

STATE OF NORTH CAROLINA

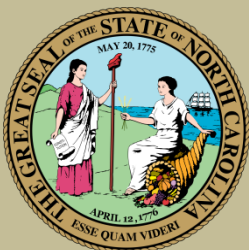
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



CAPE FEAR COMMUNITY COLLEGE

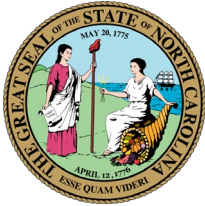
WILMINGTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2021

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Cape Fear Community College for the year ended June 30, 2021, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

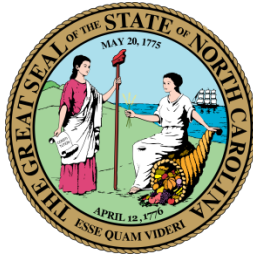
Beth A. Wood, CPA
State Auditor



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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cape Fear Community College
Wilmington, North Carolina

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Cape Fear 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, 2021, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of Cape Fear Community College, and its discretely presented component unit, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Cape Fear Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for Cape Fear Community College Foundation, Inc., are based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAGAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the College and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 17 to the financial statements, during the year ended June 30, 2021, Cape Fear Community College adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended by GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The College's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAGAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAGAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the College's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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

Other Reporting Required by Government Auditing Standards

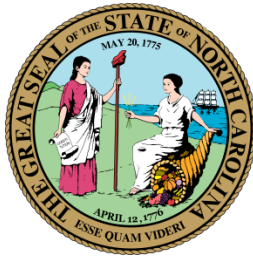
In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2022 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 1, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Cape Fear Community College (College) is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2021, with comparative data for fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

Using the Annual Financial Report

The financial statements present financial information in a form similar to that used by corporations. They focus on the financial condition of the College, the results of operations, and cash flow of the College as a whole.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The increase or decrease in net position is an indicator of the improvement or erosion of the College's financial condition.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. With state aid and contributions being classified as nonoperating revenues, most public institutions will report an operating deficit, although the College may have an overall increase in net position for the year. The utilization of capital assets is reflected in the financial statements as depreciation.

The Statement of Cash Flows is another financial indicator of the ability of the College to meet financial obligations as they occur. It presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

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

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, the Cape Fear 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 Foundation can be found in Note 1A.

Financial Highlights

The largest single source of funding for the College is aid from the State of North Carolina. The amount received is driven largely by full-time equivalent (FTE) students, so maintaining enrollment is critical. The College experienced an increase in FTE for the academic year 19-20, which resulted in an increase in budgeted full-time equivalent (BFTE) funding for fiscal year 20-21.

<u>Fiscal Year</u>	<u>BFTE</u>	<u>Budgeted Funding Allocation</u>	<u>Percentage Change BFTE</u>
16 - 17	8,610	\$ 51,209,194	(3.0%)
17 - 18	8,578	\$ 51,387,431	(0.4%)
18 - 19	8,518	\$ 50,756,182	(0.7%)
19 - 20	8,162	\$ 50,080,985	(4.2%)

In addition to the funding received from the State, the College received \$10,823,244 from New Hanover County and \$610,527 from Pender County for operations and maintenance of buildings. The College received \$224,302 in county bond revenue from New Hanover County for construction and \$168,000 from Pender County for capital projects.

Financial Analysis

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (total assets plus deferred outflows of resources minus total liabilities and deferred inflows of resources) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2021. The College's total net position increased \$5.7 million as illustrated below.

Condensed Statement of Net Position:

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>Change</u>
Assets			
Current Assets	\$ 33,726,280	\$ 25,377,992	\$ 8,348,288
Noncurrent Assets	261,460	178,582	82,878
Capital Assets, Net	<u>241,290,557</u>	<u>245,409,569</u>	<u>(4,119,012)</u>
Total Assets	<u>275,278,297</u>	<u>270,966,143</u>	<u>4,312,154</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pensions	9,654,078	8,819,865	834,213
Deferred Outflows Related to OPEB	<u>4,785,549</u>	<u>5,381,235</u>	<u>(595,686)</u>
Total Deferred Outflows of Resources	<u>14,439,627</u>	<u>14,201,100</u>	<u>238,527</u>
Liabilities			
Current Liabilities	5,778,489	4,236,681	1,541,808
Long-Term Liabilities	<u>74,377,895</u>	<u>80,331,690</u>	<u>(5,953,795)</u>
Total Liabilities	<u>80,156,384</u>	<u>84,568,371</u>	<u>(4,411,987)</u>
Deferred Inflows of Resources			
Deferred Inflows Related to Pensions	578,092	508,084	70,008
Deferred Inflows Related to OPEB	<u>25,306,093</u>	<u>22,097,788</u>	<u>3,208,305</u>
Total Deferred Inflows of Resources	<u>25,884,185</u>	<u>22,605,872</u>	<u>3,278,313</u>
Net Position			
Net Investment in Capital Assets	240,403,987	245,349,533	(4,945,546)
Restricted	9,842,925	2,194,526	7,648,399
Unrestricted	<u>(66,569,557)</u>	<u>(69,551,059)</u>	<u>2,981,502</u>
Total Net Position	<u>\$ 183,677,355</u>	<u>\$ 177,993,000</u>	<u>\$ 5,684,355</u>

The \$8.3 million increase in current assets is primarily due to an increase of \$6.3 million in intergovernmental receivables. These receivables are from the Higher Education Emergency Relief Fund (HEERF). HEERF funding is being used to reimburse the College for lost revenue due to the coronavirus (COVID-19) pandemic.

The \$4.1 million decrease in capital assets, net and \$4.9 million decrease in net investment in capital assets is primarily the combination of investing in construction in progress, buildings, and machinery and equipment, the disposal of machinery and equipment, and increases in accumulated depreciation. See the Capital Assets section below and Note 5 of the notes to the financial statements for further details.

Current liabilities increased \$1.5 million primarily due to an \$800 thousand increase in accounts payable related to ongoing improvement and renovation projects and an increase of \$300 thousand in unearned revenue for the College's performing arts theater, the Wilson Center, due to high advanced ticket sales for upcoming shows which were scheduled to occur after fiscal year end.

