Attachment AUD 3

College Financial Audits with Findings
FY 2014-2015

SBCC
04/21/2017

FINANCIAL STATEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

340 Victoria Road
Asheville, North Carolina 28801
(828) 254-1921
www.abtech.edu

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

FINANCIAL STATEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

State Board of Community Colleges
The North Carolina Community College System

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Dr. Dennis King, President
Rhonda K. Devan, Vice President, Business & Finance/CFO

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June 30, 2015

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board Trustees of
Asheville-Buncombe Technical Community College
Asheville, North Carolina

Report on the Financial Statements

We have audited the financial statements of Asheville-Buncombe Technical Community College (the "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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Asheville-Buncombe Technical Community College Foundation (the "Foundation"), the College's discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit as of June 30, 2015, and the respective changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, beginning balances were restated due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an Amendment of GASB Statement No. 27)*, in 2015. Our opinion is not modified with respect to these changes.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Teachers' and State Employees' Retirement System Schedules of the Proportionate Share of the Net Pension Liability and the College's Contributions on pages 4 through 15 and pages 45 and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

DIXON HUGHES GOODMAN LLP

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 4, 2016, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. Accordingly, we express no opinion. 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.

Dixon Hughes Goodman LLP

Asheville, North Carolina
February 4, 2016

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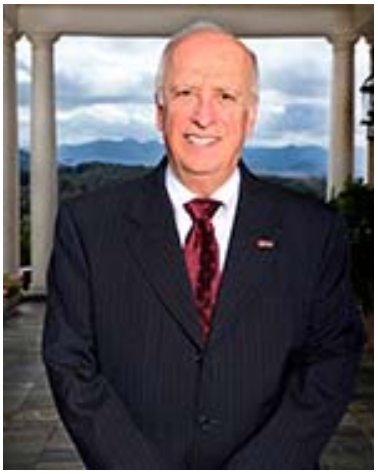
A-B Tech Community College



VALUES

Tech's core beliefs guide behaviors, decisions and interactions toward accomplishing the mission and achieving the vision.

A-B Tech is dedicated to student and community success through:

- **Excellence**
- **Learning**
- **Supportive Environment**
- **Innovation**
- **Inclusiveness**
- **Continuous Improvement**

MANAGEMENT DISCUSSION AND ANALYSIS

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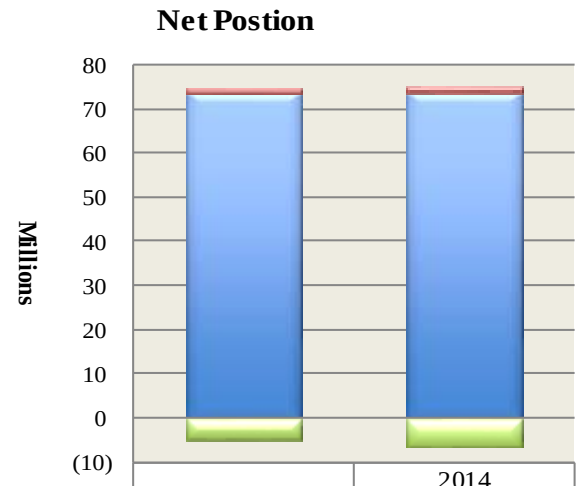
Our discussion and analysis of Asheville-Buncombe Technical Community College's financial performance provides an overview of the College's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the financial statements and the notes thereto, which follow this section.

FINANCIAL HIGHLIGHTS

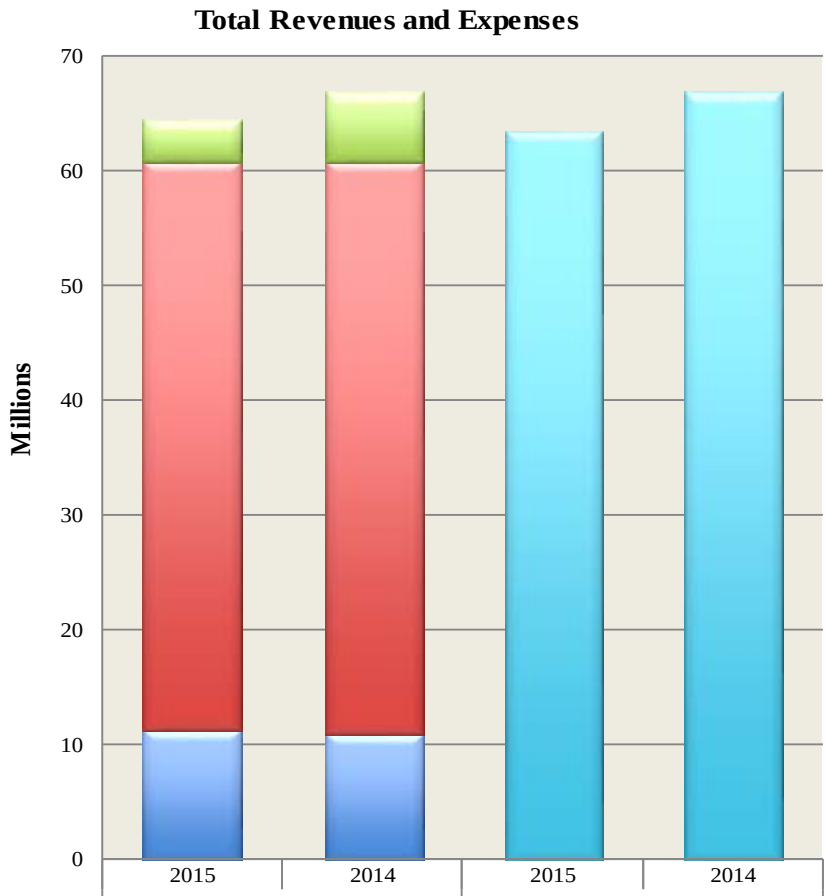
The College's net position, which consists of net investment in capital assets, restricted, and unrestricted, modestly increased by 1.66% from $69,106,473 at June 30, 2014 to $70,253,434 at June 30, 2015. For more relevant comparison year over year, the College has restated its financial statements for the year ended June 30, 2014 due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pension – An Amendment of GASB Statement No. 27.* Please see more discussions in the Overview of Financial Statements section and disclosures in Notes 11 and 16 in the Notes to the Financial Statements section. The following chart shows the comparison by category for the fiscal years ended June 30, 2015 and June 30, 2014.



	2015	2014 (Restated)
Unrestricted Assets	(4,724,818)	(6,185,942)
Restricted Assets	1,098,869	1,326,968
Net Investment in Capital Assets	73,879,383	73,965,447
Net Position	70,253,434	69,106,473

The College's total revenues decreased by $2,363,347 to $64,546,120 at June 30, 2015 from $66,909,467 at June 30, 2014, primarily attributing to the receipt of the capital gift, Roberson Building, from the County in FY 2014.

Total expenses were $63,399,160 representing a 5.23% decrease compared to previous fiscal year, due largely to the decrease in Services and Scholarships expenses.



	Total Revenues 2015	Total Revenues 2014	Total Expenses 2015	Total Expenses 2014
Total Expenses			63,399,160	66,900,722
Capital Revenues	3,734,053	6,099,739		
Nonoperating Revenues	49,478,985	49,826,708		
Operating Revenues	11,333,083	10,983,020		
Total Revenues	64,546,121	66,909,467		

USING THE FINANCIAL STATEMENTS

The College's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statements 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 – Management's Discussion and Analysis – for Public College and Universities,* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Accordingly, the College's financial statements are comprised of the following four components:

> Statement of Net Position: This statement includes all assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position. The College's net position is an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the age and condition of its buildings. (Exhibit A-1)
>
> Statement of Revenues, Expenses and Changes in Net Position: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)
>
> Statement of Cash Flows: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)
>
> Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

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

OVERVIEW OF FINANCIAL STATEMENTS

Statement of Net Position

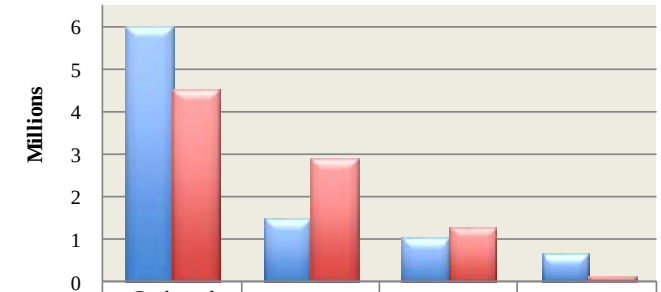
Below is a condensed comparative analysis between the Statement of Net Position (Exhibit A-1) contained herein and for the fiscal years ended June 30, 2015 and 2014, followed by a discussion on the changes in assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position.

