	(1.17%)
Capital Assets, Net	12,342,972.64	10,533,150.69	1,809,821.95	17.18%
Total Noncurrent Assets	\$ 12,816,600.34	\$ 10,900,459.89	\$ 1,916,140.45	17.58%

Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net assets by the government that is applicable to a future reporting period and has a positive effect on net position similar to assets. Deferred outflows of resources consisted of employer contributions for pensions and OPEB benefits made during the current fiscal year applicable to a future reporting period and differences between the employer's actual contributions and proportionate share of contributions attributable to the measurement period. The decrease in deferred outflows for pensions is mostly due to the differences between actual and projected earnings on investments and actuarial assumptions. See Note 11 of the Notes to the Financial Statements for further details.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
Deferred Outflows for Pensions	\$ 1,479,171.00	\$ 2,149,622.00	\$ (670,451.00)	(31.19%)
Deferred Outflows for OPEB	321,183.00	317,897.00	3,286.00	1.03%
Total Deferred Outflows of Resources	\$ 1,800,354.00	\$ 2,467,519.00	\$ (667,165.00)	(27.04%)

Total Liabilities

Total liabilities of the College decreased by \$3,693,521.73 or 23.19%. The liabilities of the College are divided between current liabilities payable within twelve months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year calculated at the current salary rates for each employee, consistent with the institution's leave policies, as well as amounts pertaining to the College's net pension liability and net OPEB liability.

Liabilities

Accounts payable and accrued liabilities increased by \$54,425.56 or 22.92% primarily for the completion of construction on the new Health Alliances Training Facility and the completion of the renovation of the Maintenance Building into new classrooms. Long-term liabilities decreased by \$3,725,422.01 or 23.92%, of which the bulk of the decrease is due to a change in actuarial assumptions for the net OPEB liability. For more information, see Note 12 of the Notes to Financial Statements.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
Current Liabilities				
Accounts Payable and Accrued Liabilities	\$ 291,838.51	\$ 237,412.95	\$ 54,425.56	22.92%
Unearned Revenue	37,268.21	61,966.62	(24,698.41)	(39.86%)
Funds Held for Others	6,443.71	3,743.71	2,700.00	72.12%
Long-Term Liabilities-Current Portion	50,310.41	50,837.28	(526.87)	(1.04%)
Noncurrent Liabilities				
Long-Term Liabilities	11,850,806.53	15,576,228.54	(3,725,422.01)	(23.92%)
Total Liabilities	\$ 12,236,667.37	\$ 15,930,189.10	\$ (3,693,521.73)	(23.19%)

Deferred Inflows of Resources

Deferred inflows of resources is an acquisition of net assets by the government that is applicable to a future reporting period and has a negative effect on net position similar to liabilities. Deferred inflows of resources consisted of the College's proportionate difference between expected and actual experience and projected and actual investment earnings in the pension plan and OPEB plans. The decrease in deferred inflows for pensions from the prior fiscal year is primarily due to differences between actuarial calculations of the projected investment earnings and actual earnings of funds invested in TSERS. Deferred inflows for OPEB represents the implementation of GASB Statement No. 75. See Note 11 and 12 of the Notes to Financial Statements for further details.

	2017-2018	2016-2017	\$ Change	% Change
Deferred Inflows for Pensions	\$ 104,221.00	\$ 167,632.00	\$ (63,411.00)	(37.83%)
Deferred Inflows for OPEB	3,429,248.00		3,429,248.00	100.00%
Total Deferred Inflows of Resources	<u>\$ 3,533,469.00</u>	<u>\$ 167,632.00</u>	<u>\$ 3,365,837.00</u>	2,007.87%

Net Position

Net position is the difference between the College's assets plus deferred outflows of resources less liabilities and deferred inflows of resources. For fiscal year 2018, the College's net position increased by \$1,471,654.53 or 122.57%. Investment in capital assets increased by \$1,809,821.95 or 17.18% due to significant construction projects being started or having been completed and the purchase of new equipment. Restricted net position increased by \$243,070.49 or 29.81%, primarily due to an increase in intergovernmental receivables for the Health Alliances Training Facility and an increase in funds for other capital projects. The deficit in unrestricted net position increased by \$581,237.91 or 4.63% due in large part to the proportionate fluctuations of the pension and other postemployment benefits components. See Note 8 of the Notes to Financial Statements for additional details regarding the deficit in unrestricted net position.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
Investment in Capital Assets	\$ 12,342,972.64	\$ 10,533,150.69	\$ 1,809,821.95	17.18%
Restricted	1,058,504.71	815,434.22	243,070.49	29.81%
Unrestricted	<u>(13,130,536.07)</u>	<u>(12,549,298.16)</u>	<u>(581,237.91)</u>	4.63%
Total Net Position	<u>\$ 270,941.28</u>	<u>\$ (1,200,713.25)</u>	<u>\$ 1,471,654.53</u>	122.57%

Total Revenues and Expenses

The College's total revenues increased by \$288,590.55 or 2.19% and are classified as operating, nonoperating, capital contributions, and additions to endowments. Total expenses increased by \$78,730.01 or 0.66% and are classified as either operating or nonoperating.

