

# STATE OF NORTH CAROLINA

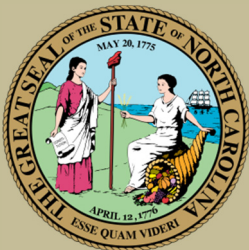
OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## ROWAN-CABARRUS COMMUNITY COLLEGE

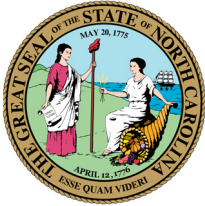
SALISBURY, NORTH CAROLINA  
FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2020

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

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



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

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## AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Rowan-Cabarrus Community College for the year ended June 30, 2020, 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.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Finding, Recommendation, and Response section of this report. The College's response is included following the finding.

*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

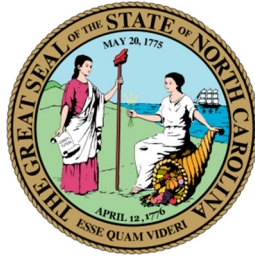


**Beth A. Wood, CPA  
State Auditor**

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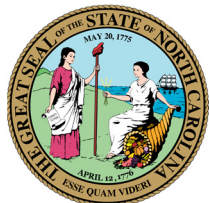
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Chapter 147, Article 5A of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

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



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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Rowan-Cabarrus Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal

control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rowan-Cabarrus Community College, and its discretely presented component unit, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

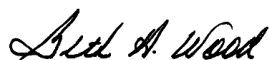
As discussed in Note 19 to the financial statements, the July 1, 2019 beginning net position has been restated to correct misstatements. Our opinion is not modified with respect to this matter.

### 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

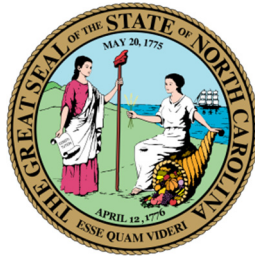
In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2021 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 24, 2021



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Introduction

As prescribed by standards issued by the Governmental Accounting Standards Board (GASB), this Management's Discussion and Analysis (MD&A) section of Rowan-Cabarrus Community College's Annual Financial Report provides an overview of the College's financial position and activities during the fiscal year ended June 30, 2020. The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion, along with the accompanying financial statements and related notes, are the responsibility of the College's management and have been prepared by management to comprise the College's complete financial report.

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

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

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

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

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

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

Rowan-Cabarrus Community College (College) is a comprehensive, public, two-year community college serving Rowan and Cabarrus Counties on multiple campuses located across the two-county service area. In fiscal 2020, the College trained over 8,300 curriculum students through a broad range of college transfer and associate or technical degree programs, in addition to providing customized corporate training, continuing education courses, and special interest classes for more than 10,990 continuing education students.

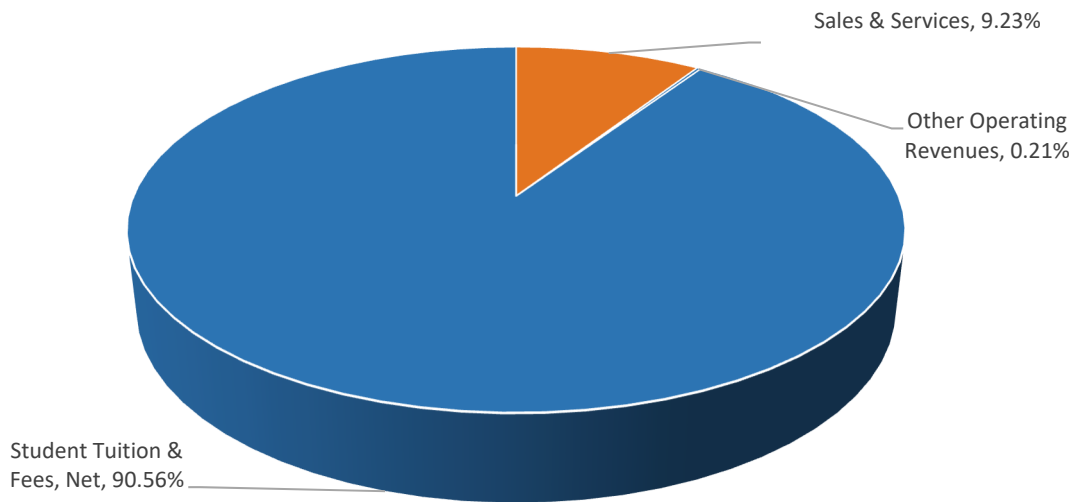
The financial statements also include a Statement of Financial Position, Statement of Activities, and certain note disclosures for the College's discretely presented component unit, Rowan-Cabarrus Community College Foundation, Inc. (Foundation); however, the Foundation is not included in management's discussion and analysis. More information describing the relationship between the College and the Foundation can be found in Note 1A.



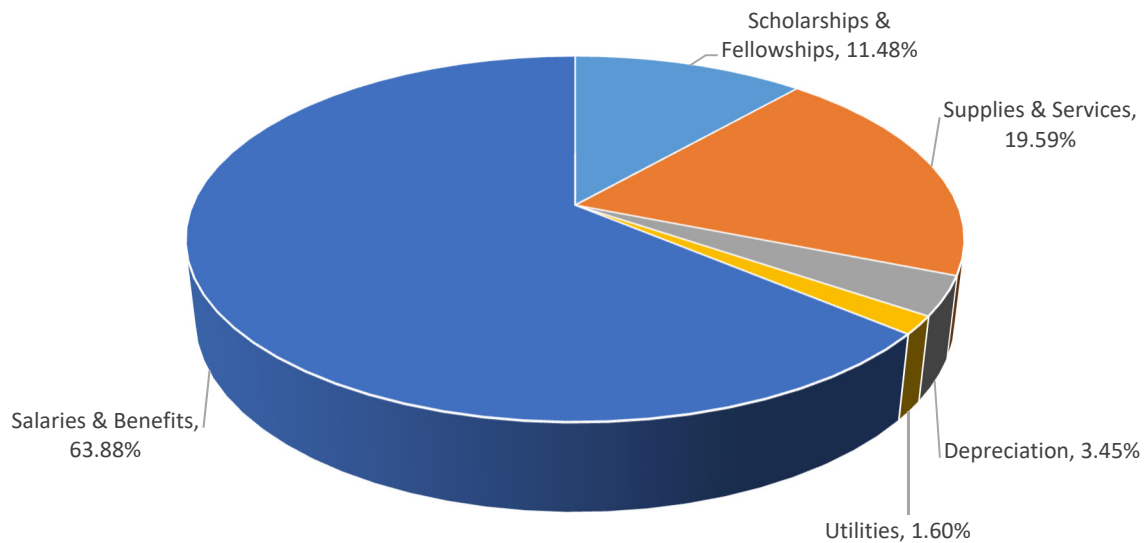
### Financial Highlights

At June 30, 2020, the College's net position was \$41,937,321.74, an increase of \$3,089,287.30 from the prior year. Capital assets (net) increased by \$710,012.00, totaling \$110,232,925.30 for fiscal 2020. Total operating revenues for the fiscal year increased by \$1,024,878.71 over the prior year totaling \$5,692,074.49, while operating expenses increased by \$6,292,644.39 to a total of \$60,248,063.68 for the year ended June 30, 2020. The charts below reflect the distribution of operating revenues and operating expenses for the fiscal year.

Operating Revenue by Type



Operating Expense by Type



## Statement of Net Position

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

The Condensed Statement of Net Position presented here is prepared from the College's Statement of Net Position for the years ended June 30, 2020 and June 30, 2019.