Condensed Statements of Net Position
For the Year Ended June 30, 2015
With Comparative Data for the Year Ended June 30, 2014

	2015	2014 (Restated)	Change Amount	Change Percent
Assets				
Current	$ 9,276,855	$ 8,932,288	$ 344,567	3.86%
Capital Assets, Net	74,073,155	73,998,628	74,527	0.10%
Other Noncurrent Assets	723,116	715,215	7,901	1.10%
Total Assets	84,073,126	83,646,131	426,995	0.51%
Deferred Outflows of Resources	2,327,537	1,952,963	374,574	19.18%
Liabilities				
Current	3,700,733	3,590,694	110,039	3.06%
Noncurrent	5,270,038	12,701,610	(7,431,572)	(58.51%)
Total Liabilities	8,970,771	16,292,304	(7,321,533)	(44.94%)
Deferred Inflows of Resources	7,176,458	200,317	6,976,141	3482.55%
Net Position				
Invested in Capital Assets, Net of Related Debt	73,879,383	73,965,447	(86,064)	(0.12%)
Restricted	1,098,869	1,326,968	(228,099)	(17.19%)
Unrestricted	(4,724,818)	(6,185,942)	1,461,124	(23.62%)
TOTAL NET POSITION	**$ 70,253,434**	**$ 69,106,473**	**$ 1,146,961**	**1.66%**

Assets and Deferred Outflows of Resources

Current assets increased by $426,994 or 0.51% due to the combination of following changes:



	Cash and Cash Equivalents	Receivables, Net	Inventories	Prepaid Items
2015	6,024,544	1,513,427	1,039,933	698,951
2014	4,530,027	2,919,315	1,326,958	155,988
Change	1,494,517	(1,405,888)	(287,025)	542,963

- Cash and cash equivalents increased by $1,494,517 from previous year. The major increase is in county funds, which do not revert to the counties at year end. The change is the result of reimbursements of expenses in prior years for remediation of Hemlock Building and maintenance supplies and materials from the County.

- Net receivable decreased by $1,405,888 due mainly to a reduction of intergovernmental receivable and correction to direct loan receivable.

- Inventory decreased by $287,025 year over year primarily relating to the Bookstore.

- Prepaid items increased by $542,963 compared to previous year, attributing to membership and software subscriptions that were paid in FY2015, but majority of the covered period are in FY 2016.

Net capital assets slightly grew 0.10% or $74,527 year over year. During the fiscal year, the Parking Lot and Sidewalk project that was started in fiscal year 2013 was completed and transferred from Construction in Process to Infrastructure; a new roof was installed on Magnolia building; and additional equipment were purchase for Brewing program and other programs. Aged and fully depreciated equipment were disposed. The composition of capital assets and change are detailed in Note 5.

Noncurrent assets essentially remain unchanged, which include restricted cash and cash equivalents, receivable from a settlement and North Carolina Community College System (NCCCS) related to advanced planning.

Deferred outflows of resources are related to pensions, which represent the College's contribution subsequent to the measurement date and will be recognized as a reduction of net pension liability. As a result, the College recorded $2,327,537 deferred outflows of resources for pensions based on the calculation of the Office of State Controller (the OSC). Please see Schedule of Employer Balance of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions in Note 11 for details.

Liabilities and Deferred Inflows of Resources

Current liabilities slightly increased $110,039 or 3.06% compared to the previous year due primarily to an increase in intergovemental payables.

Noncurrent liabilities decreased $7,731,572 year over year as well, largely contributing to net pension liability. As mentioned above, the College implements GASB Statement No. 68, which requires that cost-sharing employer, the College, reports its proportionate share of pension liability. As a result of restatement, the College recorded the beginning net pension liability of $9,501,145, which was calculated by the OSC, who also calculated the net change of $7,666,189 from FY2014 to FY2015.

Deferred inflows of resources increased $6,976,141 mainly relating to pensions, and will be recognized as pension expense in the next four fiscal years. Please see Note 11 for details.

Net Position

Net position is the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Overall net position increased by $1,146,961.

- Net investment in capital assets represents the College's total capital assets less accumulative depreciation and related debt. Net investment in capital assets decreased modestly by $86,064 due majorly to the new capital lease obligation for the new printers.

- Restricted amount decreased by $228,099 attributing mainly to the capital projects and the endowments. As the College endowments were being underutilized, the Foundation Board approved a decision at the March 10, 2015 meeting to contact the donor/relative in order to release restrictions thereon so that the endowments could be combined into one endowment to award accordingly for annual

scholarships. As of June 30 all College endowments have been transferred into the Thomas W. Simpson Endowment within the Foundation financial statements with the exception of one, which remain with the College at the donor's request.

- Unrestricted amount increased by $1,461,124 mainly contributing to the reduction of operating expenses.

Statement of Revenues and Expenses and Change in Net Position

Below is a condensed comparative analysis of the June 30, 2015 Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2) contained herein and the year ended June 30, 2014, followed by discussion on changes in revenues and expenses.

Statements of Revenues and Expenses and Changes in Net Positon
For the Year Ended June 30, 2015 with Comparative Data for the Year Ended June 30, 2014

	2015	2014	Change Amount	Change Percent
Operating Revenues				
Student Tuition & Fees	$ 8,308,637	$ 7,855,016	$ 453,621	5.77%
Sales and Services	2,998,994	3,111,266	(112,272)	(3.61%)
Other Revenues	25,452	16,738	8,714	52.06%
Total Operating Revenues	11,333,083	10,983,020	350,063	3.19%
Operating Expenses				
Salaries and Benefits	38,368,275	38,008,410	359,865	0.95%
Supplies & Materials	8,408,742	8,691,479	(282,737)	(3.25%)
Services	5,196,663	7,724,951	(2,528,288)	(32.73%)
Scholarships	6,641,170	7,835,320	(1,194,150)	(15.24%)
Utilities	1,605,127	1,685,513	(80,386)	(4.77%)
Depreciation Amortization	3,179,183	2,955,049	224,134	7.58%
Total Operating Expenses	63,399,160	66,900,722	(3,501,562)	(5.23%)
Nonoperating Revenues/(Expenses)				
Gevernment Appropriations	35,019,026	33,456,114	1,562,912	4.67%
Grants & Gifts	14,386,966	16,452,861	(2,065,895)	(12.56%)
Investment Income	13,816	31,921	(18,105)	(56.72%)
Other Nonoperating Revenues	59,177	(114,188)	173,365	(151.82%)
Total Nonoperating Revenues, Net	49,478,985	49,826,708	(347,723)	(0.70%)
Capital Contributions				
Gevernment Appropriations	3,346,912	3,313,195	33,717	1.02%
Grants & Gifts	387,141	2,786,544	(2,399,403)	(86.11%)
Total Capital Contributions	3,734,053	6,099,739	(2,365,686)	(38.78%)
INCREASE IN NET POSITION	**$ 1,146,961**	**$ 8,745**	**$ 1,138,216**	**13015.62%**

Operating Revenues

Operating revenues are derived from activities that are necessary and essential to the mission of the College.

The College's overall operating revenues increased marginally by 3.19% year over year, which was pertained to a combination of increase in net student tuition and fees due to a decrease in scholarship discount and an increase in other revenues offsetting by decrease in sales and service at the bookstore.

Operating Expenses

Operating expenses are necessary and essential to the mission of the College; these include all expenses with the exception of expenses related to investing, capital and related financing and noncapital activities. Depreciation is recognized as an operating expense in accordance with General Accepted Accounting Principles.

- Salaries and Benefits rose slightly by 0.95% or $359,865 due primarily to a very minimal legislative salary increase.

- Supplies and Materials expenses show a 3.25% minor decrease as the College continued making its efforts to maintain the aging equipment and facilities.

- Services expense decreased significantly by $2,528,287. This decrease was attributable to the factors that the College incurred a one-time expense in FY2014, a penalty due to the Department of Education for errors noted during a review of financial aid processes; membership and software subscriptions expenses were reclassified as prepaid items; and a reclassification was made to receivables related to direct loan.

- Scholarships decreased by $1,194,150 or 15.24% year over year. The major decline was related to the combination of the decrease in FTE enrollment and more ineligible applicants who did not meet the academic requirements.

- Utilities slightly decreased by 4.77% as the cost of gas dropped.

- Depreciation increased by $224,134 as more capital assets have been purchased and placed in service.

Nonoperating Revenues

Nonoperating revenues include activities that have non-exchange characteristics; that is, the College received revenue without providing a good or service.

Total net nonoperating revenues dropped modestly by $347,723. Gifts and grants realized a decrease in student financial aid and federal assistance of $2,065,896, offsetting by an increase $1,562,152 state assistance. Grants to the college by donors also realized a decrease in revenue. Changes in legislation, budget availability, and FTE contributed to the decline in student financial aid.