	2017-2018	2016-2017 (as Restated)	Change	% Change
Total Revenues	\$ 13,479,036.91	\$ 13,190,446.36	\$ 288,590.55	2.19%
Total Expenses	12,007,382.38	11,928,652.37	78,730.01	0.66%
Change in Net Position	<u>\$ 1,471,654.53</u>	<u>\$ 1,261,793.99</u>	<u>\$ 209,860.54</u>	16.63%

Operating Revenues

Operating revenues include net student tuition and fees, sales and services revenue (which is principally comprised of the revenue received from the bookstore, vending, and patron fees), and other operating revenues. Student tuition, though identified as revenue, is remitted back to the State Treasurer and is not netted against the College's state aid, which is identified as nonoperating revenue. Gross student tuition and fees is reduced by the scholarship discount, which represents payments toward tuition and fees from student financial aid, as well as the allowance for uncollectibles, to arrive at net student tuition and fees, which decreased by \$10,775.10 or 2.01% due to a decrease in enrollment. State and local grants and contracts increased by \$20,832.00, or 43.10%, mainly due to a local contract with one of the service area counties for economic development work. Sales and services increased by \$18,055.08 or 26.31%, as a result of an increase in live project fees and bookstore commissions. Other operating revenue increased by \$9,378.60 or 34.66% due to additional self-supporting revenues earned.

	2017-2018	2016-2017	\$ Change	% Change
Student Tuition and Fees, Net	\$ 524,178.11	\$ 534,953.21	\$ (10,775.10)	(2.01%)
State and Local Grants and Contracts	69,166.96	48,334.96	20,832.00	43.10%
Sales and Services	86,677.23	68,622.15	18,055.08	26.31%
Other Operating Revenues	36,437.65	27,059.05	9,378.60	34.66%
Total Operating Revenues	<u>\$ 716,459.95</u>	<u>\$ 678,969.37</u>	<u>\$ 37,490.58</u>	5.52%

Nonoperating Revenues

Nonoperating revenues comprise the major portion of the College's income and include allocations from the North Carolina State Board of Community Colleges for current expenses and equipment purchases. This revenue source also includes funds appropriated from the Cherokee, Clay, and Graham County Boards of Commissioners. Noncapital grants include funding for items such as program initiation, student financial assistance, and the Tri-County Early College High School. Noncapital gifts include contributions to the Foundation and private grantors. State aid decreased by \$171,961.98 or 2.39% due to a decrease in the state legislative appropriations. Noncapital grants decreased by \$360,492.25 or 15.27% due

primarily to a reduction in PELL awards. Other nonoperating expenses increased by \$29,060.25 or 119.03% due to a loss on disposal of assets written off.

	2017-2018	2016-2017	\$ Change	% Change
State Aid	\$ 7,027,582.26	\$ 7,199,544.24	\$ (171,961.98)	(2.39%)
County Appropriations	1,044,990.04	1,061,500.04	(16,510.00)	(1.56%)
Noncapital Grants	2,000,284.91	2,360,777.16	(360,492.25)	(15.27%)
Noncapital Gifts	32,844.53	23,952.00	8,892.53	37.13%
Investment Income	1,916.31	919.76	996.55	108.35%
Other Nonoperating Expenses	(53,474.00)	(24,413.75)	(29,060.25)	119.03%
Total Net Nonoperating Revenues	\$ 10,054,144.05	\$ 10,622,279.45	\$ (568,135.40)	(5.35%)

Capital Contributions and Additions to Endowments

Capital contributions are received through appropriations from the North Carolina State Board of Community Colleges under an allocation formula for educational equipment and library books, county appropriations, and other funding sources. During fiscal year 2017-2018, state capital aid increased by \$497,824.12 or 38.88% due primarily to an increase in construction reimbursements from state bond funds. Capital grants increased by \$307,595.00 or 68.94% due to grant funds received from the Golden Leaf Foundation for the Health Alliances Training Facility. The amounts below are restated relating to state capital aid per Note 17 of the financial statements.