### Condensed Statement of Net Position

	2020	2019 (as Restated)	\$ Change	% Change
<b>Assets</b>				
Current Assets	\$ 7,702,026.10	\$ 7,609,045.52	\$ 92,980.58	1.22%
Noncurrent Capital Assets, Net	110,232,925.30	109,522,913.30	710,012.00	0.65%
Other Noncurrent Assets	1,968,285.62	2,305,340.82	(337,055.20)	-14.62%
Total Assets	119,903,237.02	119,437,299.64	465,937.38	0.39%
<b>Total Deferred Outflows of Resources</b>	9,887,762.00	9,196,291.00	691,471.00	7.52%
<b>Liabilities</b>				
Current Liabilities	3,820,973.19	4,474,406.24	(653,433.05)	-14.60%
Long-Term Liabilities	67,077,988.09	63,342,967.96	3,735,020.13	5.90%
Total Liabilities	70,898,961.28	67,817,374.20	3,081,587.08	4.54%
<b>Total Deferred Inflows of Resources</b>	16,954,716.00	21,968,182.00	(5,013,466.00)	-22.82%
<b>Net Position</b>				
Net Investment in Capital Assets	94,385,741.42	92,895,632.24	1,490,109.18	1.60%
Restricted	3,720,681.23	3,865,458.90	(144,777.67)	-3.75%
Unrestricted	(56,169,100.91)	(57,913,056.70)	1,743,955.79	-3.01%
Total Net Position	\$ 41,937,321.74	\$ 38,848,034.44	\$ 3,089,287.30	7.95%

The College's total net position at June 30, 2020 was \$41,937,321.74, an increase of \$3,089,287.30 over the prior fiscal year. The change in total net position is primarily attributable to increases in net investment in capital assets and unrestricted funds. The increase of \$1,490,109.18 in net investment in capital assets is primarily due to an overall increase in buildings and construction in progress projects. Unrestricted net position increased by \$1,743,955.79 primarily as a result of a net decrease in the year-end balances related to pension and OPEB plans as well as a decrease in unrestricted liabilities at year-end due to differences in the timing of payments as compared to the prior year.

Noncurrent capital assets (net) increased by \$710,012.00 primarily due to the completion of construction projects offset by current year depreciation. See the Capital Assets section below for further details on activity. Other noncurrent assets decreased by \$337,055.20 primarily due to a decrease in intergovernmental receivables resulting from the completion of construction activity.

Current liabilities decreased by \$653,433.05 primarily due to a decrease in accrued payroll as a result of fewer part time employees working at year-end due to COVID-19 restrictions. Long-term

liabilities increased by \$3,735,020.13 primarily due to an increase of \$4,108,017.00 in the College's proportionate share of the State's collective net other postemployment benefits (OPEB) liability, which resulted from changes in actuarial valuations of the plan. Refer to Note 8 of the Notes to the Financial Statements for more information about the College's long-term liabilities.

The College's deferred outflows of resources and deferred inflows of resources are attributable to its participation in the State's pension and other postemployment benefits (OPEB) plans. The decrease in deferred outflows related to pensions of \$1,703,171.00 was primarily the result of negative differences between actual and projected earnings on investments and changes in actuarial assumptions. The increase to deferred outflows related to OPEB of \$2,394,642.00 and decrease to deferred inflows related to OPEB of \$4,732,565.00 were primarily due to changes to actuarial assumptions. See Notes 13 and 14 of the Notes to the Financial Statements for more information about the College's deferred outflows and inflows related to pensions and OPEB.

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

The Statement of Revenues, Expenses, and Changes in Net Position consists of total revenues of \$64,470,036.24 for 2020 and \$76,474,966.26 for 2019. Total expenses were \$61,380,748.94 for 2020 and \$55,062,441.62 for 2019, resulting in an overall increase in net position of \$3,089,287.30 for 2020 and \$21,412,524.64 for 2019.

Operating revenues increased by \$1,024,878.71 to \$5,692,074.49 this year due to an increase in enrollment with more students who in turn received more in student financial aid, which also increased nonoperating student financial aid revenues mentioned below. Student tuition and fees (net) and sales and services also increased in the current year due to the effect of a significant amount of student accounts receivable considered uncollectible and recorded as contra-revenues in the prior year. Net nonoperating revenues increased by \$3,192,903.23 to \$53,082,705.48 in fiscal year 2020. The increase is primarily due to an increase in state aid of \$1,664,666.95, an increase of \$660,322.26 in student financial aid, and an increase of \$794,759.25 in federal aid - COVID-19. State aid increased due to increases in funding connected to benefit rate changes and an increase in full-time-equivalent (FTE) enrollment. The federal aid - COVID-19 revenue was new for fiscal year 2020 and provided to assist students and the College with costs associated with significant changes in operations due to COVID-19. Please refer to Note 17 of the Notes to the Financial Statements for more information on the federal funds received specifically for the COVID-19 pandemic.

Total capital aid and contributions decreased by \$16,248,374.89 to \$4,562,571.01 this year primarily due to the receipt of county capital aid in FY19 related to the construction of the Cabarrus Advanced Technology Center and the purchase of land for the South Campus Expansion.

Rowan-Cabarrus Community College is a state supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by state and county appropriations, financial aid, grants, and other nonoperating revenues. The College receives appropriations from the State of North Carolina and from Rowan and Cabarrus Counties. Tuition and state aid provide funds for the operational and administrative needs of the College based on the number of full-time equivalent (FTE) students enrolled in the previous academic year or the two-year average FTE, whichever is greater. Rowan and Cabarrus Counties provide funds for the operation and maintenance of facilities in the respective counties. Although the College is reliant on these sources of funding by design, they are considered nonoperating revenues for financial reporting purposes. Large operating losses are, therefore, expected every year.

Operating expenses for fiscal year 2020 increased by \$6,292,644.39 to \$60,248,063.68. The

change was primarily due to the increase in salaries and benefits of \$3,936,348.10 due to both an increase in faculty and instructors for increasing enrollment, as well as increases in pension and OPEB expenses. In addition, scholarships and fellowships increased by \$1,808,825.98 primarily due to Coronavirus Aid, Relief, and Economic Security (CARES) Act funding received for students and increased enrollment.

The Condensed Statement of Revenues, Expenses, and Changes in Net Position presented here is prepared from the College's Statement of Revenues, Expenses, and Change in Net Position for the years ended June 30, 2020 and June 30, 2019.

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

	2020	2019 (as Restated)	\$ Change	% Change
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 5,154,643.91	\$ 4,302,391.31	\$ 852,252.60	19.81%
Sales and Services	525,166.36	322,851.04	202,315.32	62.67%
Other Operating Revenues	12,264.22	41,953.43	(29,689.21)	-70.77%
Total Operating Revenues	<u>5,692,074.49</u>	<u>4,667,195.78</u>	<u>1,024,878.71</u>	21.96%
<b>Operating Expenses</b>				
Salaries and Benefits	38,488,762.86	34,552,414.76	3,936,348.10	11.39%
Supplies and Services	11,799,352.01	11,127,375.43	671,976.58	6.04%
Scholarships and Fellowships	6,917,316.38	5,108,490.40	1,808,825.98	35.41%
Utilities	963,663.90	1,082,843.54	(119,179.64)	-11.01%
Depreciation	2,078,968.53	2,084,295.16	(5,326.63)	-0.26%
Total Operating Expenses	<u>60,248,063.68</u>	<u>53,955,419.29</u>	<u>6,292,644.39</u>	11.66%
Operating Loss	<u>(54,555,989.19)</u>	<u>(49,288,223.51)</u>	<u>(5,267,765.68)</u>	10.69%
<b>Nonoperating Revenues (Expenses)</b>				
State Aid	34,959,739.74	33,295,072.79	1,664,666.95	5.00%
County Appropriations	6,244,713.00	5,675,273.00	569,440.00	10.03%
Student Financial Aid	10,735,673.58	10,075,351.32	660,322.26	6.55%
Federal Aid - COVID-19	794,759.25	-	794,759.25	
Noncapital Contributions	1,350,812.02	1,812,722.65	(461,910.63)	-25.48%
Investment Income	129,693.15	138,404.82	(8,711.67)	-6.29%
Interest and Fees on Debt	(1,101,792.62)	(1,037,885.15)	(63,907.47)	6.16%
Other Nonoperating Expenses	(30,892.64)	(69,137.18)	38,244.54	-55.32%
Net Nonoperating Revenues	<u>53,082,705.48</u>	<u>49,889,802.25</u>	<u>3,192,903.23</u>	6.40%
Income (Loss) Before Other Revenues	(1,473,283.71)	601,578.74	(2,074,862.45)	-344.90%
Total Capital Aid and Contributions	<u>4,562,571.01</u>	<u>20,810,945.90</u>	<u>(16,248,374.89)</u>	-78.08%
Increase in Net Position	3,089,287.30	21,412,524.64	(18,323,237.34)	-85.57%
Net Position, July 1	<u>38,848,034.44</u>	<u>17,435,509.80</u>	<u>21,412,524.64</u>	
Net Position, June 30	<u>\$ 41,937,321.74</u>	<u>\$ 38,848,034.44</u>	<u>\$ 3,089,287.30</u>	
<b>Reconciliation of Changes in Net Position</b>				
Total Revenues	\$ 64,470,036.24	\$ 76,474,966.26	\$ (12,004,930.02)	-15.70%
Less: Total Expenses	<u>61,380,748.94</u>	<u>55,062,441.62</u>	<u>6,318,307.32</u>	11.47%
Increases in Net Position	<u>\$ 3,089,287.30</u>	<u>\$ 21,412,524.64</u>	<u>\$ (18,323,237.34)</u>	-85.57%

### Capital Assets

The following schedule compares capital assets for the fiscal years 2020 and 2019, net of accumulated depreciation.