Capital Contributions

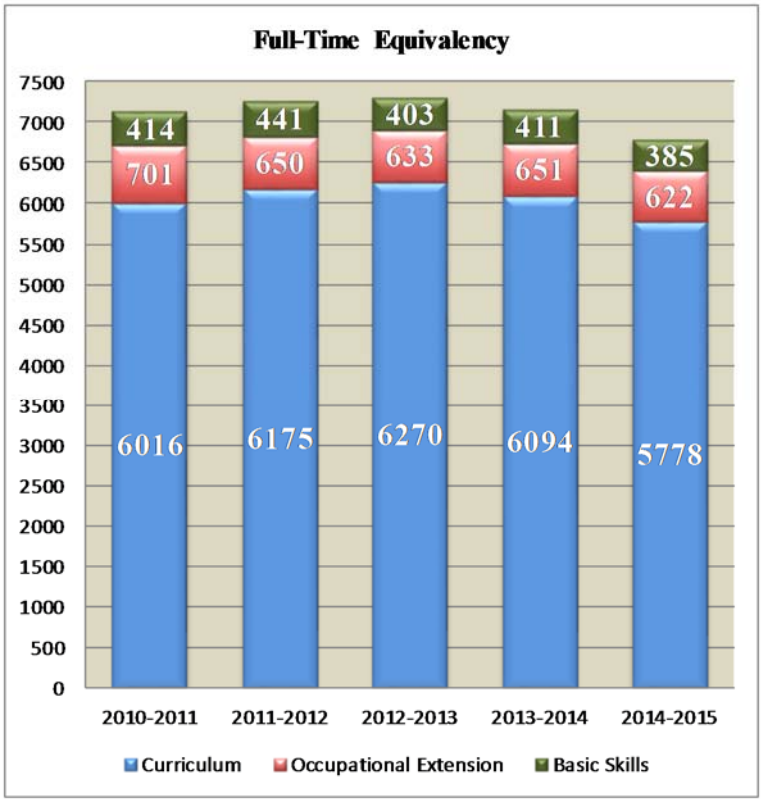
Capital contributions consist of state, and county appropriations as well as grants and gifts for equipment, construction, building improvements, and infrastructure.

Capital revenue decreased overall by $2,365,687. In FY2104, the College recorded as a gift from Buncombe County the purchase price of the Roberson Building at cost of $2,600,000.

THE COLLEGE'S FINANCIAL POSITION

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by state, federal, and county support. Enrollment levels and financial aid available to students are also key variables. These issues impact budget planning processes each year.

State support is the College's primary funding source. To ensure the fiscal stability of community colleges, State support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year preceding the budget year or the average of the two preceding years' FTE. The chart below illustrates the College's budget FTE for the past five years.



As the chart shows, the budget FTE dropped comparing to the previous years. This directly impacts the State funding. To maintain its fiscal stability without capping enrollment, the College is continuing to expand its offering of night, weekend and "mini semester" classes and restructure facilities usage. The College reviews existing programs for continuing viability and reviews new program proposals on a regular basis.

The State of North Carolina continues to struggle through the economic downfall. However, the General Assembly recognized the importance of community colleges' training and retraining dislocated workers by fully funding the institutions. In spite of this recognition and in an effort to balance the State's 2015-16 budget, the General Assembly ratified an immediate budget reduction for community colleges. In accordance with state legislation, the College has reverted $473,409 or approximately 1.22% of its 2015-16 State funded operating budget. The 2015-16 reversion is less than the prior year by $1,199,765.

Appropriations from Buncombe and Madison Counties are primarily for plant operations, maintenance and capital asset repairs and renovations. For the budget year 2015-16, both Buncombe and Madison County's appropriation remains the same level as previous year; however, the College is still carrying a decrease in Buncombe County's funding of

$2,000,000 first seen in the 2012-13 appropriation because county appropriations do not revert, the College has the funds to cover the reduction.

The College is also seeking alternative entrepreneurial revenue sources and other options that allow the College to generate non-state, non-county revenues. Examples of options implemented include offering select summer classes as self-supporting so that the College retains the revenue and increasing the number of high cost programs charging consumable supply fees.

THE COLLEGE'S FINANCIAL FUTURE

What can the College expect in the future?

The College is experiencing a decline in FTE as it begins the fall 2015 semester. Historically, a recovering economy results in a downward shift in enrollment as individuals are finding employment. As the economy continues to recover, the College will experience FTE stability after a period of decline. Typically, as curriculum FTE falls, the College will find growth in noncurriculum FTE as it picks up students who are training and retraining to enhance employment opportunities. As the economy continues its return to normal, companies will expand and/or relocate to the College's service area. This results in the College providing training for new and expanding industries, as well as develop partnerships with these industries that will enhance educational opportunities and economic growth.

It is widely known and publicized that the road to economy recovery runs through North Carolina's community colleges. The Asheville-Buncombe Technical Community College is confident in its financial stability and ability to attract citizens to higher education. The College's Board of Trustees and Administration are dedicated in its efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum, occupational training, and continuing education; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to goals and freeing up resources to support change. The College's ongoing strategic planning initiative and efforts to identify resource reallocation opportunities have expanded to new activities that enhance revenues and control expenses over the short and long term. As a result, Asheville-Buncombe Technical Community College remains financially sound.

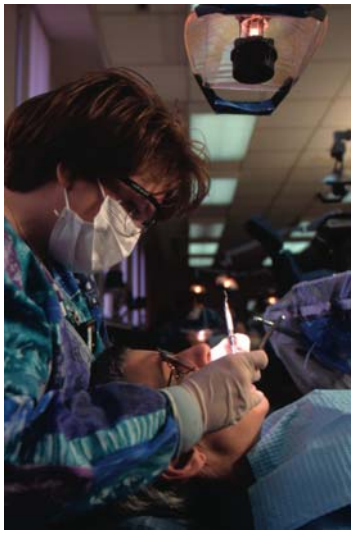
REQUEST FOR INFORMATION

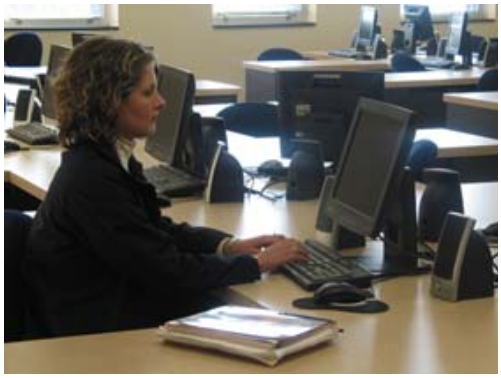
This report is designed to provide a summary overview of the College's finance. Questions or requests for additional information should be addressed to:

Asheville-Buncombe Technical Community College
340 Victoria Road
Asheville, North Carolina 28801
828-254-1921

AB Tech
Community College

COMPLETION BY DESIGN





VISION

Locally Committed • Regionally Dynamic • World-Class Focused

FINANCIAL STATEMENTS

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Statement of Net Position

June 30, 2015

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,576,533
Restricted Cash and Cash Equivalents		1,448,011
Receivables, Net (Note 4)		1,494,719
Inventories		1,039,933
Prepaid Items		698,951
Notes Receivable, Net (Note 4)		18,708
Total Current Assets		9,276,855
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		465,894
Receivables, Net (Note 4)		122,222
Restricted Due from Primary Government		135,000
Capital Assets - Nondepreciable (Note 5)		6,318,598
Capital Assets - Depreciable, Net (Note 5)		67,754,557
Total Noncurrent Assets		74,796,271
Total Assets		84,073,126
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions (Note 11)		2,327,537
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,623,590
Due to Primary Government		1,108
Unearned Revenue		755,045
Funds Held for Others		888,689
Long-Term Liabilities - Current Portion (Note 7)		432,301
Total Current Liabilities		3,700,733
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		5,270,038
Total Noncurrent Liabilities		5,270,038
Total Liabilities		8,970,771
DEFERRED INFLOWS OF RESOURCES		
Pensions (Note 11)		6,627,364
Unexpended Grant Proceeds		549,094
Total Deferred Inflows of Resources		7,176,458
NET POSITION		
Net Investment in Capital Assets		73,879,383
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		2,250
Expendable:		
Scholarships and Fellowships		47,274
Loans		8,461
Capital Projects		457,413
Restricted for Specific Programs		583,471
Unrestricted		(4,724,818)
Total Net Position	$	70,253,434

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015
Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 8,308,637
Sales and Services, Net (Note 9)	2,998,994
Other Operating Revenues	25,452
Total Operating Revenues	11,333,083
EXPENSES	
Operating Expenses:(Note 10)	
Salaries and Benefits	38,368,275
Supplies and Materials	8,408,742
Services	5,196,663
Scholarships and Fellowships	6,641,170
Utilities	1,605,127
Depreciation/ Amortization	3,179,183
Total Operating Expenses	63,399,160
Operating Loss	(52,066,077)
NONOPERATING REVENUES (EXPENSES)	
State Aid	27,298,004
County Appropriations	7,721,022
Noncapital Grants - Student Financial Aid	11,751,818
Noncapital Grants	1,820,853
Noncapital Gifts (Note 9)	814,295
Investment Income	13,816
Interest and Fees on Debt	(6,831)
Other Nonoperating Revenues (Expenses)	66,008
Net Nonoperating Revenues	49,478,985
Loss Before Capital contributions	(2,587,092)
State Capital Aid	2,629,209
County Capital Aid	717,703
Capital Grants	235,371
Capital Gifts (Note 9)	151,770
Increase in Net Position	1,146,961
NET POSITION	
Net Position, July 1, 2014 (Restated, Note 16)	69,106,473
Net Position, June 30, 2015	$ 70,253,434