	2017-2018	2016-2017 (as Restated)	\$ Change	% Change
State Capital Aid	\$ 1,778,222.41	\$ 1,280,398.29	\$ 497,824.12	38.88%
County Capital Appropriations	121,735.00	136,759.00	(15,024.00)	(10.99%)
Capital Grants	753,797.50	446,202.50	307,595.00	68.94%
Capital Gifts	1,048.00	1,268.00	(220.00)	(17.35%)
Additions to Endowments	156.00	156.00		
Total Contributions	\$ 2,654,958.91	\$ 1,864,783.79	\$ 790,175.12	42.37%

Operating Expenses

The College's operating expenses are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits. The most significant changes are as follows: Salaries and benefits increased by \$207,917.43 or 2.69% due to state funded salary increases. Supplies and materials decreased by \$27,477.44 or 3.34% due to reduced budget resources. Services increased by \$35,667.91 or 3.12% due to additional classes being offered under a contractual services arrangement. Scholarships and fellowships decreased by \$181,768.44 or 13.35% as a result of decreased financial aid awards.

	2017-2018	2016-2017	\$ Change	% Change
Salaries and Benefits	\$ 7,930,971.06	\$ 7,723,053.63	\$ 207,917.43	2.69%
Supplies and Materials	795,247.25	822,724.69	(27,477.44)	(3.34%)
Services	1,178,519.96	1,142,852.05	35,667.91	3.12%
Scholarships and Fellowships	1,179,800.96	1,361,569.40	(181,768.44)	(13.35%)
Utilities	379,615.91	380,695.52	(1,079.61)	(0.28%)
Depreciation	489,753.24	473,343.33	16,409.91	3.47%
Total Expenses	<u>\$ 11,953,908.38</u>	<u>\$ 11,904,238.62</u>	<u>\$ 49,669.76</u>	0.42%

Significant Capital Asset Activity

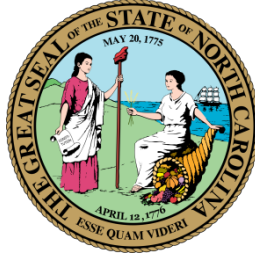
The State's Connect NC \$2 billion bond referendum passed through voter approval late in the fiscal year 2016. The College has received almost \$1.7 million of the \$4.5 million in funding that was awarded and may be used for either repair and renovation or new construction. A number of projects including the replacement of HVAC systems campus wide, renovation of existing space into classrooms, and the construction of a new Basic Law Enforcement Training course are underway or have been completed.

Bond monies used for repair and renovation do not require matching funds from local sources. While new construction projects will require a matching component, the College is allowed to use its credit from the amount of over-matching local funds that have been spent in the past to satisfy much of this requirement.

The Golden Leaf Grant that the College was awarded to finance the construction of the Health Alliances Training Facility has been closed out and will not exist going into the next fiscal year.

Economic Outlook

The College continues to provide the highest quality educational resources to our community members and business partners. Unemployment remains at a long time low due in part to the College's graduated students becoming wage-earning contributors to the local economy. The College is working with Cherokee, Clay, and Graham counties to determine a funding model to the fund the College moving forward.



FINANCIAL STATEMENTS

Tri-County Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 534,504.93
Restricted Cash and Cash Equivalents	426,818.70
Short-Term Investments	65,000.00
Restricted Short-Term Investments	142,000.00
Receivables, Net (Note 4)	140,143.91
Inventories	80,795.99
Prepaid Items	34,859.78
Total Current Assets	<u>1,424,123.31</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,414.70
Restricted Due from State of North Carolina Component Unit	240,000.00
Restricted Investments	214,500.00
Net Other Postemployment Benefits Asset	17,713.00
Capital Assets - Nondepreciable (Note 5)	1,889,902.90
Capital Assets - Depreciable, Net (Note 5)	10,453,069.74
Total Noncurrent Assets	<u>12,816,600.34</u>
Total Assets	<u>14,240,723.65</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	1,479,171.00
Deferred Outflows Related to Other Postemployment Benefits (Note 12)	321,183.00
Total Deferred Outflows of Resources	<u>1,800,354.00</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	291,838.51
Unearned Revenue	37,268.21
Funds Held for Others	6,443.71
Long-Term Liabilities - Current Portion (Note 7)	50,310.41
Total Current Liabilities	<u>385,860.84</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>11,850,806.53</u>
Total Liabilities	<u>12,236,667.37</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	104,221.00
Deferred Inflows Related to Other Postemployment Benefits (Note 12)	3,429,248.00
Total Deferred Inflows of Resources	<u>3,533,469.00</u>

Tri-County Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	12,342,972.64
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	215,914.70
Other	3,239.00
Expendable:	
Scholarships and Fellowships	119,599.13
Capital Projects	374,425.52
Restricted for Specific Programs	310,620.67
Other	34,705.69
Unrestricted	<u>(13,130,536.07)</u>
Total Net Position	<u><u>\$ 270,941.28</u></u>

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

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

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 524,178.11
State and Local Grants and Contracts	69,166.96
Sales and Services	86,677.23
Other Operating Revenues	<u>36,437.65</u>