	2020	2019 (as Restated)	\$ Change	% Change
Land	\$ 6,285,956.05	\$ 6,285,956.05	\$ -	-
Construction in Progress	1,894,265.34	17,005,871.03	(15,111,605.69)	-88.86%
Buildings, Net	92,567,908.60	77,047,579.03	15,520,329.57	20.14%
Machinery and Equipment, Net	7,792,008.26	7,651,414.90	140,593.36	1.84%
General Infrastructure, Net	1,692,787.05	1,532,092.29	160,694.76	10.49%
<b>Total Capital Assets, Net</b>	<b>\$ 110,232,925.30</b>	<b>\$ 109,522,913.30</b>	<b>\$ 710,012.00</b>	<b>0.65%</b>

Total capital assets (net) increased by \$710,012.00 primarily from the completion of phase I of the Cabarrus Advanced Technology Center totaling \$16 million. For more information about the College's capital assets holdings, refer to Note 6 of the Notes to the Financial Statements.

### Financial Commitments and Capital Debt

At June 30, 2020, the College had outstanding commitments on construction contracts totaling \$1,134,751.00. The College also pays annual lease payments of \$2,200,184.76 for the North Carolina Research Campus building, and is obligated to make these payments until fiscal year 2030. This capital lease began in June 2010 and is supported by a special legislative appropriation that has been included in the State's debt service budget. Refer to Notes 8 and 9 of the Notes to the Financial Statements for additional details on the College's capital lease obligations.

### Factors Impacting Future Periods

The College's continuing education program has grown significantly over the past five years by increasing the amount of customized training programs and other non-credit programs provided for local business and industry. The College has also developed and implemented new student success and student support services aimed at increasing retention and completion for curriculum students. These initiatives are making a positive impact on FTE. Additionally, in fiscal 2019, the North Carolina Community College System modified the way continuing education occupational extension FTE is calculated, creating an even greater increase in budget FTE for fiscal 2020. Overall, the College's budgeted FTE for fiscal 2021 is 6% greater at 7,332.

In North Carolina, the majority of financial support for community colleges comes from state funding. Therefore, state support is a key factor influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. The College's budgeted state funding has increased from \$37,546,362 in FY2019, to \$39,443,352 in FY2020, and to \$42,152,945 in FY2021.

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

The College's 2019-2023 strategic plan centers on four key principles designed to position the College to respond to student and community ongoing higher education needs:

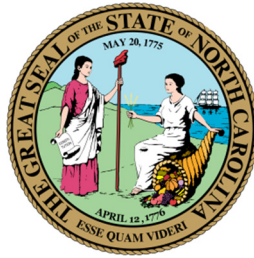
- **LEARN:** *How can Rowan-Cabarrus Community College increase the community's educational attainment that leads individuals, families and the region to prosperity, sustainability and success?*
- **ENGAGE:** *How can Rowan-Cabarrus Community College best prepare students to be responsible and productive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

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

As with most other colleges, the most significant impact on the College will be continuing effects of COVID-19. Beginning in March 2020, the College transitioned to online instruction only for the remainder of the spring semester as stay-at-home orders were issued by the Governor to help control the spread of the virus. Even as restrictions have been gradually lifted, most curriculum instruction and employee work has continued to be done remotely.

Curriculum enrollments increased by 4.3% during the summer 2020. Subsequent enrollments for fall 2020 declined by 4.9% and by 10.2% for spring 2021. Enrollments in short-term workforce development courses and college readiness courses have been especially hard hit by the uncertainties caused by COVID-19. The College has awarded federal CARES funds to students to assist with the cost of attendance, which has enabled many students to continue their education. While the College has expanded online instruction and other services to meet student needs, enrollment is expected to be below prior enrollment levels until fall 2021.

General economic conditions have deteriorated since early 2020 due to the impacts of COVID-19 on employment levels and overall business activity. Traditionally, as economic conditions worsen, enrollments at community colleges increase. There are early indications that this may not be the case for this economy. The State of North Carolina expected a budget deficit for the 2021 fiscal year and colleges have been instructed to hold at least 2% of their state budgets for a possible reversion. As COVID-19 conditions improved during the spring there is optimism that the College will return to normal in fall 2021. Early budget indications reflect a slight decrease in state funding for fiscal year 2022, however the College is taking steps to increase carry-forward funds to offset any possible state budget impacts.



# **FINANCIAL STATEMENTS**



**Rowan-Cabarrus Community College**  
**Statement of Net Position**  
**June 30, 2020**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,049,631.98
Restricted Cash and Cash Equivalents	1,948,750.49
Receivables, Net (Note 5)	1,487,166.35
Inventories	92,301.65
Prepaid Items	116,091.01
Notes Receivable, Net (Note 5)	8,084.62
Total Current Assets	<u>7,702,026.10</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	767,826.71
Receivables	301,706.50
Restricted Due from Primary Government	88,993.27
Restricted Investments	174,442.21
Other Investments	583,558.93
Net Other Postemployment Benefits Asset	51,758.00
Capital Assets - Nondepreciable (Note 6)	8,180,221.39
Capital Assets - Depreciable, Net (Note 6)	<u>102,052,703.91</u>
Total Noncurrent Assets	<u>112,201,210.92</u>
Total Assets	<u>119,903,237.02</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	6,014,566.00
Deferred Outflows Related to Other Postemployment Benefits (Note 14)	<u>3,873,196.00</u>
Total Deferred Outflows of Resources	<u>9,887,762.00</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 7)	2,255,336.26
Unearned Revenue	209,429.55
Long-Term Liabilities - Current Portion (Note 8)	<u>1,356,207.38</u>
Total Current Liabilities	<u>3,820,973.19</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 8)	<u>67,077,988.09</u>
Total Liabilities	<u>70,898,961.28</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	250,117.00
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	<u>16,704,599.00</u>
Total Deferred Inflows of Resources	<u>16,954,716.00</u>

**Rowan-Cabarrus Community College**  
**Statement of Net Position**  
**June 30, 2020**

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

**NET POSITION**

Net Investment in Capital Assets	94,385,741.42
Restricted:	
Nonexpendable	
Student Financial Aid	277,165.31
Expendable	
Student Financial Aid	380,293.11
Capital Projects	1,380,530.36
Restricted for Specific Programs	1,541,413.45
Other	141,279.00
Unrestricted	<u>(56,169,100.91)</u>
Total Net Position	<u><u>\$ 41,937,321.74</u></u>

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

**Rowan-Cabarrus Community College**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit A-2**

**OPERATING REVENUES**

Student Tuition and Fees, Net (Note 11)	\$ 5,154,643.91
Sales and Services	525,166.36
Other Operating Revenues	12,264.22
	<hr/>
Total Operating Revenues	5,692,074.49

**OPERATING EXPENSES**

Salaries and Benefits	38,488,762.86
Supplies and Services	11,799,352.01
Scholarships and Fellowships	6,917,316.38
Utilities	963,663.90
Depreciation	2,078,968.53
	<hr/>
Total Operating Expenses	60,248,063.68
	<hr/>
Operating Loss	(54,555,989.19)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	34,959,739.74
County Appropriations	6,244,713.00
Student Financial Aid	10,735,673.58
Federal Aid - COVID-19	794,759.25
Noncapital Contributions	1,350,812.02
Investment Income	129,693.15
Interest and Fees on Debt	(1,101,792.62)
Other Nonoperating Expenses	(30,892.64)
	<hr/>
Net Nonoperating Revenues	53,082,705.48
	<hr/>
Loss Before Other Revenues	(1,473,283.71)
	<hr/>
State Capital Aid	2,186,957.43
County Capital Aid	1,581,310.85
Capital Contributions	794,302.73
	<hr/>
Total Other Revenues	4,562,571.01
	<hr/>
Increase in Net Position	3,089,287.30

**NET POSITION**

Net Position - July 1, 2019, as Restated (Note 19)	38,848,034.44
	<hr/>
Net Position - June 30, 2020	\$ 41,937,321.74
	<hr/>

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

**Rowan-Cabarrus Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,178,328.61
Payments to Employees and Fringe Benefits	(39,939,376.02)
Payments to Vendors and Suppliers	(12,572,341.85)
Payments for Scholarships and Fellowships	(6,674,730.50)
Other Payments	(495,800.33)
	<hr/>
Net Cash Used by Operating Activities	(54,503,920.09)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid	34,959,739.74
County Appropriations	6,244,713.00
Student Financial Aid	11,866,834.51
Federal Aid - COVID-19	794,759.25
Noncapital Contributions	1,350,812.02
	<hr/>
Total Cash Provided by Noncapital Financing Activities	55,216,858.52