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

Statement of Cash Flows

For the Year Ended June 30, 2015

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 11,255,115
Payments to Employees and Fringe Benefits	(39,083,487)
Payments to Vendors and Suppliers	(15,515,702)
Payments for Scholarships and Fellowships	(6,641,170)
Collection of Loans to Students	362,687
Other Receipts (Payments)	(244,094)
Net Cash Used by Operating Activities	(49,866,651)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	27,298,005
County Appropriations	7,721,022
Noncapital Grants - Student Financial Aid	11,751,818
Noncapital Grants Received	3,419,287
Noncapital Gifts and Endowments Received	814,295
Deferred inflows for unexpensed noncapital grants	348,777
Net Cash Provided by Noncapital Financing Activities	51,353,204
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,629,211
County Capital Aid	930,636
Capital Grants Received	235,371
Acquisition and Construction of Capital Assets	(2,896,948)
Principal Paid on Capital Debt and Leases	(798,677)
Interest Paid on Capital Debt and Leases	(6,831)
Net Cash Provided by Capital and Related Financing Activities	92,762
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	13,816
Net Cash Provided by Investing Activities	13,816
Net Increase in Cash and Cash Equivalents	1,593,131
Cash and Cash Equivalents, July 1, 2014	4,897,307
Cash and Cash Equivalents, June 30, 2015	$ 6,490,438

(Continued)

Statement of Cash Flows
For the Year Ended June 30, 2015
Exhibit A-3

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (52,066,077)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	3,179,183
Pension Expense	812,320
Miscellaneous Nonoperating Income	85,088
Changes in:	
Receivables, Net	(52,263)
Inventories	287,025
Prepaid Items	(542,963)
Notes Receivable, Net	362,687
Accounts Payable and Accrued Liabilities	(29,959)
Due to Primary Government	(108)
Unearned Revenue	(204,460)
Funds Held for Others	(150,427)
Deferrd outflows - contributions after the measurement date	(2,225,719)
Compensated Absences	679,022
Net Cash Used by Operating Activities	$ (49,866,651)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 4,576,533
Restricted Cash and Cash Equivalents	1,448,011
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	465,894
Total Cash and Cash Equivalents - June 30, 2015	$ 6,490,438

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 256,411
Assets Acquired through a Gift	151,770
Book Value of Assets Disposed	(19,080)

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

Statement of Financial Position
June 30, 2015 and 2014
Exhibit B-1

	2015	2014
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 2,890,739	$ 2,373,786
Contributions Receivable	1,011,666	1,022,094
Other Current Assets	4,257	945
Total Current Assets	3,906,662	3,396,825
Non-Current Assets:		
Foundation Endowment - Restricted	4,976,101	4,357,542
Restricted Cash in Endowment Funds	75,732	299,241
Long-Term Pledge Receivable (Net)	3,464,683	4,245,048
Charitable Remainder Trusts Receivable (Net)	1,574,342	1,725,870
Total Other Non-Current Assets	10,090,858	10,627,701
Total Assets	$ 13,997,520	$ 14,024,526
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 483	$ -
Funs Held for Others	17,604	9,712
Total Current Liabilities	18,087	9,712
NET ASSETS		
Unrestricted	291,595	287,087
Temporarily Restricted	10,357,694	10,630,443
Permanently Restricted	3,330,144	3,097,284
Total Net Assets	13,979,433	14,014,814
Total Liabilities and Net Assets	$ 13,997,520	$ 14,024,526

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

Statement of Activities
For the year ended June 30, 2015
Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
SUPPORT AND REVENUE					
Contributions	$ 40,406	$ 308,540	$ 157,128	$ 506,074	$ 486,974
Contributions from Primary Government	-	30,371	75,732	106,103	-
Grant Revenue	-	107,214	-	107,214	81,157
Contributions-Pledge amortization	-	219,635	-	219,635	42,772
Investment Gains (Losses)	-	(11,343)	-	(11,343)	489,169
Change in Value-Charitable Remainder Trusts	-	(151,528)	-	(151,528)	296,337
Special Event Revenue	91,795	26	-	91,821	70,575
Interest and Investment Income	13,455	48,426	-	61,881	104,579
In-Kind Contributions	163,932	-	-	163,932	177,019
Other Revenue	4,346	22,203	-	26,549	259
Net Asset Releases/Reclassifications:					
Released by Expenditure	846,293	(846,293)	-	-	-
Total Support and Revenue	1,160,227	(272,749)	232,860	1,120,338	1,748,841
EXPENSES					
Program Expenses					
Student Scholarships	475,964	-	-	475,964	460,278
Faculty and Staff Mini-Grants	11,913	-	-	11,913	9,930
College Personnel Costs	26,100	-	-	26,100	21,940
Grant Funded Expenses	143,764	-	-	143,764	307,015
Equipment and Supplies (gifted to College)	166,191	-	-	166,191	6,997
Student Stipends	3,866	-	-	3,866	21,110
Student Emergency Aid	8,798	-	-	8,798	2,203
Technology Projects	18,796	-	-	18,796	24,000
Faculty Professional Development	59,476	-	-	59,476	3,491
Contributed Services and Facilities	48,724	-	-	48,724	101,433
Other Expenses	3,278	-	-	3,278	-
Total Program Expenses	966,870	-	-	966,870	958,397
Management and General Expenses					
Administrative Expense	7,180	-	-	7,180	7,803
Contracted Services	9,400	-	-	9,400	355
Contributed Services and Facilities	53,900	-	-	53,900	45,512
Software Contracts	12,042	-	-	12,042	272
Other Expenses	6,055	-	-	6,055	1,285
Total Management and General	88,577	-	-	88,577	55,227
Fundraising Expenses					
Fundraising Activities/Events	38,963	-	-	38,963	38,440
Contributed Goods/Services-Events	61,309	-	-	61,309	34,807
Total Fundraising Expenses	100,272	-	-	100,272	73,247
Total Expenses	1,155,719	-	-	1,155,719	1,086,871
Change in Net Assets	4,508	(272,749)	232,860	(35,381)	661,970
NET ASSETS					
Beginning of Year	287,087	10,630,443	3,097,284	14,014,814	13,352,844
End of Year	**$ 291,595**	**$ 10,357,694**	**$ 3,330,144**	**$ 13,979,433**	**$ 14,014,814**

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

A-B Tech Community College

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A-B Tech inspires, nurtures and empowers students and the community toward a better quality of life through progressive teaching, bold innovation and supportive collaboration.

NOTES TO FINANCIAL STATEMENTS

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

The accompanying financial statements present all funds of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component units are either blended or discretely presented in the College's financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Asheville-Buncombe Technical Community College Foundation is a legally separate not-for-profit corporation and is reported as discretely presented component unit based on the nature and significance of its relationship to the College.

The Asheville-Buncombe Technical Community College Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 30 selected members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which 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 Asheville-Buncombe Technical Community College Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. 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, 2015, the Foundation distributed $918,354 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Business Services Offices at (828) 398-7111.

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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.

E. Investments – Investments generally are reported at fair value, as determined by quoted market prices or estimate amounts determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost method. Merchandise for resale is valued using the average cost method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. 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 over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings and Improvements	10-100 years
Machinery & Equipment	5-30 years
General Infrastructure	10-75 years

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

J. Deferred Outflows of Resources - The Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The College has one item that meet this criterion: contributions made in the current fiscal year to the Teachers' and State Employees' Retirement System (TSERS).

K. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include net pension liability, capital lease obligations, and compensated absences 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 2014 Comprehensive Annual Financial Report. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

M. Deferred Inflows of Resources - The Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The College has two items that meets this criterion: pension related deferrals and unexpended grant proceeds.

N. 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 debt obligations related to those capital assets.

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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 inflows and outflows of resources.

O. 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.

P. 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 and state aid 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.