Changes in noncurrent assets, deferred outflows related to pension and other postemployment benefits (OPEB), long-term liabilities, deferred inflows related to pensions and OPEB, and unrestricted net position are a result of the College's participation in the Teachers' and State Employees' Retirement System, Disability Income Plan of North Carolina, and Retiree Health Benefit Fund and changes in the actuarial valuations for these plans. Further, information about the plans can be found in Notes 9, 12, and 13 (Net Position, Pension Plans, and Other Postemployment Benefits, respectively).

The \$7.6 million increase in restricted net position is also due to the increase in receivables from HEERF funding.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the College.

The Statement of Revenues, Expenses and Changes in Net Position reflects a significant increase in net position of \$5.7 million when compared to prior year. Some highlights of the changes are as follows:

- Operating revenues decreased \$3.4 million primarily due to the decrease in sales and services, net. COVID-19 impacted all areas of the College with the largest impact being to auxiliary services and the Wilson Center. All shows were cancelled in March 2020 and didn't resume until September 2021.
- There was an increase in operating expenses of \$3.4 million. Salaries and benefits decreased \$2.1 million primarily due to the reduction in OPEB expenses recognized, further discussed in Note 13. Supplies and services increased \$2.2 million primarily due to noncapitalizable repairs and renovations to A, S, N, K, and G Buildings of \$3.2 million that were offset by a decrease in service type expenses due to COVID-19

and the closure of the Wilson Center for the entirety of fiscal year 20-21. Scholarships and fellowships were up \$3.1 million primarily due to the awarding of the Coronavirus Aid, Relief, and Economic Security Act funding to students of \$4.6 million.

- Net nonoperating revenues increased \$15.9 million from last fiscal year. This increase was primarily a result of the College receiving \$16.6 million in federal and state COVID-19 relief funds during fiscal year 20-21 compared with \$1.3 million in fiscal year 19-20. A portion of the current year amounts were awarded to students to provide emergency financial aid as a result of disruption to campus operations. The College also used the relief funds to address needs directly related to COVID-19, which included items such as personal protective equipment, cleaning aids, COVID-19 testing, success coaches for online learning, replacing lost revenues, online faculty training, network storage, information technology services to enhance network security, wi-fi upgrades, software, shipping books to students, and numerous other items.

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

	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>Change</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 10,220,302	\$ 10,086,285	\$ 134,017
Sales and Services, Net	3,612,071	7,001,592	(3,389,521)
Other Operating Revenues	297,937	435,686	(137,749)
Total Operating Revenues	<u>14,130,310</u>	<u>17,523,563</u>	<u>(3,393,253)</u>
Operating Expenses:			
Salaries and Benefits	48,719,125	50,775,566	(2,056,441)
Supplies and Services	22,166,050	19,967,280	2,198,770
Scholarships and Fellowships	12,313,902	9,181,800	3,132,102
Utilities	2,612,348	2,620,583	(8,235)
Depreciation	5,902,536	5,755,564	146,972
Total Operating Expenses	<u>91,713,961</u>	<u>88,300,793</u>	<u>3,413,168</u>
Operating Loss	<u>(77,583,651)</u>	<u>(70,777,230)</u>	<u>(6,806,421)</u>
Nonoperating Revenues (Expenses):			
State Aid	34,088,280	33,708,264	380,016
State Aid - Coronavirus	3,186,353	0	3,186,353
County Appropriations	11,433,771	11,605,804	(172,033)
Student Financial Aid	14,611,437	14,765,112	(153,675)
Federal Aid - COVID-19	13,374,738	1,304,862	12,069,876
Noncapital Contributions	2,831,454	1,798,380	1,033,075
Investment Income	68,963	284,856	(215,893)
Other Nonoperating Revenues (Expenses)	(176,029)	31,852	(207,881)
Net Nonoperating Revenues	<u>79,418,967</u>	<u>63,499,130</u>	<u>15,919,838</u>
Other Revenues:			
State Capital Aid	2,958,122	2,449,862	508,260
County Capital Aid	392,302	869,655	(477,353)
Capital Contributions	498,615	220,632	277,983
Total Other Revenues	<u>3,849,039</u>	<u>3,540,149</u>	<u>308,890</u>
Increase/(Decrease) in Net Position	<u>5,684,355</u>	<u>(3,737,951)</u>	<u>\$ 9,422,306</u>
Net Position- Beginning of Year	<u>177,993,000</u>	<u>181,730,951</u>	
Net Position - End of Year	<u>\$ 183,677,355</u>	<u>\$ 177,993,000</u>	
Reconciliation of Change in Net Position			
Total Revenues	\$ 97,574,345	\$ 84,562,842	\$ 13,011,504
Less: Total Expenses	91,889,990	88,300,793	3,589,197
Increase/(Decrease) in Net Position	<u>\$ 5,684,355</u>	<u>\$ (3,737,951)</u>	<u>\$ 9,422,306</u>

Capital Assets

On June 30, 2021, the College's capital assets, net of accumulated depreciation of \$72,244,272, totaled \$241,290,557.

Capital Assets, Net of Accumulated Depreciation:

	6/30/2021	6/30/2020	Change
Land and Permanent Easements	\$ 17,469,878	\$ 17,469,878	\$ -
Construction in Progress	759,522	710,887	48,635
Buildings, Net	206,595,135	211,067,486	(4,472,351)
Machinery and Equipment, Net	11,210,131	10,550,901	659,230
General Infrastructure, Net	5,255,891	5,610,418	(354,527)
Total Capital Assets, Net	<u>\$ 241,290,557</u>	<u>\$ 245,409,569</u>	<u>\$ (4,119,012)</u>

Buildings, net decreased \$4.5 million primarily due to accumulated depreciation outpacing the additions to the buildings account for fiscal year 20-21.