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

State Capital Aid	2,186,957.43
County Capital Aid	1,949,471.81
Capital Contributions	1,110,668.49
Acquisition and Construction of Capital Assets	(2,316,313.36)
Principal Paid on Capital Leases	(1,098,393.05)
Interest and Fees Paid on Capital Leases	(1,101,792.62)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	730,598.70

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	68,840.43
	<hr/>
Net Increase in Cash and Cash Equivalents	1,512,377.56
Cash and Cash Equivalents - July 1, 2019	5,253,831.62
	<hr/>
Cash and Cash Equivalents - June 30, 2020	\$ 6,766,209.18

**Rowan-Cabarrus Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (54,555,989.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	2,078,968.53
Other Nonoperating Income	6,588.00
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(11,415.83)
Inventories	(46,859.65)
Prepaid Items	(116,091.01)
Net Other Postemployment Benefits Asset	(15,869.00)
Deferred Outflows Related to Pensions	1,703,171.00
Deferred Outflows Related to Other Postemployment Benefits	(2,394,642.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(336,773.74)
Unearned Revenue	(678,394.21)
Funds Held for Others	(83,667.97)
Net Pension Liability	811,785.00
Net Other Postemployment Benefits Liability	4,108,017.00
Compensated Absences	40,718.98
Deferred Inflows Related to Pensions	(280,901.00)
Deferred Inflows Related to Other Postemployment Benefits	(4,732,565.00)
Net Cash Used by Operating Activities	<u>\$ (54,503,920.09)</u>

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

Assets Acquired through the Assumption of a Liability	\$ 438,162.45
Change in Fair Value of Investments	60,852.72
Assets Acquired through a Gift	191,853.00
Loss on Disposal of Capital Assets	(37,480.64)

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

**Rowan-Cabarrus Community College Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2020**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$ 3,148,123
Receivables	62,307
Unconditional Promises to Give	16,269
Beneficial Interest in Assets Held by Others	4,111,885
Note Receivable	946,450
Land	130,223
Equipment, Net	<u>878,935</u>
Total Assets	<u><u>\$ 9,294,192</u></u>

**LIABILITIES**

Accrued Expenses	<u>\$ 403</u>
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**NET ASSETS**

Without Donor Restrictions	2,132,787
With Donor Restrictions	<u>7,161,002</u>
Total Net Assets	<u>9,293,789</u>
Total Liabilities and Net Assets	<u><u>\$ 9,294,192</u></u>

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

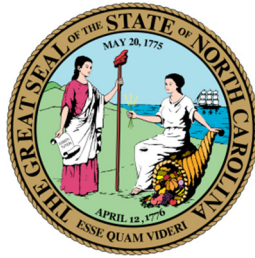
**Rowan-Cabarrus Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit B-2**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT, REVENUES, AND GAINS</b>			
Contributions & Support	\$ 560,044	\$ -	\$ 560,044
Investment Income, Net	54,808	-	54,808
Change in Beneficial Interest	21,540	-	21,540
Electricity Sales	12,049	-	12,049
Net Assets Released from Restrictions	545,835	(545,835)	-
Total Support, Revenues, and Gains	1,194,276	(545,835)	648,441
<b>EXPENSES</b>			
Program Services	679,881	-	679,881
Supporting Services			
General Administration	36,211	-	36,211
Total Expenses	716,092	-	716,092
Change in Net Assets	478,184	(545,835)	(67,651)
Net Assets at Beginning of Year	1,654,603	7,706,837	9,361,440
Net Assets at End of Year	\$ 2,132,787	\$ 7,161,002	\$ 9,293,789

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





# **NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2020, the Foundation distributed \$615,733.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Director, P.O. Box 1595, Salisbury, NC 28145-1595 or by calling (704) 216-3876.

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

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

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

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

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

- E. Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

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

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

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

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	75 years
Machinery and Equipment	10-30 years
General Infrastructure	10-75 years

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Debt is defined as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Long-term debt includes a capital lease payable. Other long-term liabilities include compensated absences, net pension liability, and net other postemployment benefits (OPEB) liability.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 13 for further information regarding the College's policies for

recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

- L. Deferred Outflows/Inflows of Resources** - Deferred outflows of resources represent 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. Deferred inflows of resources represent 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.

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

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

**Restricted Net Position - Nonexpendable** - Nonexpendable restricted net position includes endowments and similar type assets whose use is

limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 10 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

- N. **Scholarship Discounts** - Student tuition and fees revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- O. **Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement

*No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

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

- P. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the Copy Center and Central Supplies. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- Q. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank, savings and loan association, or trust company whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2020 was \$3,295.00. The carrying amount of the College's deposits not with the State Treasurer was \$3,131,174.95, and the bank balance was \$3,575,910.66.

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, 2020, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

## **B. Investments**

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

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

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$3,631,739.23, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the

Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

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

At June 30, 2020, the amounts shown on the Statement of Net Position as restricted and other investments include \$758,001.14, which represent the College's equity position in the State Treasurer's Bond Index Fund (BIF). The BIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any formal regulatory oversight and does not have a credit rating) had a weighted average maturity of 7.97 years at June 30, 2020. Assets and shares of the BIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's BIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

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

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

of the assets of the fund. Distributions of net income and principal are made on the recommendations of the Board of Directors of the Foundation.

The Foundation's beneficial interest in assets held by others at June 30, 2020, is as follows:

	Amount
Beginning Balance	\$ 5,084,460
Transfers From	(994,115)
Change in Value - Increase	21,540
<b>Total Assets Held by Others</b>	<b>\$ 4,111,885</b>

### NOTE 3 - FAIR VALUE MEASUREMENTS

**College** - To the extent available, the College's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

**Short-Term Investment Fund** - At year-end, a portion of the College's investments valued at \$3,631,739.23 were held in the STIF. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal

year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**Bond Index Fund** - At year-end, a portion of the College's investments valued at \$758,001.14 were held in the Bond Index Fund (BIF). Ownership interests in the BIF are determined monthly at fair value based upon units of participation. Units of participation are calculated monthly based upon inflows and outflows as well as allocations of net earnings. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value and the BIF is not required to be categorized within the fair value hierarchy.

**Component Unit** - The Foundation's endowment assets are invested in marketable securities and are reported as beneficial interest in assets held by others on the Statement of Financial Position. The Foundation accounts for investments in accordance with FASB ASC 958-320. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. All of the beneficial interest in assets held by others valued at \$4,111,885 were classified in Level 1 of the fair value hierarchy and valued using prices quoted in active markets for those securities.

#### NOTE 4 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as noncurrent restricted cash and cash equivalents on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2020, net appreciation of \$2,809.14 was available to be spent and was classified in net position as restricted expendable for student financial aid as it is restricted for specific purposes.

On March 1, 2013, the College placed additional endowment assets in the State Treasurer's Bond Index Fund. These assets are pooled with state agencies and similar institutions in long-term investments with the State Treasurer's Investment Pool and are reported as noncurrent restricted and other investments on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise; however, it is generally expected that the amount of annual spending will approximate a range of 2% to 7% of the previous 12-quarter average market value portfolio assets determined at December 31 each year. Initially, the annual spending will

be based on the market value of portfolio assets for the previous year and the previous two years until a three-year average is available. At June 30, 2020, net appreciation of \$41,930.18 was available to be spent and was classified in net position as unrestricted.