Q. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as Bookstore, Early Education Center, and Motor Pool. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

R. 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.

S. Defined Benefit Pension Plan - For purpose of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of TSERS and additions to/deduction from TSERS' fiduciary net position have been determined on the same basis as they are reported by TSERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The College's contributions are recognized when due and the College has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of TSERS. Investments are reported at fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 or savings association 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 $7,650, and deposits in private financial institutions with a carrying value of $187,963 and a bank balance of $1,113,904.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under 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, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $6,294,825, 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 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2015, net appreciation of $253 was available to be spent, all of which was classified in net position as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,488,585	$ 583,342	$ 905,243
Student Sponsors	81,675	5,898	75,777
Vendors	137,670	-	137,670
Intergovernmental	22,692	-	22,692
Private Grantors	142,749	-	142,749
Settlement	183,333	-	183,333
Patrons	11,797	744	11,053
Other	16,202	-	16,202
Total Current Receivables	$ 2,084,703	$ 589,984	$ 1,494,719
Noncurrent Receivables:			
Settlement	$ 122,222	$ -	$ 122,222
Total Noncurrent Receivables	$ 122,222	$ -	$ 122,222
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 18,708	$ -	$ 18,708
Total Notes Receivable - Current	$ 18,708	$ -	$ 18,708

Note 5 - Capital Assets

A summary of changes in the capital assets for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 5,958,213	$ -	$ -	$ 5,958,213
Construction in Progress - Equipment	-	85,258	-	85,258
Construction in Progress - Infrastructure	1,265,818	526,514	1,517,205	275,127
Total Capital Assets, Nondepreciable	7,224,031	611,772	1,517,205	6,318,598
Capital Assets, Depreciable:				
Buildings	87,989,142	216,445	-	88,205,587
Machinery and Equipment	11,888,152	2,661,017	483,385	14,065,784
General Infrastructure	4,507,617	1,300,760	-	5,808,377
Total Capital Assets, Depreciable	104,384,911	4,178,222	483,385	108,079,748
Less Accumulated Depreciation/Amortization for:				
Buildings	29,284,870	1,873,093	-	31,157,963
Machinery and Equipment	6,368,869	1,139,954	457,652	7,051,171
General Infrastructure	1,956,575	166,136	6,654	2,116,057
Total Accumulated Depreciation	37,610,314	3,179,183	464,306	40,325,191
Total Capital Assets, Depreciable, Net	66,774,597	999,039	19,079	67,754,557
Capital Assets, Net	$ 73,998,628	$ 1,610,811	$ 1,536,284	$ 74,073,155

Note 6 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 362,944
Accrued Payroll	521,783
Construction Contracts Payable	30,016
Contract Retainage	5,441
Intergovernmental Payables	702,356
Other	1,050
Total	$ 1,623,590

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows

	Balance July 1, 2014	Prior Period Adjustments	Additions	Reductions	Balance June 30, 2015	Current Portion
Capital Leases Payable	$ 33,181	$ -	$ 220,954	$ 60,363	$ 193,772	$ 41,061
Intergovernmental Payable	738,314	-	-	738,314	-	-
Compensated Absences	2,994,589	-	2,815,548	2,136,527	3,673,610	391,240
Net Pension Liability	-	9,501,145	-	7,666,189	1,834,956	-
Total Long-Term Liabilities	$ 3,766,084	$ 9,501,145	$ 3,036,502	$ 10,601,393	$ 5,702,338	$ 432,301

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to copiers are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 49,869
2017	49,869
2018	49,869
2019	49,869
2020	16,624
Total Minimum Lease Payments	216,100
Amount Representing Interest (4.00% & 6.95% Rates of Interest)	22,328
Present Value of Future Lease Payments	$ 193,772

Machinery and equipment acquired under capital lease amounted to $220,954 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $29,460 at June 30, 2015.

B. Operating Lease Obligations - The College entered into operating leases for equipment. Future minimum leases payments under noncancelable operating leases for June 30, 2015:

Fiscal Year	Amount
2016	$ 32,795
2017	29,556
2018	19,505
Total Minimum Lease Payments	**$ 81,856**

Rental expense for all operating leases during the year was $13,820.

NOTE 9 - REVENUES

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

	Gross Revenues	Sales Eliminations	Scholarship Discounts	Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 12,694,606	$ -	$ 4,156,629	$ 229,340	$ 8,308,637
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 4,118,364	$ 92,633	$ 1,899,336	$ 11,517	$ 2,114,878
Rent	296,813	-	-	-	296,813
Vending	64,824	-	-	-	64,824
Motor Pool	27,940	12,588	-	-	15,352
Other	2,411	-	-	-	2,411
Sales and Services of Education and Related Activities	510,118	4,658	-	744	504,716
Total Sales and Services	$ 5,020,470	$ 109,879	$ 1,899,336	$ 12,261	$ 2,998,994
Nonoperating - Noncapital Gifts	$ 814,295	$ -	$ -	$ -	$ 814,295
Capital Gifts	$ 151,770	$ -	$ -	$ -	$ 151,770

Note 10 - Operating Expenses by Function

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 22,771,756	$ 2,878,568	$ 512,120	$ 483,884	$ -	$ -	$ 26,646,328
Academic Support	3,850,594	187,745	378,267	-	-	-	4,416,606
Student Services	3,443,712	107,373	404,408	60,036	-	-	4,015,529
Institutional Support	4,658,431	570,457	1,959,744	-	-	-	7,188,632
Operations & Maintenance of Plant	2,568,435	608,232	1,773,400	-	1,605,127	-	6,555,194
Student Financial Aid	-	-	106,103	6,097,250	-	-	6,203,353
Auxiliary Enterprises	263,027	4,056,367	62,621	-	-	-	4,382,015
Depreciation	-	-	-	-	-	3,179,183	3,179,183
Pension Expense	812,320	-	-	-	-	-	812,320
Total Operating Expenses	$ 38,368,275	$ 8,408,742	$ 5,196,663	$ 6,641,170	$ 1,605,127	$ 3,179,183	$ 63,399,160

Note 11 - Pension Plans

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor

benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $2,137,175, and employee contributions were $1,401,428 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate

Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $1,834,956 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was 0.15651%, which was an increase of 0.00001% from its proportion measured as of June 30, 2013.

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	12/31/13
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)

1% Decrease (6.25%)	Rate (7.25%)	1% Increase (8.25%)
$13,172,585	$1,834,956	($7,816,276)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $812,320. At June 30, 2015, 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	$ -	$ 427,718
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments (see note below)	-	6,199,646
Change in proportion and differences between agency's contributions and proportionate share of contributions	101,818	-
Contributions subsequent to the measurement date	2,225,719	-
Total	$ 2,327,537	$ 6,627,364

$2,225,719 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended

June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (1,635,902)
2017	(1,635,902)
2018	(1,635,902)
2019	(1,617,840)
2020	-
Total	$ (6,525,546)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of

the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $1,282,305, $1,213,576, and $1,178,850, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of 0.41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were 0.44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $95,764, $98,884, and $97,789, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

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

3. Dental Plan

The College's dental plan is self-funded and administered by the Sun Life and Health Insurance Company. The administrative fee includes aggregate stop loss protection.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Employee dishonesty insurance for employees paid from nonstate funds is purchased from Cincinnati Insurance Company with coverage of $25,000 per occurrence and a $1,000 deductible.

4. Statewide Workers' Compensation Program

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

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $20,054 at June 30, 2015.

NOTE 15 - RELATED PARTIES

The Asheville-Buncombe Technical Community College Education and Entrepreneurial Development Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net position, or operational transactions of the Foundation, except for support from the Foundation. This support approximated $252,945 for the year ended June 30, 2015.

NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The College implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ended June 30, 2015. GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, is automatically implemented with GASB 68. It merely clarifies transition guidance for deferred outflow of resources related to employer contributions. The implementation of these Statements required the College to record beginning net pension liability and the effects on net position of contributions made by the College during the measurement period (fiscal year 2014). As a result, beginning net position decreased as follows:

		Amount
July 1, 2014 Net Position (as Previously Reported)	$	76,654,655
Net Pension Liability as of July 1, 2014		(9,501,145)
Contributions Made During Fiscal Year 2014		1,952,963
Net Position, July (as Adjusted)	$	69,106,473

NOTE 17 - SUBSEQUENT EVENTS

The College receives awards from several federal and State grants. Periodic reviews of these grants occur and certain costs may be questioned as not being appropriate expenditures under the grant agreements. As a result of a review performed by the Department of Education (the DOE) in 2014, the DOE identified financial aid amounts paid to ineligible students. As a result, the College recorded an estimated liability for $738,314 in 2014. Subsequent to June 30, 2015, the College received the final determination from the DOE requiring the College to repay $670,738, which was paid in full in September 2015.

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A-B Tech Community College

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A-B Tech inspires, nurtures and empowers students and the community toward a better quality of life through progressive teaching, bold innovation and supportive collaboration.

REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

	2014	2013
Proportionate share percentage of collective net pension liability	0.15651%	0.15650%
Proportionate Share of TSERS collective net pension liability	$ 1,834,956	$ 9,501,145
Covered-employee payroll	$ 24,324,796	$ 22,473,635
Net pension liability as a percentage of covered-employee payroll	7.54%	42.28%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

	2015	2014	2013	2012	2011
Contractually required contribution	$ 2,225,719	$ 1,952,959	$ 1,852,621	$ 1,574,204	$ 1,044,931
Contributions in relation to the contractually determined contribution	2,137,175	1,952,959	1,852,615	1,574,204	1,023,611
Contribution deficiency (excess)	$ 88,544	$ -	$ 6	$ -	$ 21,320
Covered-employee payroll	$ 24,324,796	$ 22,473,635	$ 22,240,354	$ 21,158,659	$ 21,195,359
Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually required contribution	$ 748,277	$ 702,384	$ 609,748	$ 488,502	$ 382,766
Contributions in relation to the actuarially determined contribution	748,277	702,384	609,748	488,502	382,766
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 20,960,143	$ 20,904,286	$ 19,991,739	$ 18,364,718	$ 16,357,519
Contributions as a percentage of covered-employee payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Schedule of College Contributions
Teachers' and State Employees' Retirement System

For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

A-B Tech Community College

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COMPLIANCE SECTION

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DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' 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*

To the Board of Trustees of
Asheville-Buncombe Technical Community College
Asheville, 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 Asheville-Buncombe Technical Community College (the "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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 4, 2016. As described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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 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.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Recommendations as Finding 2015-001.

College's Response to Findings

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Asheville, North Carolina
February 4, 2016

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

Schedule of Findings and Recommendations

For the year ended June 30, 2015

Section I–Summary of Auditors' Results

The auditors' report issued on the financial statements was unmodified.

The auditors' report in accordance with *Government Auditing Standards* disclosed:

- No material weaknesses in internal controls over financial reporting.
- We noted no significant deficiencies in internal controls over financial reporting.
- We noted one instance of non-compliance that is considered material to the financial statements.

Section II–Financial Statement Findings

Finding 2015-001: Financial Aid Program Review

Material Non-compliance

Criteria:	Asheville Buncombe Technical Community College (the "College") receives federal awards from the U.S. Department of Education (the "Department"). As a recipient of these funds, the College must comply with federal regulations as they pertain to the administration of Title IV programs.
Condition:	As reported in 2014, the Department performed a program review in which it identified 23 initial findings. These findings are not final until the Department issues a "Final Program Review Determination" letter.
Effect:	In 2014, the College accrued an estimated liability in the amount of $738,314 for federal funds it expects to be returned to the Department. Subsequent to June 30, 2015, the College received a final determination from the Department requiring the College to repay $670,738 and the accrued liability was adjusted accordingly.
Cause:	Noncompliance with Title IV regulations as cited in the Department's report.

ASHEVILLE-BUNCOMBE TECHNICAL COMMUNITY COLLEGE

Schedule of Findings and Recommendations

For the year ended June 30, 2015

Section II–Financial Statement Findings (Continued)

Recommendation: In 2014, we recommended the College address the issues noted in the Department's report and implement the necessary corrective action.

Management's Response and corrective action: The Department approved the College's Corrective Action Plan and issued a final determination subsequent to June 30, 2015 requiring the College to repay $670,738 which was repaid in September 2015. In addition, through our annual internal control program required by the Office of State Controller (e.g. EAGLE) we will review independently the effectiveness of the corrective action plan in FY 15-16 and determine if revisions or other actions are necessary to insure ongoing compliance.

Section III – Compliance with North Carolina General Statutes

In accordance with North Carolina General Statute 147-64.6D this audit required 210 hours and a total cost of approximately $47,800.

CLEVELAND COMMUNITY COLLEGE

(*A Component Unit of the State of North Carolina*)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2015

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Trustees
Cleveland Community College
Shelby, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Cleveland Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, net position as of July 1, 2014, has been restated. Our opinion is not modified with respect to this matter.

The accompanying financial statements represent the financial position of the College. These financials statements are not intended to be a complete presentation of the financial position of the State of North Carolina, taken as a whole. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016, 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 the 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.

Cherry Bekaert LLP

Charlotte, North Carolina
January 5, 2016

The following is a discussion and analysis of Cleveland Community College's financial performance, providing an overview of the activities for fiscal year ended June 30, 2015.

Overview of the Financial Statements

This discussion and analysis provides additional comparative information regarding the College's basic financial statements and notes to the financial statements.

There are three financial statements presented: The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

The Statement of Net Position presents all of the College's assets and liabilities with the difference between the two reported as "Net Position." Over time, increases and decreases in Net Position measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the College's assets changed during the most recent fiscal year. All changes in Net Position are reported as soon as underlying events giving rise to the change occur, regardless of cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods.

The Statement of Cash Flows is also a basic financial statement included in this report. This statement provides information related to cash inflows and outflows summarized by operating activities, noncapital financing activities, capital and related financing activities, 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 College's financial statements.

Condensed Statements of Net Position

For Fiscal Years Ended June 30, 2015 and June 30, 2014

	6/30/2015	6/30/2014	Change
Assets			
Current Assets	$ 5,591,247.96	$ 5,937,433.36	$ (346,185.40)
Noncurrent Assets	177,130.38	272,914.47	(95,784.09)
Capital Assets,Net	20,935,666.63	21,334,005.17	(398,338.54)
Total Assets	26,704,044.97	27,544,353.00	(840,308.03)
Deferred Outflows of Resources	1,084,562.00	-	1,084,562.00
Current Liabilities	895,783.34	1,261,181.44	(365,398.10)
Long-Term Liabilities	2,116,332.94	1,188,258.16	928,074.78
Total Liabilities	3,012,116.28	2,449,439.60	562,676.68
Deferred Inflows of Resources	2,570,321.00	-	2,570,321.00
Net Position			
Investment in Capital Assets	20,935,666.63	21,334,005.17	(398,338.54)
Restricted	2,914,235.32	3,009,275.56	(95,040.24)
Unrestricted	(1,643,732.26)	751,632.67	(2,395,364.93)
Total Net Position	$ 22,206,169.69	$ 25,094,913.40	$ (2,888,743.71)

Total assets decreased by $840,308.03. There was a $498,125.41 decrease in the Golden Leaf Grant receivable this year. There was an increase of $127,030.32 for the Department of Labor Grant receivable. Also, there was a decrease in restricted due from primary government of $93,589.26 for capital improvement funds receivable from the North Carolina Community College System Office. These funds were one-time transfers from State Appropriation to capital improvement funds. Cash and cash equivalents decreased by $12,855.79. Capital Assets decreased by $398,338.54 mainly due to disposals of $208,327.89. Additions for equipment and construction in progress were $1,143,815.17. Accumulated depreciation was $1,333,825.82. Inventories increased by $13,195.99. Other receivables totaling $22,374.66 also increased.

Total liabilities increased $562,676.68. Accounts Payable decreased by $345,166.35. This is due to Department of Labor Grant accrual decreasing by $72,741.42 and Golden Leaf Grant accrual decreasing by $162,236.45. General accounts payable accruals decreased by $110,188.48. Long-term liabilities increased by $928,074.78 due to accrued leave increasing by $216,414.78 and the GASB 68 Net Pension Liability of $711,660.00.

The items described above resulted in a decrease in net position of $2,888,743.71. Net position is the product of current year operations and GASB 68 reporting requirements. The change in net position before GASB 68 adjustments would have been a decrease of $142,602.71. GASB 68 reporting requirements are explained in more detail below.

Change in Accounting Procedure for GASB 68

Effective fiscal year end June 30, 2015, GASB 68 changed the way all entities participating in a cost-sharing multiple-employer defined benefit plan, such as Teachers' and State Employees' Retirement System (TSERS) are to recognize liabilities for their portion of the collective NC State pension liability. Historically, the College has operated on the accrual basis of accounting where revenues are recognized when earned and expenses are recorded when an obligation has been incurred. This change in reporting will add an additional layer of presentation to the College's financial statements that does not affect the current accrual basis operations of the College, but is merely a reflection of the pension plan in which we participate.

With the implementation of GASB 68, it was determined that all agencies should show their portion of the TSERS pension liability through accounts labeled deferred outflows of resources, deferred inflows of resources, noncurrent liabilities and pension expense. In the first year of implementation, the cumulative adjustment required a prior period restatement which decreased our unrestricted net position by $2,746,141.00. Going forward, the net adjustment to deferred outflows of resources, deferred inflows of resources and noncurrent liabilities will be recorded as a current pension expense to adjust net position to actual at year end. The pension expense will no longer represent the amount of employer required contribution but will reflect the College's portion of net pension liability adjusted for changes in investments, actuarial tables and TSERS percentage of membership in the NC State Retirement System as a whole.

The retirement contribution by the College for the current fiscal year was $901,619.00, which will now be reflected in deferred outflows of resources. The current pension expense under the new GASB 68 guidance is $352,897.00 which is a $548,722.00 decrease from the prior year in current operating expense. A more in depth description of the change in reporting can be found in Note 13 of the Notes to the Financial Statements.