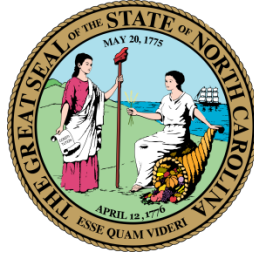
North Carolina voters approved a \$2.0 billion bond referendum (Connect NC Bond) in March of 2016. The higher education portion of Connect NC Bond allocated \$350 million for community colleges and focused on buildings and facilities at the various campuses. The College was approved to receive \$5,908,685 in capital improvement funds under the Connect NC Bond. The College has been using these funds on an array of renovations for several small and medium sized existing buildings. Programs that received renovations include automotive technology training, auto body technology training, marine technology, physical education, and many academic programs. Design of these projects started in fiscal year 16-17. As of June 30, 2021, the College has received \$2,694,196 in funding and all projects are expected to be completed by Spring 2022.

Economic Forecast

The challenges that COVID-19 presented in March 2020 have continued throughout this fiscal year. Students continue to have options ranging from traditional face to face classes, blended and hybrid, to synchronous classes where they are online receiving live instruction. Technology is still critical and with the help of HEERF, the College has been able to invest in equipment and software that ensures students are receiving the same high-quality education online that they would receive in the classroom.

Enrollment was trending up for Spring 2020 when the pandemic first affected the United States. Curriculum FTE was up 6% and Continuing Education was up 19%. However, during academic year 20-21, Continuing Education enrollment decreased 20%. Many of the workforce development programs could not be held and the prison classes were put on hold. Fortunately, the numbers have improved for Summer and Fall 2021 and have continued to increase for Spring 2022. The Wilson Center held its first national tour in September 2021 and the theatre is fully booked for the remaining of this fiscal year. The Wilson Center also received a \$4 million Shuttered Venue Operators Grant in fiscal year 21-22 to assist with the costs of running the theatre in fiscal year 21-22, which will help to ensure they are able to keep this valuable theatre open and profitable.

BFTE for fiscal year 21-22 is down 2.5% to 8,483 from 8,669 in fiscal year 20-21, which resulted in a decrease in state aid of \$380 thousand. The College was able to set aside \$6.6 million in HEERF funds from lost revenue for fiscal year 20-21. With future economic uncertainty due to COVID-19, we will continue to closely monitor our budget and spending. We have tackled every obstacle with tremendous resolve, and despite the hardships, we have thrived. We feel confident that we have the resources necessary to support our students as well as our faculty and staff despite the challenges everyone is facing.



FINANCIAL STATEMENTS

Cape Fear Community College
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 21,868,098.54
Restricted Cash and Cash Equivalents	2,774,876.46
Receivables, Net (Note 4)	7,569,180.17
Due from Community College Component Unit	103,542.58
Inventories	834,526.70
Prepaid Items	576,055.77
Total Current Assets	<u>33,726,280.22</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	106,209.11
Receivable	68,975.00
Net Other Postemployment Benefits Asset	86,276.00
Capital Assets - Nondepreciable (Note 5)	18,229,400.04
Capital Assets - Depreciable, Net (Note 5)	<u>223,061,157.33</u>
Total Noncurrent Assets	<u>241,552,017.48</u>

Total Assets	<u>275,278,297.70</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	9,654,078.00
Deferred Outflows Related to Other Postemployment Benefits (Note 13)	<u>4,785,549.00</u>
Total Deferred Outflows of Resources	<u>14,439,627.00</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	3,446,687.53
Unearned Revenue	2,028,441.92
Funds Held for Others	23,663.32
Long-Term Liabilities - Current Portion (Note 7)	<u>279,696.46</u>
Total Current Liabilities	<u>5,778,489.23</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>74,377,895.08</u>
Total Liabilities	<u>80,156,384.31</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	578,092.00
Deferred Inflows Related to Other Postemployment Benefits (Note 13)	<u>25,306,093.00</u>
Total Deferred Inflows of Resources	<u>25,884,185.00</u>

Cape Fear Community College
Statement of Net Position
June 30, 2021

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	240,403,987.52
Expendable:	
Student Financial Aid	47,356.14
Restricted for Specific Programs	9,046,059.47
Capital Projects	661,455.15
Other	88,053.91
Total Restricted-Expendable Net Position	9,842,924.67
Unrestricted	(66,569,556.80)
Total Net Position	\$ 183,677,355.39

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

Cape Fear Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2021

Exhibit A-2

OPERATING REVENUES

Student Tuition and Fees, Net (Note 10)	\$ 10,220,301.77
Sales and Services, Net (Note 10)	3,612,071.18
Other Operating Revenues	297,936.70
	<hr/>
Total Operating Revenues	14,130,309.65

OPERATING EXPENSES

Salaries and Benefits	48,719,123.59
Supplies and Services	22,166,050.37
Scholarships and Fellowships	12,313,902.44
Utilities	2,612,348.08
Depreciation	5,902,536.12
	<hr/>
Total Operating Expenses	91,713,960.60
	<hr/>
Operating Loss	(77,583,650.95)

NONOPERATING REVENUES (EXPENSES)

State Aid	34,088,280.23
State Aid - Coronavirus	3,186,353.35
County Appropriations	11,433,771.00
Student Financial Aid	14,611,436.79
Federal Aid - COVID-19	13,374,737.96
Noncapital Contributions	2,831,454.39
Investment Income	68,963.03
Other Nonoperating Expenses	(176,029.17)
	<hr/>
Net Nonoperating Revenues	79,418,967.58
	<hr/>
Income Before Other Revenues	1,835,316.63
	<hr/>
State Capital Aid	2,958,121.98
County Capital Aid	392,301.69
Capital Contributions	498,615.48
	<hr/>
Total Other Revenues	3,849,039.15
	<hr/>
Increase in Net Position	5,684,355.78

NET POSITION

Net Position - July 1, 2020	177,992,999.61
	<hr/>
Net Position - June 30, 2021	\$ 183,677,355.39

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

Cape Fear Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 13,412,673.49
Payments to Employees and Fringe Benefits	(49,753,579.66)
Payments to Vendors and Suppliers	(24,517,456.81)
Payments for Scholarships and Fellowships	(12,313,902.44)
William D. Ford Direct Lending Receipts	4,870,601.00
William D. Ford Direct Lending Disbursements	(4,870,601.00)
Other Receipts	40,269.16
	<hr/>
Net Cash Used by Operating Activities	(73,131,996.26)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid	34,088,280.23
State Aid - Coronavirus	3,186,353.35
County Appropriations	11,433,771.00
Student Financial Aid	14,590,425.56
Federal Aid - COVID-19	7,041,161.76
Noncapital Contributions	2,225,827.11
	<hr/>
Cash Provided by Noncapital Financing Activities	72,565,819.01

CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES

State Capital Aid	2,482,339.13
County Capital Aid	476,301.69
Capital Contributions	551,966.16
Acquisition and Construction of Capital Assets	(1,178,685.14)
	<hr/>
Net Cash Provided by Capital Financing and Related Financing Activities	2,331,921.84

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	68,963.03
	<hr/>
Cash Provided by Investing Activities	68,963.03
	<hr/>
Net Increase in Cash and Cash Equivalents	1,834,707.62
Cash and Cash Equivalents - July 1, 2020	22,914,476.49
	<hr/>
Cash and Cash Equivalents - June 30, 2021	\$ 24,749,184.11

Cape Fear Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (77,583,650.95)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	5,902,536.12
Other Nonoperating Income	28,617.48
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(160,056.80)
Inventories	224,658.29
Prepaid Items	(160,942.15)
Net Other Postemployment Benefits Asset	(8,174.00)
Deferred Outflows Related to Pensions	(834,213.00)
Deferred Outflows Related to Other Postemployment Benefits	595,686.00
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	383,988.02
Unearned Revenue	283,218.24
Funds Held for Others	(5,395.92)
Net Pension Liability	3,001,137.00
Net Other Postemployment Benefits Liability	(8,019,187.00)
Compensated Absences	(58,530.59)
Deferred Inflows Related to Pensions	70,008.00
Deferred Inflows Related to Other Postemployment Benefits	3,208,305.00
Net Cash Used by Operating Activities	<u>\$ (73,131,996.26)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through the Assumption of a Liability	\$ 886,569.85
Loss on Disposal of Capital Assets	(221,694.25)
Increase in Receivables Related to Nonoperating/Other Revenues	6,491,944.48
Decrease in Net Other Postemployment Benefits Liability Related to Noncapital Contributions	(823,750.00)

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

Cape Fear Community College Foundation, Inc.
Statement of Financial Position
June 30, 2021

Exhibit B-1

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
Cash and Cash Equivalents	\$ 538,837	\$ 1,677,444	\$ 2,216,281
Investments	-	15,110,591	15,110,591
Cash Surrender Value of Life Insurance Policy	-	159,492	159,492
Pledges Receivable	4,465	305,584	310,049
Other Assets	-	15,464	15,464
Total Assets	<u>\$ 543,302</u>	<u>\$ 17,268,575</u>	<u>\$ 17,811,877</u>
LIABILITIES			
Accounts Payable	\$ 25,747	\$ 144,120	\$ 169,867
Total Liabilities	<u>25,747</u>	<u>144,120</u>	<u>169,867</u>
NET ASSETS			
Without Donor Restrictions:			
Board Designated	250,266	-	250,266
Undesignated	267,289	-	267,289
With Donor Restrictions	<u>-</u>	<u>17,124,455</u>	<u>17,124,455</u>
Total Net Assets	<u>517,555</u>	<u>17,124,455</u>	<u>17,642,010</u>
Total Liabilities and Net Assets	<u>\$ 543,302</u>	<u>\$ 17,268,575</u>	<u>\$ 17,811,877</u>

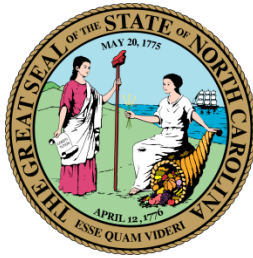
The accompanying notes to the financial statements are an integral part of this statement.

Cape Fear Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2021

Exhibit B-2

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 176,858	\$ 2,407,388	\$ 2,584,246
Gifts in Kind	-	168,703	168,703
Donated Facilities and Support	497,726	-	497,726
Return on Investments:			
Investment Income, Net	(36,881)	394,661	357,780
Net Realized and Unrealized Gains	25	2,800,453	2,800,478
Total Support and Revenues	637,728	5,771,205	6,408,933
Net Assets Released from Restrictions	1,570,118	(1,570,118)	-
Total Support and Revenues and Net Assets Released from Restrictions	2,207,846	4,201,087	6,408,933
EXPENSES			
Program Services	1,412,374	-	1,412,374
Management and General	263,342	-	263,342
Fundraising	237,665	-	237,665
Total Expenses	1,913,381	-	1,913,381
Transfers to College	(214,069)	-	(214,069)
Change in Net Assets	80,396	4,201,087	4,281,483
NET ASSETS			
Net Assets at Beginning of Year	437,159	12,923,368	13,360,527
Net Assets at End of Year	<u>\$ 517,555</u>	<u>\$ 17,124,455</u>	<u>\$ 17,642,010</u>

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cape Fear Community College (College) is a component unit of the State of North Carolina and an integral part of the State's *Annual Comprehensive 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. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit - Cape Fear Community College Foundation, Inc. (Foundation) is a legally separate, private 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 14 board members, 4 ex-officio members, and 2 emeritus 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, 2021, the Foundation distributed \$1,224,797.00 in cash and \$168,703.00 in donated property to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Cape Fear

Community College Foundation, Inc., 411 N. Front Street, Wilmington, NC 28401.

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* and GASB Statement No. 84, *Fiduciary Activities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

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

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

F. Inventories - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date

of donation. The value of assets constructed includes all material direct and indirect construction costs.

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

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

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

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

I. Accounting and Reporting of Fiduciary Activities - Pursuant to the provisions of GASB Statement No. 84, *Fiduciary Activities*, custodial funds that are normally expected to be received and disbursed within a 3-month period or otherwise do not meet the fiduciary activity criteria defined by GASB Statement No. 84 continue to be reported in the Statement of Net Position as funds held for others and as operating activities in the Statement of Cash Flows.

There are no other trust or custodial funds meeting the criteria of a fiduciary activity that are required to be reported in separate fiduciary fund financial statements.

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

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College's proportionate share of the collective net OPEB liability reported in the State of North Carolina's

2020 Comprehensive Annual Financial Report. This liability represents the College's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 13 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- L. Deferred Outflows/Inflows of Resources** - 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 - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

O. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

College - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank, savings and loan association, or trust company whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$29,028.00, and deposits in private financial institutions with a carrying value of \$11,507,476.03 and a bank balance of \$11,587,520.37.