## NOTE 5 - RECEIVABLES

Receivables at June 30, 2020, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 1,769,579.93	\$ 632,743.20	\$ 1,136,836.73
Student Sponsors	103,127.38	-	103,127.38
Accounts	87,595.68	-	87,595.68
Intergovernmental	142,410.30	-	142,410.30
Other	17,196.26	-	17,196.26
<b>Total Current Receivables</b>	<b>\$ 2,119,909.55</b>	<b>\$ 632,743.20</b>	<b>\$ 1,487,166.35</b>
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 13,141.73	\$ 5,057.11	\$ 8,084.62

## NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019 (as Restated)	Increases	Decreases	Balance June 30, 2020
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 6,285,956.05	\$ -	\$ -	\$ 6,285,956.05
Construction in Progress	17,005,871.03	1,666,666.24	16,778,271.93	1,894,265.34
<b>Total Capital Assets, Nondepreciable</b>	<b>23,291,827.08</b>	<b>1,666,666.24</b>	<b>16,778,271.93</b>	<b>8,180,221.39</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	91,578,876.41	16,778,271.93	-	108,357,148.34
Machinery and Equipment	12,993,605.07	967,941.93	163,842.92	13,797,704.08
General Infrastructure	2,152,838.58	191,853.00	-	2,344,691.58
<b>Total Capital Assets, Depreciable</b>	<b>106,725,320.06</b>	<b>17,938,066.86</b>	<b>163,842.92</b>	<b>124,499,544.00</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	14,531,297.38	1,257,942.36	-	15,789,239.74
Machinery and Equipment	5,342,190.17	789,867.93	126,362.28	6,005,695.82
General Infrastructure	620,746.29	31,158.24	-	651,904.53
<b>Total Accumulated Depreciation</b>	<b>20,494,233.84</b>	<b>2,078,968.53</b>	<b>126,362.28</b>	<b>22,446,840.09</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>86,231,086.22</b>	<b>15,859,098.33</b>	<b>37,480.64</b>	<b>102,052,703.91</b>
<b>Capital Assets, Net</b>	<b>\$ 109,522,913.30</b>	<b>\$ 17,525,764.57</b>	<b>\$ 16,815,752.57</b>	<b>\$ 110,232,925.30</b>

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2020, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 630,441.61
Accounts Payable - Capital Assets	328,193.00
Accrued Payroll	1,186,732.20
Contract Retainage	109,969.45
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,255,336.26</b>

**NOTE 8 - LONG-TERM LIABILITIES**

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019 (as Restated)	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Capital Lease Payable	\$ 16,507,414.48	\$ -	\$ 1,098,393.05	\$ 15,409,021.43	\$ 1,178,977.78
Other Long-Term Liabilities					
Compensated Absences	1,414,368.06	948,276.24	907,557.26	1,455,087.04	177,229.60
Net Pension Liability	13,516,386.00	811,785.00	-	14,328,171.00	-
Net Other Postemployment Benefits Liability	33,133,899.00	4,108,017.00	-	37,241,916.00	-
<b>Total Other Long-Term Liabilities</b>	<b>48,064,653.06</b>	<b>5,868,078.24</b>	<b>907,557.26</b>	<b>53,025,174.04</b>	<b>177,229.60</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 64,572,067.54</b>	<b>\$ 5,868,078.24</b>	<b>\$ 2,005,950.31</b>	<b>\$ 68,434,195.47</b>	<b>\$ 1,356,207.38</b>

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

Additional information regarding the net pension liability is included in Note 13.

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

**B. Terms of Debt Agreement** - The College's debt agreement is subject to the following collateral requirements and terms with finance-related consequences:

**Capital Lease Payable** - The College has a capital lease for which available funds of the College are pledged toward debt payments. This agreement also contains provisions related to events of default and remedies. Significant to these provisions, an event of default occurs when: (1) the College fails or refuses to pay any rental and interest when due and continues for 10 days following receipt of written notice of such nonpayment. If failure to pay is due to the unavailability of funds and the College seeks alternative funding during the payment grace period, the failure will not constitute an event of default. In which case, after the

payment grace period, the parties may mutually agree to cancel the lease; or (2) the College fails to observe and perform any obligations pursuant to the lease agreement other than the payment of rent by the date that performance is required and such failure or refusal continues for a period of 60 days after written notice specifying such failure or refusal is delivered.

Upon the occurrence of any event of default, the lessor may, without any further demand or notice, declare the unpaid rental and interest be due and payable immediately. The lessor may also exercise all remedies available by law or in the equity provided under the agreement, including sale of the secured assets, and apply the proceeds of any such sale to the amounts due after deducting all costs and expenses related to the recovery, repair, storage, and sale of the secured assets, including court costs and reasonable attorneys' fees incurred.

#### NOTE 9 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to the North Carolina Research Campus (NCRC) building and land are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 2,200,184.76
2022	2,200,184.76
2023	2,200,184.76
2024	2,200,184.76
2025	2,200,184.76
2026-2030	10,085,571.44
Total Minimum Lease Payments	21,086,495.24
Amount Representing Interest (6.75% Rate of Interest)	5,677,473.81
<b>Present Value of Future Lease Payments</b>	<b>\$ 15,409,021.43</b>

The NCRC building and land acquired in fiscal year 2010 under a capital lease amounted to \$26,786,729.97 at June 30, 2020. The capital lease payments are supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease expense while searching for alternative funding.



Depreciation for the building associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$3,328,370.35 at June 30, 2020.

- B. Operating Lease Obligations** - The College entered into operating leases for the College Station Facility. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2020:

<u>Fiscal Year</u>	<u>Amount</u>
2021	\$ 284,832.00
2022	284,832.00
2023	284,832.00
2024	284,832.00
2025	284,832.00
2026-2030	1,424,160.00
2031-2035	1,424,160.00
2036-2040	901,968.00
<b>Total Minimum Lease Payments</b>	<b>\$ 5,174,448.00</b>

Rental expense for all operating leases during the year was \$261,096.00.

**NOTE 10 - NET POSITION**

Unrestricted net position has been significantly affected by transactions resulting from the recognition of deferred outflows of resources, deferred inflows of resources, and related long-term liabilities, as shown in the following table:

	<u>Amount</u>
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (8,563,722.00)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	(50,162,840.00)
Effect on Unrestricted Net Position	(58,726,562.00)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	2,557,461.09
<b>Total Unrestricted Net Position</b>	<b>\$ (56,169,100.91)</b>

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

**NOTE 11 - REVENUES**

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 10,303,441.41	\$ 5,101,649.35	\$ 47,148.15	\$ 5,154,643.91

**NOTE 12 - OPERATING EXPENSES BY FUNCTION**

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

	Salaries and Benefits	Supplies and Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 21,388,648.31	\$ 3,410,855.47	\$ 176,536.88	\$ 152,513.92	\$ -	\$ 25,128,554.58
Academic Support	6,925,393.37	749,921.49	-	-	-	7,675,314.86
Student Services	4,113,925.09	448,367.04	49,275.39	-	-	4,611,567.52
Institutional Support	4,222,696.89	2,503,782.31	-	-	-	6,726,479.20
Operations and Maintenance of Plant	1,761,955.99	4,419,858.71	-	811,149.98	-	6,992,964.68
Student Financial Aid	-	13,774.38	6,691,504.11	-	-	6,705,278.49
Auxiliary Enterprises	76,143.21	252,792.61	-	-	-	328,935.82
Depreciation	-	-	-	-	2,078,968.53	2,078,968.53
<b>Total Operating Expenses</b>	<b>\$ 38,488,762.86</b>	<b>\$ 11,799,352.01</b>	<b>\$ 6,917,316.38</b>	<b>\$ 963,663.90</b>	<b>\$ 2,078,968.53</b>	<b>\$ 60,248,063.68</b>

Included in the scholarship and fellowship function are student financial aid operating expenses for emergency financial aid payments to eligible students. These payments are for expenses related to the disruption of campus operations due to the coronavirus of \$765,813.25 provided by the CARES Act - Higher Education Emergency Relief Fund (HEERF). Because of the administrative involvement by the College in providing the student awards, the related program activity is reported as nonoperating Federal Aid - COVID-19 revenue and student financial aid operating expenses. Since the purpose of the student aid is not for educational or scholarship purposes, they do not affect the scholarship discounting adjustments reported in Note 11.

**NOTE 13 - PENSION PLANS****Defined Benefit Plan**

*Plan Administration:* The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its

component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2020 was 12.97% of covered payroll. Employee contributions to the pension plan were \$1,336,609.46, and the College's contributions were \$2,889,304.11 for the year ended June 30, 2020.

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 2019 *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. For purposes

of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the TSERS plan, and additions to/deductions from the TSERS plan's fiduciary net position have been determined on the same basis as they are reported by TSERS.

*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 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 2019 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2020, the College reported a liability of \$14,328,171.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total pension liability to June 30, 2019. 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, 2019, the College's proportion was 0.13821%, which was an increase of 0.00245 from its proportion measured as of June 30, 2018, which was 0.13576%.

*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	12/31/2018
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.00%

\* 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, 2018 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, 2019 (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, 2019 is 1.4%.