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

For Fiscal Years Ended June 30, 2015 and June 30, 2014

	6/30/2015	6/30/2014	Change
REVENUES			
Student Tuition & Fees	$ 1,311,445.31	$ 1,340,084.81	$ (28,639.50)
Sales and Services, Net	261,164.55	255,090.94	6,073.61
Other Operating Revenue	7,220.61	5,046.70	2,173.91
Total Operating Revenue	1,579,830.47	1,600,222.45	(20,391.98)
EXPENSES			
Salaries and Benefits	15,796,240.39	15,763,508.63	32,731.76
Supplies and Materials	2,628,804.05	2,415,604.42	213,199.63
Services	4,546,752.71	4,335,047.82	211,704.89
Scholarships and Fellowships	4,078,049.34	4,694,045.12	(615,995.78)
Utilities	454,948.19	461,799.98	(6,851.79)
Depreciation/Amortization	1,333,825.82	1,145,291.13	188,534.69
Operating Expenses	28,838,620.50	28,815,297.10	23,323.40
Operating Loss	(27,258,790.03)	(27,215,074.65)	(43,715.38)
Nonoperating Revenues (Expenses):			
State Aid and County Appropriations	16,705,663.13	15,182,262.08	1,523,401.05
Noncapital Grants and Gifts	9,729,545.42	10,114,800.99	(385,255.57)
Investment and Other Revenues	9,592.90	34,443.16	(24,850.26)
Other Nonoperating Revenues (Expenses)	(203,779.46)	75,983.27	(279,762.73)
Total Nonoperating Revenues	26,241,021.99	25,407,489.50	1,113,295.22
Loss Before Other Revenues	(1,017,768.04)	(1,807,585.15)	789,817.11
Capital Aid	875,165.33	1,520,941.81	(645,776.48)
Decrease in Net Position	(142,602.71)	(286,643.34)	144,040.63
NET POSITION			
Net Position - Beginning of Year	25,094,913.40	25,381,556.74	(286,643.34)
Restatements	(2,746,141.00)	-	(2,746,141.00)
Net Position - End of Year	$ 22,206,169.69	$ 25,094,913.40	$ (2,888,743.71)

The College is worse off as a result of this year's activities. There is a decrease in Net Position of $2,888,743.71.

State Aid and County Appropriations increased by $1,523,401.05. This amount is due to increases in current State Aid appropriations. There was a decrease in noncapital grants of $385,255.57 which is mainly due to PELL decreasing by $834,633.36 and by receiving an additional $790,456.98 from the Department of Labor Grant revenue compared to prior year. The Title III Grant revenue, which ended in October 2013, decreased this year by $69,984.46. Also, the Duke Power Grant revenue decreased by $209,876.00. There were various other decreases totaling $61,218.73 in other noncapital grants.

Operating Expenses increased by $23,323.40. Salaries and Benefits increased by $32,731.76. Services increased by $211,704.89 due mainly to the new Department of Labor Grant expenses for this year. Supplies and Materials increased by $213,199.63. Scholarships and Fellowships decreased by $615,995.78. Scholarships and Fellowships decreased due to a reduction in Pell Grant Funds of $834,633.36 due to decreased Pell recipients. This decrease in Pell recipients is due in part to the Department of Education's implementation of a 600% lifetime eligibility regulation. After receiving 6 years of federal assistance, students are no longer eligible for Pell. Also, the entry that reduces revenue for scholarships was less this year by $321,629.54. Depreciation expense increased by $188,154.69.

Currently Known Facts

Cleveland Community College has experienced a decrease in enrollment. The NC State Board of Community Colleges will approve the FY 2016 State Aid Allocation and Budget Policies for all 58 community colleges once a final state budget has been determined. The College is adjusting to declines in budget through cost reduction strategies such as limiting travel, supplies, equipment and personnel as needed. We are also pursuing grant opportunities as available. There was an increase in County appropriations for FY 2016 of $324,900.00. The College employs strong procedures and sound planning to manage FTE fluctuations. Although FTE's have declined, we continue to restructure programs to meet the needs of our community. With these changes, we anticipate the College will remain financially stable.

Request for Information

This report is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should contact the Executive Vice President, Cleveland Community College, 137 South Post Road, Shelby, NC 28152.

Cleveland Community College
Statement of Net Position
June 30, 2015 *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,635,033.92
Restricted Cash and Cash Equivalents	1,410,918.07
Short-Term Investments	711,025.05
Restricted Short-Term Investments	221,414.87
Receivables, Net (Note 3)	1,437,735.98
Inventories	175,120.07
Total Current Assets	5,591,247.96
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	60,843.09
Restricted Due from Primary Government	116,287.29
Capital Assets - Nondepreciable (Note 4)	645,943.83
Capital Assets - Depreciable, Net (Note 4)	20,289,722.80
Total Noncurrent Assets	21,112,797.01
Total Assets	26,704,044.97
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions (Note 9)	1,084,562.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	575,280.92
Unearned Revenue	85,566.70
Funds Held for Others	61,324.47
Long-Term Liabilities - Current Portion (Note 6)	173,611.25
Total Current Liabilities	895,783.34
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	2,116,332.94
Total Liabilities	3,012,116.28
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions (Note 9)	2,570,321.00
NET POSITION	
Investment in Capital Assets	20,935,666.63
Restricted for:	
Expendable:	
Scholarships and Fellowships	576,060.77
Capital Projects	345,270.48
Other	1,992,904.07
Unrestricted	(1,643,732.26)
Total Net Position	$ 22,206,169.69

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

Cleveland Community College
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2015 *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	$ 1,311,445.31
Sales and Services, Net (Note 7)	261,164.55
Other Operating Revenues	7,220.61
Total Operating Revenues	1,579,830.47
EXPENSES	
Operating Expenses:	
Salaries and Benefits	15,796,240.39
Supplies and Materials	2,628,804.05
Services	4,546,752.71
Scholarships and Fellowships	4,078,049.34
Utilities	454,948.19
Depreciation/ Amortization	1,333,825.82
Total Operating Expenses	28,838,620.50
Operating Loss	(27,258,790.03)
NONOPERATING REVENUES (EXPENSES)	
State Aid	14,975,688.13
County Appropriations	1,729,975.00
Noncapital Grants - Student Financial Aid	6,325,507.57
Noncapital Grants	3,404,037.85
Investment Income	9,592.90
Other Nonoperating Revenues (Expenses)	(203,779.46)
Net Nonoperating Revenues	26,241,021.99
Loss Before Other Revenues	(1,017,768.04)
Capital Aid:	
State Capital Aid	740,165.33
County Capital Aid	135,000.00
Decrease in Net Position	(142,602.71)
NET POSITION	
Net Position, July 1, 2014 as Restated (Note 13)	22,348,772.40
Net Position, June 30, 2015	$ 22,206,169.69

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

Cleveland Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2015 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,510,835.87
Payments to Employees and Fringe Benefits	(16,076,393.32)
Payments to Vendors and Suppliers	(8,039,649.27)
Payments for Scholarships and Fellowships	(4,078,049.34)
Other Receipts	8,109.53
Net Cash Used by Operating Activities	(26,675,146.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	14,975,688.13
County Appropriations	1,729,975.00
Noncapital Grants - Student Financial Aid	6,714,254.49
Noncapital Grants	3,404,037.85
Net Cash Provided by Noncapital Financing Activities	26,823,955.47
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	833,754.59
County Capital Aid	135,000.00
Proceeds from Sale of Capital Assets	4,548.43
Acquisition and Construction of Capital Assets	(1,143,815.17)
Net Cash Used by Capital and Related Financing Activities	(170,512.15)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	9,601.93
Purchase of Investments and Related Fees	(754.51)
Net Cash Provided by Investing Activities	8,847.42
Net Decrease in Cash and Cash Equivalents	(12,855.79)
Cash and Cash Equivalents, July 1, 2014	3,119,650.87
Cash and Cash Equivalents, June 30, 2015	$ 3,106,795.08

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (27,258,790.03)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	1,333,825.82
Pension Expense	352,897.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(39,281.01)
Inventories	(13,195.99)
Accounts Payable and Accrued Liabilities	(345,166.35)
Unearned Revenue	(29,713.59)
Funds Held for Others	8,109.53
Deferred Outflows - Contributions After the Measurement Date	(901,619.00)
Compensated Absences	217,787.09
Net Cash Used by Operating Activities	$ (26,675,146.53)
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Current Assets:	
Cash and Cash Equivalents	$ 1,635,033.92
Restricted Cash and Cash Equivalents	1,410,918.07
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	60,843.09
Total Cash and Cash Equivalents - June 30, 2015	$ 3,106,795.08
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Loss on Disposal of Capital Assets	$ (203,779.46)

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

Cleveland Community College Foundation, Inc.
Statement of Financial Position
June 30, 2015 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	1,329,507.00
Investments		2,081,819.00
Real Estate Held for Resale		532,743.00
Pledges Receivable		2,065,069.00
Total Assets	$	6,009,138.00
LIABILITIES AND NET ASSETS		
Interest Payable	$	26,376.00
Funds Held for Others		542,779.00
Notes Payable		3,990,000.00
Total Liabilities		4,559,155.00
Net Assets		
Unrestricted		751,133.00
Temporarily Restricted		698,850.00
Total Net Assets		1,449,983.00
Total Liabilities and Net Assets	$	6,009,138.00

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

Cleveland Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2015 *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	541,043.00
Fees		256,499.00
Other Investment Income		26,163.00
Other		38.00
Total Unrestricted Revenues and Gains		823,743.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		10,102.00
Total Unrestricted Revenues and Gains		833,845.00
Expenses and Losses:		
Scholarships		16,282.00
LeGrand Center		143,092.00
Brown Emergency Center		29,246.00
Management and General		258,933.00
Fundraising		142,137.00
Grants		96,465.00
Total Expenses		686,155.00
Increase in Unrestricted Net Assets		147,690.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		12,539.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(10,102.00)
Increase in Temporarily Restricted Net Assets		2,437.00
Increase in Net Assets		150,127.00
Net Assets at Beginning of Year		1,299,856.00
Net Assets at End of Year	$	1,449,983.00

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

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

The accompanying financial statements present all funds of the College and its component units 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. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income that the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2015, the Foundation distributed $112,747.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from U.L, Patterson III, Executive Director of the Foundation.