Total Operating Revenues	<u>716,459.95</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	7,930,971.06
Supplies and Materials	795,247.25
Services	1,178,519.96
Scholarships and Fellowships	1,179,800.96
Utilities	379,615.91
Depreciation	<u>489,753.24</u>

Total Operating Expenses	<u>11,953,908.38</u>
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Operating Loss	<u>(11,237,448.43)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	7,027,582.26
County Appropriations	1,044,990.04
Noncapital Grants - Student Financial Aid	1,829,818.91
Noncapital Grants	170,466.00
Noncapital Gifts	32,844.53
Investment Income	1,916.31
Other Nonoperating Expenses	<u>(53,474.00)</u>

Net Nonoperating Revenues	<u>10,054,144.05</u>
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Loss Before Other Revenues	(1,183,304.38)
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State Capital Aid	1,778,222.41
County Capital Aid	121,735.00
Capital Grants	753,797.50
Capital Gifts	1,048.00
Additions to Endowments	<u>156.00</u>

Increase in Net Position	1,471,654.53
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NET POSITION

Net Position, July 1, 2017 as Restated (Note 17)	<u>(1,200,713.25)</u>
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Net Position, June 30, 2018	<u>\$ 270,941.28</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 643,013.22
Payments to Employees and Fringe Benefits	(7,608,952.15)
Payments to Vendors and Suppliers	(2,291,632.31)
Payments for Scholarships and Fellowships	(1,179,800.96)
Other Receipts	3,725.45
	<hr/>
Net Cash Used by Operating Activities	(10,433,646.75)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,027,582.26
County Appropriations	1,044,990.04
Noncapital Grants - Student Financial Aid	1,789,818.91
Noncapital Grants	297,377.70
Noncapital Gifts	32,844.53
Additions to Endowments	156.00
	<hr/>
Cash Provided by Noncapital Financing Activities	10,192,769.44

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

State Capital Aid Received	1,778,222.41
County Capital Aid	121,735.00
Capital Grants	598,631.35
Capital Gifts	1,048.00
Acquisition and Construction of Capital Assets	(2,354,074.64)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	145,562.12

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,926.92
	<hr/>
Net Decrease in Cash and Cash Equivalents	(93,388.27)
Cash and Cash Equivalents, July 1, 2017	1,056,126.60
	<hr/>
Cash and Cash Equivalents, June 30, 2018	\$ 962,738.33

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

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (11,237,448.43)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	489,753.24
Nonoperating Other Income	1,025.45
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(48,748.32)
Inventories	20,071.15
Prepaid Items	2,010.89
Net Other Postemployment Benefits Asset	209.00
Deferred Outflows Related to Pensions	670,451.00
Deferred Outflows Related to Other Postemployment Benefits	(3,286.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	54,425.56
Unearned Revenue	(24,698.41)
Funds Held for Others	2,700.00
Net Pension Liability	(377,337.00)
Net Other Postemployment Benefits Liability	(3,351,917.00)
Compensated Absences	3,305.12
Deferred Inflows Related to Pensions	(63,411.00)
Deferred Inflows Related to Other Postemployment Benefits	3,429,248.00
Net Cash Used by Operating Activities	<u><u>\$ (10,433,646.75)</u></u>

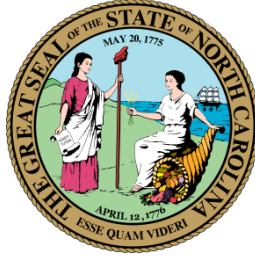
RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 534,504.93
Restricted Cash and Cash Equivalents	426,818.70
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,414.70</u>
Total Cash and Cash Equivalents - June 30, 2018	<u><u>\$ 962,738.33</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	121,423.30
Loss on Disposal of Capital Assets	(54,499.45)

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. Tri-County 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 blended in the College's financial statements. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Blended Component Unit - Although legally separate, Tri-County Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by an 18-member board consisting of nine ex officio directors and nine elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the College Board of Trustees and the Foundation's sole purpose is to benefit the College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 21 Campus Circle, Murphy, NC 28906, or by calling (828) 837-6810.

Condensed combining information regarding the blended component unit is provided in Note 15.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** - This classification includes certificates of deposits reported at cost.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and investment earnings due to the College. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

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

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include

resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

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 11 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 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The College has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 8 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- N. Scholarship Discounts** - Student tuition and fees revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- O. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute*

115D-58.7. Official depositories may be established with any bank, savings and loan association, or trust company whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2018 was \$690.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit of \$421,500.00 reported as investments on the Statement of Net Position, was \$1,383,548.33, and the bank balance was \$1,563,065.11.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2018, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by

the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

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

As of June 30, 2018, the College held certificates of deposit in the amount of \$421,500.00. Certificates of deposits reported as investments are also a component of the deposit totals reported in the deposits section of this note.