**Discount Rate:** The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2018 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, 2019 calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

Net Pension Liability		
1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
\$ 27,270,495.67	\$ 14,328,171.00	\$ 3,471,210.49

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** For the year ended June 30, 2020, the College recognized pension expense of \$5,097,059.00. At June 30, 2020, 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	\$ 1,198,535.00	\$ 28,684.00
Changes of Assumptions	1,526,723.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	274,651.00	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	125,352.89	221,433.00
Contributions Subsequent to the Measurement Date	2,889,304.11	-
<b>Total</b>	<b>\$ 6,014,566.00</b>	<b>\$ 250,117.00</b>

The amount 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, 2021. 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>
2021	\$ 2,000,568.00
2022	504,431.00
2023	298,092.00
2024	72,053.89
<b>Total</b>	<b>\$ 2,875,144.89</b>

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS**

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2019 *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.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. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of each plan, and additions to/deductions from each plans' fiduciary net position have been determined on the same basis as they are reported by the 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 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 2019 *Comprehensive Annual Financial Report*.

## **B. Plan Descriptions**

### **1. Health Benefits**

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

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

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

*Benefits Provided:* Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is



also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the 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 North Carolina General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the North Carolina 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 North Carolina 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 North Carolina General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2020 was 6.47% of covered payroll. The College's contributions to the RHBF were \$1,441,310.53 for the year ended June 30, 2020.

## 2. Disability Income

*Plan Administration:* As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the 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 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 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 North Carolina General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2020 was 0.10% of covered payroll. The College's contributions to DIPNC were \$22,276.82 for the year ended June 30, 2020.

### C. Net OPEB Liability (Asset)

*Net OPEB Liability:* At June 30, 2020, the College reported a liability of \$37,241,916.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. 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, 2019, the College's proportion was 0.11771%, which was an increase of 0.00140 from its proportion measured as of June 30, 2018, which was 0.11631%.

*Net OPEB Asset:* At June 30, 2020, the College reported an asset of \$51,758.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018, and update procedures were used to roll forward the total OPEB liability to June 30, 2019. 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, 2019, the College's proportion was 0.11995%, which was an increase of 0.00180 from its proportion measured as of June 30, 2018, which was 0.11815%.

*Actuarial Assumptions:* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2019 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2018	12/31/2018
Inflation	3.00%	3.00%
Salary Increases*	3.50% - 8.10%	3.50% - 8.10%
Investment Rate of Return**	7.00%	3.75%
Healthcare Cost Trend Rate - Medical	6.50% grading down to 5.00% by 2024	6.50% grading down to 5.00% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.50% grading down to 5.00% by 2028	9.50% grading down to 5.00% by 2028
Healthcare Cost Trend Rate - Medicare Advantage	6.50% grading down to 5.00% by 2024	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, 2019.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2019 (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, 2019 is 1.4%.

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, 2018 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2014, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount Rate:* The discount rate used to measure the total OPEB liability for RHBF was 3.50%. 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 3.50% was used as the discount rate used to measure the total OPEB liability. The 3.50% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2019.

The discount rate used to measure the total OPEB liability 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 liability.

**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 (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
RHBF	\$ 44,257,977.12	\$ 37,241,916.00	\$ 31,625,576.52
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (43,838.13)	\$ (51,758.00)	\$ (59,454.42)

**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:

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%, Med. Advantage - 4.00% - 5.50%, Administrative - 2.00%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%, Med. Advantage - 5.00% - 6.50%, Administrative - 3.00%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%, Med. Advantage - 6.00% - 7.50%, Administrative - 4.00%)
RHBF	\$ 30,666,674.37	\$ 37,241,916.00	\$ 45,889,503.64
	1% Decrease (Medical - 4.00% - 5.50%, Pharmacy - 4.00% - 8.50%)	Current Healthcare Cost Trend Rates (Medical - 5.00% - 6.50%, Pharmacy - 5.00% - 9.50%)	1% Increase (Medical - 6.00% - 7.50%, Pharmacy - 6.00% - 10.50%)
DIPNC	\$ (51,849.59)	\$ (51,758.00)	\$ (51,673.26)

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB:** For the year ended June 30, 2020, the College recognized OPEB contra-expense of \$1,636,040.00 for RHBF and expense of \$51,966.00 for DIPNC, resulting in a total OPEB contra-expense of \$1,584,074.00. At June 30, 2020, 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	\$ -	\$ 52,875.00	\$ 52,875.00
Changes of Assumptions	1,790,022.00	5,734.00	1,795,756.00
Net Difference Between Projected and Actual Earnings on Plan Investments	24,800.00	9,859.00	34,659.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	520,924.47	5,394.18	526,318.65
Contributions Subsequent to the Measurement Date	1,441,310.53	22,276.82	1,463,587.35
<b>Total</b>	<b>\$ 3,777,057.00</b>	<b>\$ 96,139.00</b>	<b>\$ 3,873,196.00</b>

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 1,877,462.00	\$ -	\$ 1,877,462.00
Changes of Assumptions	11,196,552.00	5,310.00	11,201,862.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	-	-
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,623,967.00	1,308.00	3,625,275.00
<b>Total</b>	<b>\$ 16,697,981.00</b>	<b>\$ 6,618.00</b>	<b>\$ 16,704,599.00</b>

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year Ended June 30:	RHBF	DIPNC
2021	\$ (4,653,567.00)	\$ 23,851.00
2022	(4,653,567.00)	15,456.00
2023	(4,649,981.00)	11,444.00
2024	(826,552.00)	7,363.00
2025	421,432.47	9,964.18
Thereafter	-	(834.00)
<b>Total</b>	<b>\$ (14,362,234.53)</b>	<b>\$ 67,244.18</b>



**NOTE 15 - RISK MANAGEMENT**

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

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

College employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 14, Other Postemployment Benefits, for additional information regarding retiree health benefits.

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

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

**3. Disability Income Plan**

Short-term and long-term disability benefits are provided to College employees through the Disability Income Plan of North Carolina (DIPNC), part of the State's Pension and Other Employee Benefit Trust Funds. Short-term benefits are paid by the College up to the first six months of benefits and reimbursed by DIPNC for any additional short-term benefits. As discussed in Note 14, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

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

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



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

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$2,000,000 per claim and \$10,000,000 in the aggregate per fiscal year via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

## 3. Employee Dishonesty and Computer Fraud

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

## 4. Statewide Workers' Compensation Program

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

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

## NOTE 16 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,134,751.00 at June 30, 2020.
- B. **Pending Litigation and Claims** - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to

predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

#### **NOTE 17 - THE CORONAVIRUS PANDEMIC EMERGENCY**

In response to the coronavirus pandemic emergency, actions were taken by the College in March 2020 to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of students, faculty, and staff.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law. The CARES Act included various relief and recovery aid programs to address COVID-19 expenses and the costs incurred and revenue lost due to the actions taken to reduce the spread of COVID-19. For the College, these programs included the Coronavirus Relief Fund (CRF) administered by the U.S. Department of Treasury and made available directly to state and local governments, and the Higher Education Emergency Relief Fund (HEERF) administered by the U.S. Department of Education and made available directly to universities and colleges.

The CARES Act - CRF funds were appropriated by the State of North Carolina in House Bill 1043 to the Community College System Office and allocated to the colleges to cover COVID-19 expenses. As of June 30, 2020, the \$245,217.00 allocated to the College for Small Business Center Counseling, College Career Counselors and Academic Advisors, and Virtual Student Tutoring remained unspent. The CRF funds must be used to cover allowable costs that were incurred between March 1, 2020 and December 31, 2021.

The revenues from these programs are contingent upon meeting the terms and conditions of the programs and signed agreements with the funding agencies, are recognized when qualifying expenditures are incurred, funds are used for intended purposes, and other eligibility requirements are met, and are reported in the following revenue caption of the financial statements:

##### **Nonoperating Revenue:**

**Federal Aid - COVID-19** - This caption includes funds received from the CARES Act, other than the CRF funds appropriated in House Bill 1043, as follows:

The HEERF funds provided include: (1) a student allocation to provide for emergency financial aid grants to students for expenses related to the disruption of campus operations due to COVID-19, (2) an institutional allocation to cover costs associated with significant changes to the delivery of instruction due to COVID-19 including the recovery of revenue lost due to those changes, and (3) an Education Stabilization allocation to cover costs associated with significant changes to the delivery of instruction. The HEERF funds must be expended within one year of the grant award notification date.

**Summary of Federal Aid - COVID-19 Revenue Activities for the Fiscal  
Year Ended June 30, 2020:**

Program	Total Authorized Award	Earned Revenue
<b>Federal Aid - COVID-19:</b>		
HEERF - Student Allocation	\$ 1,422,753.00	\$ 765,813.25
HEERF - Institutional Allocation (1)	1,422,753.00	28,946.00
HEERF - Education Stabilization	139,065.00	-
<b>Total Federal Aid - COVID-19</b>	N/A	<u>\$ 794,759.25</u>

(1) While the HEERF Institutional Portion is accounted for and recognized independently from the HEERF Student Portion, the CARES Act has a "Use of Funds" requirement that no less than 50% of the total HEERF Student and Institutional Portion funds must be used for emergency financial aid grants to students.