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, 2021, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality

commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2021, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$13,212,680.08, 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, 2021. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Component Unit - Investments of the College's discretely presented component unit, Cape Fear Community College Foundation, Inc. (Foundation) consist primarily of assets invested in marketable mutual funds. The Foundation accounts for investments in accordance with FASB ASC 958-320 and subsections *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This standard requires that investments with readily determinable fair value to be measured at fair value in the statements of financial position. Fair value of marketable mutual funds is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the statements of activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. The following is an analysis of investments by type:

	2021	
	Cost	Fair Market Value
Stocks	\$ 7,754,132	\$ 9,723,315
Mutual Funds	3,525,647	5,129,003
Money Market Funds	258,273	258,273
Total	<u>\$ 11,538,052</u>	<u>\$ 15,110,591</u>
Unrealized Gain		<u>\$ 3,572,539</u>

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2021. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Short-Term Investment Fund - At year-end, all of the College's investments valued at \$13,212,680.08 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.

Component Unit - FASB ASC 820-10 and subsections *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

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

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth within the fair value hierarchy, for the Foundation's investments at fair value as of June 30, 2021:

Fair Value as of June 30, 2021				
	Level 1	Level 2	Level 3	Total
Stocks	\$ 9,723,315	\$ -	\$ -	\$ 9,723,315
Mutual Funds	5,129,003	-	-	5,129,003
Money Market Funds	258,273	-	-	258,273
Total	<u>\$ 15,110,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,110,591</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2021, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 422,581.82	\$ 178,925.62	\$ 243,656.20
Student Sponsors	90,018.44	2,555.31	87,463.13
Accounts	192,414.84	-	192,414.84
Intergovernmental	7,045,646.00	-	7,045,646.00
Total Current Receivables	\$ 7,750,661.10	\$ 181,480.93	\$ 7,569,180.17

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2021, is presented as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 17,469,877.74	\$ -	\$ -	\$ 17,469,877.74
Construction in Progress	710,887.30	78,886.53	30,251.53	759,522.30
Total Capital Assets, Nondepreciable	18,180,765.04	78,886.53	30,251.53	18,229,400.04
Capital Assets, Depreciable:				
Buildings	264,334,600.35	30,251.53	-	264,364,851.88
Machinery and Equipment	19,693,362.52	1,926,332.07	732,377.58	20,887,317.01
General Infrastructure	10,053,260.80	-	-	10,053,260.80
Total Capital Assets, Depreciable	294,081,223.67	1,956,583.60	732,377.58	295,305,429.69
Less Accumulated Depreciation for:				
Buildings	53,267,114.77	4,502,602.38	-	57,769,717.15
Machinery and Equipment	9,142,461.70	1,045,406.97	510,683.33	9,677,185.34
General Infrastructure	4,442,843.10	354,526.77	-	4,797,369.87
Total Accumulated Depreciation	66,852,419.57	5,902,536.12	510,683.33	72,244,272.36
Total Capital Assets, Depreciable, Net	227,228,804.10	(3,945,952.52)	221,694.25	223,061,157.33
Capital Assets, Net	\$ 245,409,569.14	\$ (3,867,065.99)	\$ 251,945.78	\$ 241,290,557.37

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2021, were as follows:

	<u>Amount</u>
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 974,169.72
Accounts Payable - Capital Assets	726,522.45
Accrued Payroll	1,585,947.96
Contract Retainage	<u>160,047.40</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 3,446,687.53</u>

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2021, is presented as follows:

	<u>Balance July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Current Portion</u>
Long-Term Liabilities					
Compensated Absences	\$ 2,045,866.13	\$ 1,454,452.53	\$ 1,512,983.12	\$ 1,987,335.54	\$ 279,696.46
Net Pension Liability	21,580,894.00	3,001,137.00	-	24,582,031.00	-
Net Other Postemployment Benefit Liability	<u>56,931,162.00</u>	<u>-</u>	<u>8,842,937.00</u>	<u>48,088,225.00</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 80,557,922.13</u>	<u>\$ 4,455,589.53</u>	<u>\$ 10,355,920.12</u>	<u>\$ 74,657,591.54</u>	<u>\$ 279,696.46</u>

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

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

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment and vehicles. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2021:

<u>Fiscal Year</u>	<u>Amount</u>
2022	\$ 146,793.24
2023	85,403.09
2024	<u>15,990.32</u>
Total Minimum Lease Payments	<u>\$ 248,186.65</u>

Rental expense for all operating leases during the year was \$325,914.78.

NOTE 9 - 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:

	Amount
Net Pension Liability and Related Deferred Outflows of Resources and Deferred Inflows of Resources	\$ (15,506,045.00)
Net OPEB Liability (Retiree Health Benefit Fund) and Related Deferred Outflows of Resources and Deferred Inflows of Resources	<u>(68,715,470.00)</u>
Effect on Unrestricted Net Position	(84,221,515.00)
Total Unrestricted Net Position Before Recognition of Deferred Outflows of Resources, Deferred Inflows of Resources, and Related Long-Term Liabilities	<u>17,651,958.20</u>
Total Unrestricted Net Position	<u>\$ (66,569,556.80)</u>

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

NOTE 10 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts and Allowances	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	<u>\$ 16,465,261.15</u>	<u>\$ 6,191,349.24</u>	<u>\$ 53,610.20</u>	<u>\$ 10,220,301.71</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 4,402,989.63	\$ 1,607,405.68	\$ -	\$ 2,795,583.95
Daycare	587,717.52	-	-	587,717.52
Fine Arts Center	113,847.06	-	-	113,847.06
Parking	48,357.91	-	-	48,357.91
Vending	27,554.53	-	-	27,554.53
Other	39,010.21	-	-	39,010.21
Total Sales and Services, Net	<u>\$ 5,219,476.86</u>	<u>\$ 1,607,405.68</u>	<u>\$ -</u>	<u>\$ 3,612,071.18</u>