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

Cash on Hand	\$	690.00
Carrying Amount of Deposits with Private Financial Institutions		<u>1,383,548.33</u>
Total Deposits and Investments	\$	<u>1,384,238.33</u>
Deposits		
Current		
Cash and Cash Equivalents	\$	534,504.93
Restricted Cash and Cash Equivalents		426,818.70
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>1,414.70</u>
Total Deposits		<u>962,738.33</u>
Investments		
Current:		
Short-Term Investments		65,000.00
Restricted Short-Term Investments		142,000.00
Noncurrent:		
Restricted Investments		<u>214,500.00</u>
Total Investments		<u>421,500.00</u>
Total Deposits and Investments	\$	<u>1,384,238.33</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional

Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Earned interest on held certificates of deposits is accrued until such time that a sufficient amount exists whereby a student scholarship can be awarded agreeable to either guidelines set forth by the Foundation Board or by an established contractual relationship between a fund's donor and the College. In no case, however, is it permissible to expend or otherwise compromise the principal balance of any endowed fund without explicit Board approval, authorization, and/or a written agreement between the donor and the College. At June 30, 2018, the endowment net position of \$19,806.63 was available to be spent, of which the entire amount was restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 209,555.62	\$ 89,512.07	\$ 120,043.55
Student Sponsors	14,230.00		14,230.00
Intergovernmental	5,850.00		5,850.00
Investment Earnings	20.36		20.36
Total Current Receivables	<u>\$ 229,655.98</u>	<u>\$ 89,512.07</u>	<u>\$ 140,143.91</u>

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	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land	\$ 399,458.90	\$ 102,029.12	\$ 0.00	\$ 501,488.02
Construction in Progress	961,538.66	2,140,597.10	1,713,720.88	1,388,414.88
Total Capital Assets, Nondepreciable	1,360,997.56	2,242,626.22	1,713,720.88	1,889,902.90
Capital Assets, Depreciable:				
Buildings	12,214,803.95	1,713,720.88	192,193.86	13,736,330.97
Machinery and Equipment	3,122,748.89	111,448.42	23,506.02	3,210,691.29
General Infrastructure	756,669.23			756,669.23
Total Capital Assets, Depreciable	16,094,222.07	1,825,169.30	215,699.88	17,703,691.49
Less Accumulated Depreciation for:				
Buildings	5,119,322.72	230,361.67	142,222.08	5,207,462.31
Machinery and Equipment	1,562,066.63	244,827.88	18,978.35	1,787,916.16
General Infrastructure	240,679.59	14,563.69		255,243.28
Total Accumulated Depreciation	6,922,068.94	489,753.24	161,200.43	7,250,621.75
Total Capital Assets, Depreciable, Net	9,172,153.13	1,335,416.06	54,499.45	10,453,069.74
Capital Assets, Net	\$ 10,533,150.69	\$ 3,578,042.28	\$ 1,768,220.33	\$ 12,342,972.64

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 144,036.56
Accrued Payroll	147,801.95
Total Current Accounts Payable and Accrued Liabilities	\$ 291,838.51

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	\$ 338,013.82	\$ 226,060.92	\$ 222,755.80	\$ 341,318.94	\$ 50,310.41
Net Pension Liability	3,021,093.00		377,337.00	2,643,756.00	
Net Other Postemployment Benefits Liability	12,267,959.00		3,351,917.00	8,916,042.00	
Total Long-Term Liabilities	\$ 15,627,065.82	\$ 226,060.92	\$ 3,952,009.80	\$ 11,901,116.94	\$ 50,310.41

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

Additional information regarding the net other postemployment benefits liability is included in Note 12.

NOTE 8 - NET POSITION

The deficit in unrestricted net position of \$13,130,536.07 has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources. A summary of the balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (OPEB) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 1,479,171.00	\$ 0.00	\$ 1,479,171.00
Deferred Outflows Related to OPEB		304,290.31	304,290.31
Noncurrent Liabilities:			
Long-Term Liabilities:			
Net Pension Liability	2,643,756.00		2,643,756.00
Net OPEB Liability		8,916,042.00	8,916,042.00
Deferred Inflows Related to Pensions	104,221.00		104,221.00
Deferred Inflows Related to OPEB		3,429,248.00	3,429,248.00
Net Effect on Unrestricted Net Position	<u>\$ (1,268,806.00)</u>	<u>\$ (12,040,999.69)</u>	<u>\$ (13,309,805.69)</u>