**NOTE 18 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2020, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

*GASB Statement No. 89, Accounting for Interest Costs Incurred before the End of a Construction Period*

*GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*

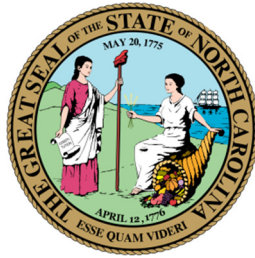
GASB Statement No. 89 establishes accounting requirement for interest costs incurred before the end of a construction period. Interest costs incurred before the end of a construction period are to be recognized as an expense in the period in which the costs are incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this Statement have been applied prospectively.

GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for period beginning after June 15, 2018 and later.

**NOTE 19 - NET POSITION RESTATEMENTS**

As of July 1, 2019, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2019 Net Position as Previously Reported	\$ 24,671,006.78
Restatements to Correct Prior Period Errors in:	
Land	3,211,837.25
Construction in Progress	9,316,564.65
Buildings, Net	2,057,711.74
Capital Lease Payable	167,479.83
Receivables, Net (Current)	(1,006,439.67)
Receivables (Noncurrent)	<u>429,873.86</u>
<b>July 1, 2019 Net Position as Restated</b>	<b><u>\$ 38,848,034.44</u></b>



# **REQUIRED SUPPLEMENTARY INFORMATION**

**Rowan-Cabarrus Community College**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net Pension Liability**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**Last Seven Fiscal Years\***

**Exhibit C-1**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net Pension Liability	0.13821%	0.13576%	0.13967%	0.14989%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 14,328,171.00	\$ 13,516,386.00	\$ 11,082,034.00	\$ 13,776,439.00
Covered Payroll	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	67.05%	66.33%	54.98%	66.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.56%	87.61%	89.51%	87.32%
	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Proportionate Share Percentage of Collective Net Pension Liability	0.14445%	0.14295%	0.13940%	
Proportionate Share of TSERS Collective Net Pension Liability	\$ 5,323,269.00	\$ 1,675,976.00	\$ 8,463,000.00	
Covered Payroll	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09	
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	25.20%	8.37%	41.68%	
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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.

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

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

**Exhibit C-2**

<b>Teachers' and State Employees' Retirement System</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 2,889,304.11	\$ 2,626,398.37	\$ 2,196,554.89	\$ 2,011,676.42	\$ 1,907,261.24
Contributions in Relation to the Contractually Determined Contribution	<u>2,889,304.11</u>	<u>2,626,398.37</u>	<u>2,196,554.89</u>	<u>2,011,676.42</u>	<u>1,907,261.24</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 22,276,824.31	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Contributions as a Percentage of Covered Payroll	12.97%	12.29%	10.78%	9.98%	9.15%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 1,932,978.77	\$ 1,740,308.22	\$ 1,691,361.36	\$ 1,427,744.42	\$ 871,827.66
Contributions in Relation to the Contractually Determined Contribution	<u>1,932,978.77</u>	<u>1,740,308.22</u>	<u>1,691,361.36</u>	<u>1,427,744.42</u>	<u>871,827.66</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95
Contributions as a Percentage of Covered Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

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

**Rowan-Cabarrus Community College**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan**  
**For the Fiscal Year Ended June 30, 2020**

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*Changes of Benefit Terms:*

	<u>Cost of Living Increase</u>									
<b>Teachers' and State Employees' Retirement System</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%

*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 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 the Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation. For the December 31, 2017 valuation, the discount rate was lowered to 7.00%.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, the plan now uses 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 2019 *Comprehensive Annual Financial Report*.

N/A - Not Applicable



**Rowan-Cabarrus Community College**  
**Required Supplementary Information**  
**Schedule of the Proportionate Share of the Net OPEB Liability or Asset**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**Last Four Fiscal Years\***

**Exhibit C-3**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Proportionate Share Percentage of Collective Net OPEB Liability	0.11771%	0.11631%	0.11703%	0.13300%
Proportionate Share of Collective Net OPEB Liability	\$ 37,241,916.00	\$ 33,133,899.00	\$ 38,369,410.00	\$ 57,859,521.00
Covered Payroll	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	174.27%	162.61%	190.35%	277.58%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	4.40%	4.40%	3.52%	2.41%
<b>Disability Income Plan of North Carolina</b>				
Proportionate Share Percentage of Collective Net OPEB Asset	0.11995%	0.11815%	0.12284%	0.13235%
Proportionate Share of Collective Net OPEB Asset	\$ 51,758.00	\$ 35,889.00	\$ 75,080.00	\$ 82,189.00
Covered Payroll	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.24%	0.18%	0.37%	0.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.00%	108.47%	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*, as amended.

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

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

**Exhibit C-4**

<b>Retiree Health Benefit Fund</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 1,441,310.53	\$ 1,339,911.94	\$ 1,232,760.40	\$ 1,171,126.25	\$ 1,167,285.57
Contributions in Relation to the Contractually Determined Contribution	1,441,310.53	1,339,911.94	1,232,760.40	1,171,126.25	1,167,285.57
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 22,276,824.31	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Contributions as a Percentage of Covered Payroll	6.47%	6.27%	6.05%	5.81%	5.60%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 1,159,787.26	\$ 1,081,434.34	\$ 1,076,136.28	\$ 959,505.66	\$ 866,522.42
Contributions in Relation to the Contractually Determined Contribution	1,159,787.26	1,081,434.34	1,076,136.28	959,505.66	866,522.42
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95
Contributions as a Percentage of Covered Payroll	5.49%	5.40%	5.30%	5.00%	4.90%
<b>Disability Income Plan of North Carolina</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Contractually Required Contribution	\$ 22,276.82	\$ 29,918.29	\$ 28,526.69	\$ 76,596.90	\$ 85,461.98
Contributions in Relation to the Contractually Determined Contribution	22,276.82	29,918.29	28,526.69	76,596.90	85,461.98
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 22,276,824.31	\$ 21,370,206.40	\$ 20,376,204.92	\$ 20,157,078.34	\$ 20,844,385.10
Contributions as a Percentage of Covered Payroll	0.10%	0.14%	0.14%	0.38%	0.41%
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Contractually Required Contribution	\$ 86,614.35	\$ 88,116.87	\$ 89,339.62	\$ 99,788.59	\$ 91,957.48
Contributions in Relation to the Contractually Determined Contribution	86,614.35	88,116.87	89,339.62	99,788.59	91,957.48
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 21,125,451.01	\$ 20,026,561.80	\$ 20,304,458.09	\$ 19,190,113.20	\$ 17,684,130.95
Contributions as a Percentage of Covered Payroll	0.41%	0.44%	0.44%	0.52%	0.52%

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

**Rowan-Cabarrus Community College**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans**  
**For the Fiscal Year Ended June 30, 2020**

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

Effective January 1, 2019, benefit terms related to copays, out-of-pocket maximums, and deductibles were changes for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

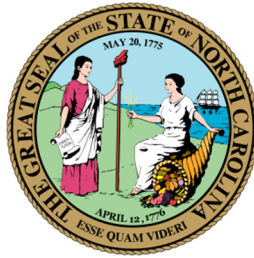
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

*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 College 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 RHBF. The actuarially determined contribution rates in the Schedule of College 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 DIPNC. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

*Changes of Assumptions:* In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the RHBF and the DIPNC. 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.

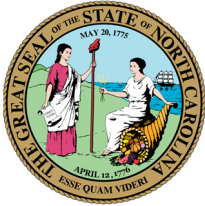
For the actuarial valuation measured as of June 30, 2019, the discount rate for the RHBF was updated to 3.5%. Disability rates were adjusted to the non-grandfathered assumptions used in the Teachers' and State Employees' Retirement System actuarial valuation to better align with the anticipated incidence of disability. Medical and prescription drug claims were changed based on most recent experience, and medical and prescription drug trend rates were changed to the current schedule. Enrollment assumptions were updated to model expected migrations amount RHBF plan options over the next four years. For the DIPNC actuarial valuation as of December 31, 2018, for individuals who may become disabled in the future, the Social Security disability income benefit (which is an offset for the DIPNC benefit) was updated to be based on assumed Social Security calculation parameters in the year of disability.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2019 *Comprehensive Annual Financial Report*.