NOTE 11 - 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	\$ 28,237,585.14	\$ 3,897,939.32	\$ -	\$ -	\$ -	\$ 32,135,524.46
Academic Support	4,937,859.47	335,015.71	-	-	-	5,272,875.18
Student Services	3,974,490.05	669,000.60	-	-	-	4,643,490.65
Institutional Support	6,512,251.42	3,567,901.00	-	-	-	10,080,152.42
Operations and Maintenance of Plant	3,736,075.07	7,772,529.56	-	2,612,348.08	-	14,120,952.71
Student Financial Aid	290,816.05	1,127,902.73	12,313,902.44	-	-	13,732,621.22
Auxiliary Enterprises	1,030,046.39	4,795,761.45	-	-	-	5,825,807.84
Depreciation	-	-	-	-	5,902,536.12	5,902,536.12
Total Operating Expenses	\$ 48,719,123.59	\$ 22,166,050.37	\$ 12,313,902.44	\$ 2,612,348.08	\$ 5,902,536.12	\$ 91,713,960.60

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 \$4,591,565.71 provided by the 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 10.

NOTE 12 - PENSION PLANS**Defined Benefit Plan**

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

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of

membership 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 membership 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.

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, 2021 was 14.78% of covered payroll. Employee contributions to the pension plan were \$1,927,444.69, and the College's contributions were \$4,747,938.74 for the year ended June 30, 2021.

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 2020 *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 participate 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 2020 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2021, the College reported a liability of \$24,582,031.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total pension liability to June 30, 2020. 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, 2020, the College's proportion was 0.20346%, which was a decrease of 0.00471 from its proportion measured as of June 30, 2019, which was 0.20817%.

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	12/31/2019
Inflation	3%
Salary Increases*	3.5% - 8.1%
Investment Rate of Return**	7%

* 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, 2019 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, 2020 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2020 is 1.2%.

Discount Rate: The discount rate used to measure the total pension liability was calculated at 7.00% for the December 31, 2019 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, 2020 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%)
\$ 44,241,882.00	\$ 24,582,031.00	\$ 8,091,484.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2021, the College recognized pension expense of \$6,975,330.00. At June 30, 2021, 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	\$ 1,354,602.00	\$ -
Changes of Assumptions	833,016.00	-
Net Difference Between Projected and Actual Earnings on Plan Investments	2,718,521.26	-
Change in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	-	578,092.00
Contributions Subsequent to the Measurement Date	4,747,938.74	-
Total	\$ 9,654,078.00	\$ 578,092.00

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 ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

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

Year Ending June 30:	Amount
2022	\$ 1,413,064.00
2023	1,120,754.00
2024	984,359.00
2025	809,870.26
Total	\$ 4,328,047.26

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

The College participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2020 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. 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 2020 *Comprehensive Annual Financial Report*.

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

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part

of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

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

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

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 14. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the 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.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

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, 2021 was 6.68% of covered payroll. The College's contributions to the RHBF were \$2,145,888.42 for the year ended June 30, 2021.

In fiscal year 2020, the State Health Plan (the Plan) transferred \$475.2 million to RHBF as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2021, the College recognized noncapital contributions for RHBF of \$823,750.00.

2. Disability Income

Plan Administration: As discussed in Note 14, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer, defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the 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, 2021 was 0.09% of covered payroll. The College's contributions to DIPNC were \$28,911.67 for the year ended June 30, 2021.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2021, the College reported a liability of \$48,088,225.00 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. 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, 2020, the College's proportion was 0.17335%, which was a decrease of 0.00659 from its proportion measured as of June 30, 2019, which was 0.17994%.

Net OPEB Asset: At June 30, 2021, the College reported an asset of \$86,276.00 for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2019, and update procedures were used to roll forward the total OPEB liability to June 30, 2020. 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, 2020, the College's proportion was 0.17538%, which was a decrease of 0.00562 from its proportion measured as of June 30, 2019, which was 0.18100%.

Actuarial Assumptions: The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2019, 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, 2020 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N. C.
Valuation Date	12/31/2019	12/31/2019
Inflation	3%	3%
Salary Increases*	3.5% - 8.1%	3.5% - 8.1%
Investment Rate of Return**	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

* 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, 2020.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2020 (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, 2020 is 1.2%.

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, 2019 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 2.21%. 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 2.21% was used as the discount rate used to measure the total OPEB liability. The 2.21% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2020.

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 (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
RHBF	\$ 57,029,592.00	\$ 48,088,225.00	\$ 40,884,464.00
	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
DIPNC	\$ (74,512.00)	\$ (86,276.00)	\$ (97,698.00)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

Net OPEB Liability (Asset)			
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF	\$ 38,767,804.00	\$ 48,088,225.00	\$ 60,546,222.00
	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Cost Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC	\$ (86,418.00)	\$ (86,276.00)	\$ (86,152.00)

OPEB Expense: For the fiscal year ended June 30, 2021, the College recognized OPEB expense as follows:

OPEB Plan	Amount
RHBF	\$ (2,106,888.00)
DIPNC	67,960.00
Total OPEB Expense	\$ (2,038,928.00)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: At June 30, 2021, 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	\$ 43,564.00	\$ 62,500.00	\$ 106,064.00
Changes of Assumptions	2,108,943.00	6,708.00	2,115,651.00
Net Difference Between Projected and Actual Earnings on Plan Investments	101,303.00	-	101,303.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	257,739.58	29,991.33	287,730.91
Contributions Subsequent to the Measurement Date	2,145,888.42	28,911.67	2,174,800.09
Total	\$ 4,657,438.00	\$ 128,111.00	\$ 4,785,549.00

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

	RHBF	DIPNC	Total
Differences Between Actual and Expected Experience	\$ 1,881,271.00	\$ -	\$ 1,881,271.00
Changes of Assumptions	19,514,961.00	6,794.00	19,521,755.00
Net Difference Between Projected and Actual Earnings on Plan Investments	-	14,616.00	14,616.00
Changes in Proportion and Differences Between Employer's Contributions and Proportionate Share of Contributions	3,888,451.00	-	3,888,451.00
Total	\$ 25,284,683.00	\$ 21,410.00	\$ 25,306,093.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year ending June 30, 2022. 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 Ending June 30:	RHBF	DIPNC
2022	\$ (7,562,381.00)	\$ 20,409.00
2023	(7,557,100.00)	14,541.00
2024	(3,745,806.00)	8,574.00
2025	(1,886,544.00)	12,370.00
2026	(2,021,302.42)	2,459.00
Thereafter	-	19,436.33
Total	\$ (22,773,133.42)	\$ 77,789.33

NOTE 14 - RISK MANAGEMENT

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

A. Public Entity Risk Pool**State Public Education Property Insurance Fund**

Fire and other property losses are covered by the State Public Education Property Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10,000,000 deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers 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 0.13% 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 for up to twelve months. The Board of Trustees of the DIPNC may extend the short-term disability benefits for up to an additional twelve months. During the extended period of short-term disability benefits, payments are made directly by the DIPNC to the beneficiary. As discussed in Note 13, long-term disability benefits are payable as other postemployment benefits from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled.