See Notes 11 and 12 for detailed information regarding the amortization of the deferred outflows of resources and deferred inflows of resources relating to pensions and OPEB, respectively.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 1,211,651.85</u>	<u>\$ 654,758.33</u>	<u>\$ 32,715.41</u>	<u>\$ 524,178.11</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,046,996.91	\$ 449,387.37	\$ 390,059.51	\$ 6,777.80	\$ 0.00	\$ 0.00	\$ 4,893,221.59
Academic Support	865,522.47	28,641.51	28,411.24				922,575.22
Student Services	582,796.09	37,145.05	36,059.52	12,399.73			668,400.39
Institutional Support	2,119,044.34	82,220.20	429,727.12				2,630,991.66
Operations and Maintenance of Plant	316,611.25	169,255.60	279,265.70		379,615.91		1,144,748.46
Student Financial Aid				1,160,623.43			1,160,623.43
Auxiliary Enterprises		28,597.52	14,996.87				43,594.39
Depreciation						489,753.24	489,753.24
Total Operating Expenses	\$ 7,930,971.06	\$ 795,247.25	\$ 1,178,519.96	\$ 1,179,800.96	\$ 379,615.91	\$ 489,753.24	\$ 11,953,908.38

NOTE 11 - PENSION PLANS**Defined Benefit Plan**

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$301,775.51, and the College's contributions were \$542,190.00 for the year ended June 30, 2018.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-Term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Fixed Income Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2018, the College reported a liability of \$2,643,756.00 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 0.03332%, which was an increase of 0.00045 from its proportion measured as of June 30, 2016, which was 0.03287%.

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

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

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return includes inflation assumption and is net of pension plan investment expense.

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability		
<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
\$ 5,441,944.00	\$ 2,643,756.00	\$ 299,231.00

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 \$771,317.00. 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	\$ 57,312.00	\$ 86,491.00
Changes of Assumptions	417,674.00	
Net Difference Between Projected and Actual Earnings on Plan Investments	357,790.00	
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	104,205.00	17,730.00
Contributions Subsequent to the Measurement Date	542,190.00	
Total	\$ 1,479,171.00	\$ 104,221.00

The amount of \$542,190.00 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

<u>Year Ended June 30:</u>	<u>Amount</u>
2019	\$ 199,105.00
2020	525,313.00
2021	251,532.00
2022	(143,190.00)
Total	\$ 832,760.00

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

Methods Used to Value Plan Investments: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 *Comprehensive Annual Financial Report*.

B. Plan Descriptions**1. Health Benefits**

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

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

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

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

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

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The College's contributions to the RHBF were \$304,290.31 for the year ended June 30, 2018.

2. Disability Income

Plan Administration: As discussed in Note 13, 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 \$7,041.43 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 \$8,916,042.00 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 0.02719%, which was a decrease of 0.00101 from its proportion measured as of June 30, 2016, which was 0.02820%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of \$17,713.00 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 0.02898%, which was an increase of 0.00012 from its proportion measured as of June 30, 2016, which was 0.02886%.

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	\$ 10,634,705.00	\$ 8,916,042.00	\$ 7,550,462.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (15,058.00)	\$ (17,713.00)	\$ (20,373.00)

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	\$ 7,282,475.00	\$ 8,916,042.00	\$ 11,084,096.00
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 \$375,803.00 for RHBF and \$9,782.00 for DIPNC. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Employer Balances of Deferred Outflows of Resources Related to OPEB by Classification:			
	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 0.00	\$ 4,856.00	\$ 4,856.00
Changes of Assumptions			
Net Difference Between Projected and Actual Earnings on Plan Investments		3,882.00	3,882.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions		1,113.26	1,113.26
Contributions Subsequent to the Measurement Date	304,290.31	7,041.43	311,331.74
Total	\$ 304,290.31	\$ 16,892.69	\$ 321,183.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 639,297.00	\$ 0.00	\$ 639,297.00
Changes of Assumptions	2,455,437.00		2,455,437.00
Net Difference Between Projected and Actual Earnings on Plan Investments	3,314.00		3,314.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	331,200.00		331,200.00
Total	\$ 3,429,248.00	\$ 0.00	\$ 3,429,248.00

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

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

<u>Year Ended June 30:</u>	RHBF	DIPNC
2019	\$ (686,015.00)	\$ 2,961.00
2020	(686,015.00)	2,961.00
2021	(686,015.00)	2,960.00
2022	(686,015.00)	969.26
2023	(685,188.00)	
Total	\$ (3,429,248.00)	\$ 9,851.26

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool**Public School Insurance Fund**

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

B. Employee Benefit Plans**1. State Health Plan**

College employees 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 12, 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 12, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

C. Other Risk Management and Insurance Activities**1. Automobile, Fire, and Other Property Losses**

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 private insurance companies.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies in the current fiscal year regarding cybercrime and fraud protection. As part of the College's risk mitigation plan,

coverage pertaining to security and liability regulatory action, event management, and cyber extortion was acquired. Coverage limits for each component range from \$500,000 to \$1,000,000.

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$606,660.12 at June 30, 2018.