# **INDEPENDENT AUDITOR'S REPORT**

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



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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rowan-Cabarrus Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 24, 2021. Our report includes a reference to other auditors who audited the financial statements of Rowan-Cabarrus Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Rowan-Cabarrus Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with Rowan-Cabarrus Community College Foundation, Inc.

Internal Control Over Financial Reporting

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

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

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Finding, Recommendation, and Response section, that we consider to be a material weakness.

### 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 financial statements. 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*.

### College's Response to the Finding

The College's response to the finding identified in our audit is described in the accompanying Finding, Recommendation, and Response section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

### Purpose of this Report

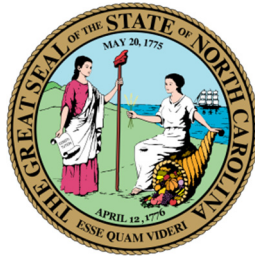
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in 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

May 24, 2021



# **FINDING, RECOMMENDATION, AND RESPONSE**

**Matters Related to Financial Reporting****LACK OF MONITORING RESULTED IN SIGNIFICANT MISSTATEMENTS AND INCREASED THE RISK OF FRAUD AND UNDETECTED ERRORS**

College management did not monitor the components of internal control over financial reporting to ensure they were present and functioning throughout the period. Auditors found:

- The College's financial statements submitted for audit contained significant misstatements and were not reviewed by an individual independent from the preparer.
- Reconciliations of the capital asset subsidiary ledger to the general ledger were not completed since June 30, 2018.
- Reconciliations of the student accounts receivable subsidiary ledger to the general ledger were not completed since June 30, 2018.

Further, auditors found the following with respect to positions critical to financial reporting:

- The Chief Financial Officer position was vacant between December 2018 and September 2019.
- The Senior Accounting Technician responsible for capital assets was vacant between September 2018 and April 2019.
- The Executive Director of Budgets and Financial Reporting was vacant between June 2020 and February 2021.
- Additional turnover in recent years affected the development of and competencies held by the following positions: Accounts Receivable Technicians, Equipment Coordinator, Payroll Analysts, Controller, Assistant Controller, Associate Chief Financial Officer, Director of Business Services, and Manager of Contracts and Procurement.

The lack of adequate internal controls resulted in:

- The College omitting \$14.6 million in county capital aid and related capital asset additions that occurred in the prior period.
- The College misclassifying \$16.2 million of completed buildings as construction in progress.
- The College understating supplies and services expense by \$2.0 million for amounts that should have been capitalized to construction in progress in the prior period.
- The College requiring use of external consultants to reconcile the student accounts receivable subsidiary ledger, which identified a \$1.0 million overstatement of the current period beginning balance.
- Additional audit adjustments to correct misstatements in the financial statements, as well as corrections to the majority of the notes to the financial statements, the statement of cash flows, and required supplementary information.



There is also an increased risk that:

- Financial statement users could be misinformed about the College's financial condition or operating results.
- Fraud could occur and go undetected.
- The College's Board of Trustees could make financial decisions based on unreliable or incomplete information.
- Audit costs could increase, resulting in the diversion of resources otherwise available to College management for use towards its principal purpose.
- Resources that should be used towards the College's principal purpose will instead be diverted to external consultants to perform functions that should be completed by employees.

The lack of internal controls over financial reporting was the result of:

- College management not having monitoring procedures in place.
- College management's lack of a year-end plan related to the preparation and review of the financial statements prior to submission for audit.
- College management not adequately addressing the loss of institutional knowledge and expertise due to significant management and financial reporting staff turnover in recent years.

*North Carolina General Statutes*<sup>1</sup> require that College management establish and maintain a proper system of internal controls in accordance with the standards established by the Office of the State Controller.<sup>2</sup> Included in those standards is the Committee of Sponsoring Organizations (COSO) *Internal Control - Integrated Framework*,<sup>3</sup> which requires that College management perform evaluations to monitor whether the components of internal control are present and functioning.

### *Recommendation:*

College management should provide appropriate and adequate resources to ensure:

- Staff are adequately trained to perform year-end financial reporting;
- Monitoring activities are designed and implemented to evaluate whether the components of internal control are present and functioning;
- A year-end plan is designed and implemented that would allow for a thorough review of the financial statements and related information to ensure accurate and complete year-end financial reporting; and
- Contingency plans are implemented to meet financial reporting objectives during periods impacted by staff turnover.

*College's Response:* See page 60 for the College's response to this finding.

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<sup>1</sup> Chapter 143D-7

<sup>2</sup> Chapter 143D-6

<sup>3</sup> Committee of Sponsoring Organizations, *Internal Control - Integrated Framework*, May 2013



May 20, 2021

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0600

Dear Auditor Wood:

Rowan-Cabarrus Community College's response to the audit finding for Fiscal Year 2019-2020 is shown below.

**LACK OF MONITORING RESULTED IN SIGNIFICANT MISSTATEMENTS AND INCREASED THE RISK OF FRAUD AND UNDETECTED ERRORS**

***OSA Recommendation:***

**College management should provide appropriate and adequate resources to ensure:**

- **Staff are adequately trained to perform year-end financial reporting;**
- **Monitoring activities are designed and implemented to evaluate whether the components of internal control are present and functioning;**
- **A year-end plan is designed and implemented that would allow for a thorough review of the financial statements and related information to ensure accurate and complete year-end financial reporting; and**
- **Contingency plans are implemented to meet financial reporting objectives during periods impacted by staff turnover.**

***College Response:***

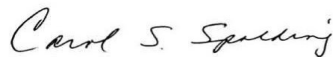
The College agrees with the audit finding and recommendations provided by the Office of the State Auditor. It is unfortunate the Business Office has been subject to significant turnover in the past few years and has impacted the staffing level necessary to ensure adequate controls to ensure the financial statements are free of any material misstatements.

The College takes the audit very seriously and has started to rebuild the Business Office in a manner to ensure adequate controls are in place. The College had already posted to fill two positions to replace the prior Controller, who was promoted to Executive Director of Budget and Financial Reporting, and Assistant Director of Budget and Financial Reporting. These are key positions that are part of the planned controls for financial reporting. In addition to these key positions, the College recently hired an experienced AR Coordinator to oversee the impact of tuition, fees, and financial aid which are a significant impact on the financial statements. The AR Coordinator has already instituted a monthly reconciliation of student accounts with the general ledger as of March 31, 2021. The College has also transferred a vacant position

The Honorable Beth A. Wood, State Auditor  
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from Information Technology to the Business Office that will be responsible for the inventory and fixed assets of the College. This position will be posted soon and will have the necessary accounting background and experience that will be part of the controls process for construction accounting and capital assets. One additional position has been approved to assist with grant reporting and financial reporting. Filling the current vacant positions, as well as adding new positions will allow the Business Office to develop and utilize improved reconciliations. These improved control processes will incorporate an independent review and approval by separate individuals within the Business Office to ensure entries are subject to proper review and controls are present and functioning.

The Interim Chief Financial and Administrative Officer (CFAO) within the Business Office will be responsible for the implementation of the corrective actions identified with assistance from the President and various divisions of the College. As mentioned above, with the assistance of Human Resources, the College is actively recruiting personnel. The College anticipates hiring the Controller and Assistant Director of Budget and Financial Reporting by July 1, 2021 to assist with the 2021 financial statements. Further, Human Resources is preparing job descriptions and required experience for the two new positions and expects to have those positions posted during May with an expected July hiring timeframe. In addition, the College has brought on an additional outside consultant to review current process and procedures to review monthly reconciliations of tuition and fees, to provide expertise in next year's financial report, and review internal controls for financial reporting. The Executive Director of Budget and Financial Reporting and the AR Coordinator recently attended the state on-line training for the preparation of financial statements. It should be noted that the AR Coordinator, Payroll, Inventory and Fixed Asset position, and the grant reporting position will be trained to generate prepare information and journal entries in their respective areas to be submitted to the Controller for review. In the absence of the Controller, the College will look to utilize an outside consultant to review accrual journal entries. Once the journal entries are reviewed and considered accurate, the entries will be submitted to the Director of Budget and Financial Reporting for approval. This will allow the Chief Financial Officer to review the statements taken as a whole and consider variance analysis and material changes year-over-year to ensure the accuracy of the statements. The College understands the importance of having knowledgeable and experienced personnel in the Business Office. However, in the event of any future turnover, the College now has several options to consider for outside assistance in the event of future staff turnover. An additional option the College will consider is the use of an outside CPA firm to provide expertise and guidance on the accuracy of the financial statements.



President



Interim Chief Financial Officer

# ORDERING INFORMATION

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## COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0600

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