C. Other Risk Management and Insurance Activities**1. Automobile Insurance**

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 \$5,000,000 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. The College purchases coverage for employee dishonesty for employees paid with county and institutional funds under an employee dishonesty bond.

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 in whole or in part from county or institutional funds.

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

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Marine Technology Program has coverage for their ocean-going vessels for \$1,000,000 with an additional \$5,000,000 of coverage for pollution related to such vessels. The Allied Health Program has medical professional liability insurance with coverage of \$1,000,000 for each incident (\$2,000,000 for Pharmacy Technician students) and \$5,000,000 in aggregate. Law Enforcement Legal Liability Insurance was purchased with coverage of \$1,000,000 for each wrongful act. Liquor Liability coverage was added to the General Liability policy with coverage of an aggregated \$2,000,000. Volunteer Accident insurance was added for recorded Participating Volunteers. Coverage also includes Accidental Death and Dismemberment of \$2,500 and Accident Medical of \$50,000.

NOTE 15 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$1,798,084.00 at June 30, 2021.

NOTE 16 - THE CORONAVIRUS PANDEMIC EMERGENCY

In response to the coronavirus pandemic emergency, the federal government provided grants to the State and the College through various coronavirus program funds appropriated by (1) The Coronavirus Aid, Relief, and Economic Security (CARES) Act, (2) The Coronavirus Response and Relief Supplemental Appropriations within the Federal Consolidated Appropriations Act of 2021 (CRRSA), and (3) The American Rescue Plan Act of 2021 (ARP).

The grant revenues from the various coronavirus program funds are contingent upon meeting the terms and conditions of the grant and signed agreements with the funding agencies, incurring qualifying expenditures, and are reported in the following nonoperating revenue captions of the financial statements:

State Aid - Coronavirus - This caption includes grant funds received directly by the State from the U.S. Department of Treasury, Coronavirus Relief Fund (CRF), and appropriated by the State to the College.

Federal Aid - COVID-19 - This caption includes grant funds received directly by the College from the U.S. Department of Education, Higher Education Emergency Relief Funds (HEERF).

**Summary of State and Federal Aid - COVID-19 Revenue Activities for the
Fiscal Year Ended June 30, 2021:**

<u>Program</u>	<u>Total Authorized Award</u>	<u>2020 Earned Revenue</u>	<u>2021 Earned Revenue</u>
State Aid - Coronavirus:	N/A	\$ -	\$ 3,186,353.35
Federal Aid - COVID-19: HEERF Funds	\$ 31,719,641.00	\$ 1,304,861.70	\$ 13,374,737.96

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2021, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 84, Fiduciary Activities

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

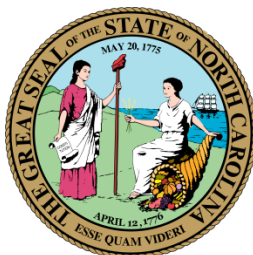
GASB Statement No. 98, The Annual Comprehensive Financial Report

GASB Statement No. 84 improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for 90-days or less.

GASB Statement No. 97's primary objectives are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation

plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

GASB Statement No. 98 establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.



REQUIRED SUPPLEMENTARY INFORMATION

Cape Fear Community College
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
Cost-Sharing, Multiple-Employer, Defined Benefit Pension Plan
Last Eight Fiscal Years*

Exhibit C-1

Teachers' and State Employees' Retirement System	2021	2020	2019	2018
Proportionate Share Percentage of Collective Net Pension Liability	0.20346%	0.20817%	0.21537%	0.22230%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 24,582,031.00	\$ 21,580,894.00	\$ 21,442,429.00	\$ 17,638,262.00
Covered Payroll	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	76.80%	66.30%	66.25%	54.28%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.98%	87.56%	87.61%	89.51%
	2017	2016	2015	2014
Proportionate Share Percentage of Collective Net Pension Liability	0.21452%	0.20844%	0.21530%	0.20590%
Proportionate Share of TSERS Collective Net Pension Liability	\$ 19,716,604.00	\$ 7,681,427.00	\$ 2,524,222.00	\$ 12,500,228.00
Covered Payroll	\$ 31,061,253.38	\$ 30,275,499.67	\$ 29,508,577.44	\$ 28,419,759.09
Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	63.48%	25.37%	8.55%	43.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, as amended.

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

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

Exhibit C-2

Teachers' and State Employees' Retirement System	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 4,747,938.74	\$ 4,151,675.78	\$ 4,000,714.26	\$ 3,489,063.19	\$ 3,243,168.00
Contributions in Relation to the Contractually Determined Contribution	<u>4,747,938.74</u>	<u>4,151,675.78</u>	<u>4,000,714.26</u>	<u>3,489,063.19</u>	<u>3,243,168.00</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 32,124,078.10	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24
Contributions as a Percentage of Covered Payroll	14.78%	12.97%	12.29%	10.78%	9.98%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 2,842,104.68	\$ 2,770,208.22	\$ 2,564,295.38	\$ 2,367,365.93	\$ 2,063,786.04
Contributions in Relation to the Contractually Determined Contribution	<u>2,842,104.68</u>	<u>2,770,208.22</u>	<u>2,564,295.38</u>	<u>2,367,365.93</u>	<u>2,063,786.04</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 31,061,253.38	\$ 30,275,499.67	\$ 29,508,577.44	\$ 28,419,759.09	\$ 27,739,059.66
Contributions as a Percentage of Covered Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

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

Cape Fear 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, 2021

Changes of Benefit Terms:

	<u>Cost of Living Increase</u>									
Teachers' and State Employees' Retirement System	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	N/A	N/A	1.00%	N/A	N/A	N/A	1.00%	N/A	N/A	N/A

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 7.20% to 7.00% for the December 31, 2017 valuation. For the December 31, 2019 valuation, the discount rate was 7.00%.