NOTE 15 - BLENDED COMPONENT UNIT

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

*Condensed Statement of Net Position
June 30, 2018*

	TCCC	TCCC Foundation	Total
ASSETS			
Current Assets	\$ 1,184,496.85	\$ 239,626.46	\$ 1,424,123.31
Capital Assets, Net	12,342,972.64		12,342,972.64
Other Noncurrent Assets	275,713.00	197,914.70	473,627.70
Total Assets	13,803,182.49	437,541.16	14,240,723.65
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,800,354.00		1,800,354.00
LIABILITIES			
Current Liabilities	385,860.84		385,860.84
Long-Term Liabilities	11,850,806.53		11,850,806.53
Total Liabilities	12,236,667.37		12,236,667.37
TOTAL DEFERRED INFLOWS OF RESOURCES	3,533,469.00		3,533,469.00
NET POSITION			
Investment in Capital Assets	12,342,972.64		12,342,972.64
Restricted - Nonexpendable	18,000.00	201,153.70	219,153.70
Restricted - Expendable	672,359.69	166,991.32	839,351.01
Unrestricted	(13,199,932.21)	69,396.14	(13,130,536.07)
Total Net Position	\$ (166,599.88)	\$ 437,541.16	\$ 270,941.28

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

	TCCC	TCCC Foundation	Total
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 524,178.11	\$ 0.00	\$ 524,178.11
State and Local Grants and Contracts	69,166.96		69,166.96
Sales and Services	86,677.23		86,677.23
Other Operating Revenues	14,573.53	21,864.12	36,437.65
Total Operating Revenues	694,595.83	21,864.12	716,459.95
OPERATING EXPENSES			
Operating Expenses	11,418,783.44	45,371.70	11,464,155.14
Depreciation	489,753.24		489,753.24
Total Operating Expenses	11,908,536.68	45,371.70	11,953,908.38
Operating Loss	(11,213,940.85)	(23,507.58)	(11,237,448.43)
NONOPERATING REVENUES (EXPENSES)			
State Aid	7,027,582.26		7,027,582.26
County Appropriations	1,044,990.04		1,044,990.04
Noncapital Grants - Student Financial Aid	1,829,818.91		1,829,818.91
Noncapital Grants	170,466.00		170,466.00
Noncapital Gifts	4,354.14	28,490.39	32,844.53
Investment Income	637.26	1,279.05	1,916.31
Other Nonoperating Expenses	(53,474.00)		(53,474.00)
Net Nonoperating Revenues	10,024,374.61	29,769.44	10,054,144.05
Capital Contributions	2,653,754.91	1,048.00	2,654,802.91
Additions to Endowments		156.00	156.00
Increase in Net Position	1,464,188.67	7,465.86	1,471,654.53
NET POSITION			
Net Position, July 1, 2017, as Restated	(1,630,788.55)	430,075.30	(1,200,713.25)
Net Position, June 30, 2018	\$ (166,599.88)	\$ 437,541.16	\$ 270,941.28

**Condensed Statement of Cash Flows
June 30, 2018**

	TCCC	TCCC Foundation	Total
Net Cash Used by Operating Activities	\$ (10,410,128.00)	\$ (23,518.75)	\$ (10,433,646.75)
Cash Provided by Noncapital Financing Activities	10,164,123.05	28,646.39	10,192,769.44
Net Cash Provided by Capital and Related Financing Activities	144,514.12	1,048.00	145,562.12
Cash Provided by Investing Activities	632.61	1,294.31	1,926.92
Net Decrease in Cash and Cash Equivalents	(100,858.22)	7,469.95	(93,388.27)
Cash and Cash Equivalents, July 1, 2017	897,569.19	158,557.41	1,056,126.60
Cash and Cash Equivalents, June 30, 2018	\$ 796,710.97	\$ 166,027.36	\$ 962,738.33

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

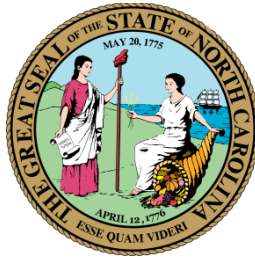
GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other 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	\$ 10,980,000.41
Restatements:	
Record the College's Net OPEB Asset and Liability and OPEB Related	
Deferred Outflows and Inflows of Resources Per GASB 75 Requirements.	(11,932,140.00)
Eliminate Prior Period State Capital Aid Receivable	(248,573.66)
July 1, 2017 Net Position as Restated	\$ (1,200,713.25)



REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit B-1

	2017	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.03332%	0.03287%	0.03420%	0.03200%	0.03030%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 2,643,756.00	\$ 3,021,093.00	\$ 1,260,338.00	\$ 375,175.00	\$ 1,839,519.00
Covered Payroll	\$ 5,112,603.93	\$ 4,880,706.70	\$ 4,799,851.67	\$ 4,501,764.52	\$ 4,470,379.80
Net Pension Liability as a Percentage of Covered Payroll	51.71%	61.90%	26.26%	8.33%	41.15%
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.

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

Exhibit B-2

	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 542,190.00	\$ 510,237.87	\$ 446,584.66	\$ 439,186.43	\$ 391,203.34
Contributions in Relation to the Contractually Determined Contribution	<u>542,190.00</u>	<u>510,237.87</u>	<u>446,584.66</u>	<u>439,186.43</u>	<u>391,203.34</u>
Contribution Deficiency (Excess)	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Covered Payroll	\$ 5,029,591.84	\$ 5,112,603.93	\$ 4,880,706.70	\$ 4,799,851.67	\$ 4,501,764.52
Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 372,382.64	\$ 312,619.26	\$ 218,969.72	\$ 153,936.83	\$ 143,938.53
Contributions in Relation to the Contractually Determined Contribution	<u>372,382.64</u>	<u>312,619.26</u>	<u>218,969.72</u>	<u>153,936.83</u>	<u>143,938.53</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	\$ 4,470,379.80	\$ 4,201,871.82	\$ 4,441,576.47	\$ 4,311,955.95	\$ 4,283,884.71
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.

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

Changes of Benefit Terms:

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

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

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

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

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

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
Proportionate Share Percentage of Collective Net OPEB Liability	0.02719%	0.02820%
Proportionate Share of Collective Net OPEB Liability	\$ 8,916,042.00	\$ 12,267,959.00
Covered Payroll	\$ 5,112,603.93	\$ 4,880,706.70
Net OPEB Liability as a Percentage of Covered Payroll	174.39%	251.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
Proportionate Share Percentage of Collective Net OPEB Asset	0.02898%	0.02886%
Proportionate Share of Collective Net OPEB Asset	\$ 17,713.00	\$ 17,922.00
Covered Payroll	\$ 5,112,603.93	\$ 4,880,706.70
Net OPEB Asset as a Percentage of Covered Payroll	0.35%	0.37%
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*.

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

Exhibit B-4

	2018	2017	2016	2015	2014
Retiree Health Benefit Fund					
Contractually Required Contribution	\$ 304,290.31	\$ 297,042.29	\$ 273,319.58	\$ 263,511.86	\$ 243,095.28
Contributions in Relation to the Contractually Determined Contribution	<u>304,290.31</u>	<u>297,042.29</u>	<u>273,319.58</u>	<u>263,511.86</u>	<u>243,095.28</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	\$ 5,029,591.84	\$ 5,112,603.93	\$ 4,880,706.70	\$ 4,799,851.67	\$ 4,501,764.52
Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 236,930.13	\$ 210,093.59	\$ 217,637.25	\$ 194,038.02	\$ 175,639.27
Contributions in Relation to the Contractually Determined Contribution	<u>236,930.13</u>	<u>210,093.59</u>	<u>217,637.25</u>	<u>194,038.02</u>	<u>175,639.27</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	\$ 4,470,379.80	\$ 4,201,871.82	\$ 4,441,576.47	\$ 4,311,955.95	\$ 4,283,884.71
Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
Disability Income Plan of North Carolina					
	2018	2017	2016	2015	2014
Contractually Required Contribution	\$ 7,041.43	\$ 19,427.89	\$ 20,010.90	\$ 19,679.39	\$ 19,807.76
Contributions in Relation to the Contractually Determined Contribution	<u>7,041.43</u>	<u>19,427.89</u>	<u>20,010.90</u>	<u>19,679.39</u>	<u>19,807.76</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	\$ 5,029,591.84	\$ 5,112,603.93	\$ 4,880,706.70	\$ 4,799,851.67	\$ 4,501,764.52
Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 19,669.67	\$ 21,849.73	\$ 23,096.20	\$ 22,422.17	\$ 22,276.20
Contributions in Relation to the Contractually Determined Contribution	<u>19,669.67</u>	<u>21,849.73</u>	<u>23,096.20</u>	<u>22,422.17</u>	<u>22,276.20</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	\$ 4,470,379.80	\$ 4,201,871.82	\$ 4,441,576.47	\$ 4,311,955.95	\$ 4,283,884.71
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.

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

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

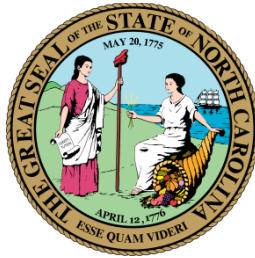
Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 12 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

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Raleigh, NC 27699-0600
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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Tri-County Community College
Murphy, 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 Tri-County Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 28, 2019. Our report includes a reference to other auditors who audited the financial statements of Tri-County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Tri-County 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 Tri-County 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 28, 2019

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For additional information contact:
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919-807-7513



This audit required 375.5 hours at an approximate cost of \$38,677.