The Boards 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 2020 *Comprehensive Annual Financial Report*.

N/A - Not Applicable

Cape Fear 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 Five Fiscal Years*

Exhibit C-3

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Proportionate Share Percentage of Collective Net OPEB Liability	0.17335%	0.17994%	0.18519%	0.18631%	0.18480%
Proportionate Share of Collective Net OPEB Liability	\$ 48,088,225.00	\$ 56,931,162.00	\$ 52,758,449.00	\$ 61,085,621.00	\$ 81,394,281.00
Covered Payroll	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24	\$ 31,061,253.38
Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	1.502295245	174.89%	163.01%	187.97%	262.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.92%	4.40%	4.40%	3.52%	2.41%
Disability Income Plan of North Carolina					
Proportionate Share Percentage of Collective Net OPEB Asset	0.17538%	0.18100%	0.18748%	0.19541%	0.18978%
Proportionate Share of Collective Net OPEB Asset	\$ 86,276.00	\$ 78,102.00	\$ 56,949.00	\$ 119,435.00	\$ 117,853.00
Covered Payroll	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24	\$ 31,061,253.38
Proportionate Share of the Net OPEB Asset as a Percentage of Covered Payroll	0.27%	0.24%	0.18%	0.37%	0.38%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	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 ended June 30.

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

Exhibit C-4

Retiree Health Benefit Fund	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 2,145,888.42	\$ 2,071,036.41	\$ 2,041,047.88	\$ 1,958,147.71	\$ 1,888,056.72
Contributions in Relation to the Contractually Determined Contribution	<u>2,145,888.42</u>	<u>2,071,036.41</u>	<u>2,041,047.88</u>	<u>1,958,147.71</u>	<u>1,888,056.72</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 32,124,078.10	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24
Contributions as a Percentage of Covered Payroll	6.68%	6.47%	6.27%	6.05%	5.81%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 1,739,430.19	\$ 1,662,124.93	\$ 1,593,463.18	\$ 1,515,588.71	\$ 1,386,952.98
Contributions in Relation to the Contractually Determined Contribution	<u>1,739,430.19</u>	<u>1,662,124.93</u>	<u>1,593,463.18</u>	<u>1,515,588.71</u>	<u>1,386,952.98</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 31,061,253.38	\$ 30,275,499.67	\$ 29,508,577.44	\$ 28,419,759.09	\$ 27,739,059.66
Contributions as a Percentage of Covered Payroll	5.60%	5.49%	5.40%	5.33%	5.00%
Disability Income Plan of North Carolina	2021	2020	2019	2018	2017
Contractually Required Contribution	\$ 28,911.67	\$ 32,009.84	\$ 45,573.64	\$ 45,312.51	\$ 123,487.36
Contributions in Relation to the Contractually Determined Contribution	<u>28,911.67</u>	<u>32,009.84</u>	<u>45,573.64</u>	<u>45,312.51</u>	<u>123,487.36</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 32,124,078.10	\$ 32,009,836.39	\$ 32,552,597.74	\$ 32,366,077.79	\$ 32,496,676.24
Contributions as a Percentage of Covered Payroll	0.09%	0.10%	0.14%	0.14%	0.38%
	2016	2015	2014	2013	2012
Contractually Required Contribution	\$ 127,351.14	\$ 124,129.55	\$ 129,837.74	\$ 125,822.46	\$ 144,243.11
Contributions in Relation to the Contractually Determined Contribution	<u>127,351.14</u>	<u>124,129.55</u>	<u>129,837.74</u>	<u>125,822.46</u>	<u>144,243.11</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 31,061,253.38	\$ 30,275,499.67	\$ 29,508,577.44	\$ 28,419,759.09	\$ 27,739,059.66
Contributions as a Percentage of Covered Payroll	0.41%	0.41%	0.44%	0.44%	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.

Cape Fear 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, 2021

Changes of Benefit Terms: Effective January 1, 2016, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for three of five 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 five 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 changed for one of four options of the RHBF. Out of pocket maximums increased while certain specialist copays decreased related to option benefits.

Effective January 1, 2020, benefit terms related to copays, out-of-pocket maximums, and deductibles were changed for the 70/30 PPO option of the RHBF. Only the copays were adjusted for 80/20 PPO option of the RHBF.

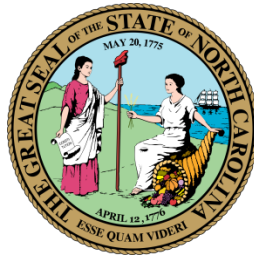
Additionally, the December 31, 2017 Disability Income Plan of North Carolina (DIPNC) actuarial valuation includes a liability for the State's potential reimbursement of health insurance premiums paid by employers during the second six months of the short-term disability benefit period.

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

Changes of Assumptions: In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement system's actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent experience review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Boards of Trustees of the Teachers' and State Employees' Retirement System and the State Health Plan adopted a number of new actuarial assumptions and methods for the 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, 2020, the discount rate for the RHBF was updated to 2.21%. In the prior year, 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 claim costs 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 among 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 assumed costs related to the Patient Protection and Affordable Care Act regarding the Health Insurance Provider Fee for the fully insured plans and Excise Tax were removed when those pieces were released December 2019.

The Notes to Required Supplementary Information reflect information included in the State of North Carolina's 2020 *Comprehensive Annual Financial Report*.



INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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

Board of Trustees
Cape Fear Community College
Wilmington, 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 Cape Fear 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, 2021, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 1, 2022. Our report includes a reference to other auditors who audited the financial statements of Cape Fear Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Cape Fear 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 Cape Fear 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 1, 2022

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919-807-7666



This audit required 407 hours at an approximate cost of \$43,142.