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

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

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

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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 - For the purpose of the statement of cash flows, this classification includes petty cash and cash on deposit with private banks.

E. Investments - This classification includes certificates of deposit. Certificates of deposit are reported at cost, if purchased, or at fair value at date of gift, if donated.

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

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using either first-in, first-out method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. 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 except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater.

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

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years
Computer Software	2-30 years

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

J. Deferred Outflows/Inflows of Resources - Deferred outflows and inflows of resources relates to the pension plan as further described in Note 9.

K. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include net pension liability and compensated absences 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 2014 *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 9 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

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

Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations 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.

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 includes consideration of deferred outflows and inflows of resources.

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 non-exchange transactions. Revenues from non-exchange transactions that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are 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.

Q. New Pronouncements - During the fiscal year ended June 30, 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The cumulative effect of these pronouncements is further disclosed in Notes 9 and 13.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7.

Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was $1,900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was $4,037,335.00, and the bank balance was $3,253,217.46.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under pooling method.

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

As of June 30, 2015, the College had $932,439.92 in certificates of deposit reported as investments and are also a component of the deposit totals reported in the deposits section of this note.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	$ 1,900.00
Carrying Amount of Deposits with Private Financial Institutions	4,037,335.00
Total Deposits and Investments	$ 4,039,235.00
Deposits	
Current:	
Cash and Cash Equivalents	$ 1,635,033.92
Restricted Cash and Cash Equivalents	1,410,918.07
Noncurrent:	
Restricted Cash and Cash Equivalents	60,843.09
Total Deposits	3,106,795.08
Investments	
Current:	
Short-Term Investments	711,025.05
Restricted Short-Term Investments	221,414.87
Total Investments	932,439.92
Total Deposits and Investments	$ 4,039,235.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 772,359.86	$ 612,312.00	$ 160,047.86
Student Sponsors	8,564.87	-	8,564.87
Intergovernmental	1,197,107.47	-	1,197,107.47
Investment Earnings	175.98	-	175.98
Other	71,839.80	-	71,839.80
Total Current Receivables	$ 2,050,047.98	$ 612,312.00	$ 1,437,735.98

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 469,400.00	$ -	$ -	$ 469,400.00
Construction in Progress	-	176,543.83	-	176,543.83
Total Capital Assets, Nondepreciable	469,400.00	176,543.83	-	645,943.83
Capital Assets, Depreciable:				
Buildings	23,893,965.73	-	-	23,893,965.73
Machinery and Equipment	9,082,218.00	967,271.34	426,535.29	9,622,954.05
General Infrastructure	1,059,752.08	-	-	1,059,752.08
Total Capital Assets, Depreciable	34,035,935.81	967,271.34	426,535.29	34,576,671.86
Less Accumulated Depreciation/Amortization for:				
Buildings	9,893,060.45	534,385.92	-	10,427,446.37
Machinery and Equipment	3,079,839.09	748,586.90	218,207.40	3,610,218.59
General Infrastructure	198,431.10	50,853.00	-	249,284.10
Total Accumulated Depreciation	13,171,330.64	1,333,825.82	218,207.40	14,286,949.06
Total Capital Assets, Depreciable, Net	20,864,605.17	(366,554.48)	208,327.89	20,289,722.80
Capital Assets, Net	$ 21,334,005.17	$ (190,010.65)	$ 208,327.89	$ 20,935,666.63

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Balance
Accounts Payable	$ 321,210.21
Accrued Payroll	196,087.75
Other	57,982.96
	$ 575,280.92

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, are presented as follows:

	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net pension liabilitiy (Note 9)	$ 3,575,830.00	$ -	$ 2,864,170.00	$ 711,660.00	$ -
Compensated absences	1,360,497.10	1,060,494.09	842,707.00	1,578,284.19	173,611.25
	$ 4,936,327.10	$ 1,060,494.09	$ 3,706,877.00	$ 2,289,944.19	$ 173,611.25

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 3,835,155.68	$ 2,508,762.37	$ 14,948.00	$ 1,311,445.31
Sales and Services:				
Sales and Services of Auxiliary Enterprises				
Bookstore	$ 189,632.30	$ -	$ -	$ 189,632.30
Cosmetology	38,280.03	-	-	38,280.03
Vending	3,309.82	-	-	3,309.82
Snackbar	15,017.40	-	-	15,017.40
Other	14,925.00	-	-	14,925.00
Total Sales and Services	$ 261,164.55	$ -	$ -	$ 261,164.55

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,656,287.13	$ 799,148.74	$ 2,383,156.89	$ -	$ -	$ -	$ 12,838,592.76
Academic Support	2,018,876.57	1,298,106.87	458,057.13	-	-	-	3,775,040.57
Student Services	915,463.28	202,292.50	222,102.31	-	-	-	1,339,858.09
Institutional Support	2,485,365.55	223,227.40	705,245.79	-	23,023.89	-	3,436,862.63
Operations and Maintenance of Plant	345,132.11	106,028.54	759,630.18	-	431,924.30	-	1,642,715.13
Student Financial Aid	-	-	-	4,078,049.34	-	-	4,078,049.34
Auxiliary Enterprises	22,218.75	-	18,560.41	-	-	-	40,779.16
Depreciation	-	-	-	-	-	1,333,825.82	1,333,825.82
Pension Expense	352,897.00	-	-	-	-	-	352,897.00
Total Operating Expenses	$ 15,796,240.39	$ 2,628,804.05	$ 4,546,752.71	$ 4,078,049.34	$ 454,948.19	$ 1,333,825.82	$ 28,838,620.50

NOTE 9 - PENSION PLAN

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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $901,618.96, and employee contributions were $591,225.25 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $711,659.55 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was .0607%, which was an decrease of .0018% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate (dollars in thousands):

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
$ 5,108,785.76	$ 711,659.55	$ (3,001,072.95)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $352,897.00. At June 30, 2015, 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	$ -	$ 165,884.00
Net difference between projected and actual earnings on pension plan investments (see note below)	-	2,404,437.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	182,943.00	-
Contributions subsequent to the measurement date	901,619.00	
Total	$ 1,084,562.00	$ 2,570,321.00

$901,619.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (596,609.00)
2017	(596,609.00)
2018	(596,609.00)
2019	(597,551.00)
2020	-
Total	$ (2,387,378.00)

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $540,971.38, $515,571.83, and $487,653.38, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of 0.41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were 0.44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $40,400.41, $42,009.56, and $40,484.43, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 11 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

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

Cleveland Community College provides an additional Term life insurance (death benefit) of $10,000 for eligible workers from County funds.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. The College is protected for losses from employee dishonesty for employees paid from county and institutional funds by contracts with private insurance company.

Statewide Workers' Compensation Program

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

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Commitments - The College has established an encumbrance system to track its normal course of business.

The College has a renovation project in progress at June 30, 2015. Work that has been completed on this renovation but not yet paid for of $84,696.68 is reflected in accounts payable on the statement of net position. In addition, the College is committed to construction contracts at June 30, 2015 of $1,323,456.17 that will be completed in the next fiscal year.

The College may be involved in various legal proceedings and disputes regarding employment and other matters. In the opinion of the College, the ultimate resolution of these matters will not have a material impact on the financial position or operations of the College.

Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 13 - NET POSITION RESTATEMENT

The implementation of GASB Statement No. 68 and GASB Statement No. 71 requires a restatement of beginning net position. As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 25,094,913.40
Restatements:	
Record the College's net pension liability and pension related deferred outflows of resources per GASB 68 requirements	(2,746,141.00)
July 1, 2014 Net Position as Restated	$ 22,348,772.40

NOTE 14 - SUBSEQUENT EVENTS

The College has evaluated events through January 5, 2016, which is the date the financial statements were available to be issued.

NOTE 15 - AUDIT HOURS AND COST

The audit required 205 audit hours at an approximate cost of $33,000. The cost represents 0.12% of the College's total assets and 0.11% of total expenses subject to audit.

Cleveland Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

	Measurement Date Ending June 30, 2014	Measurement Date Ending June 30, 2013
(1) Proportionate share percentage of collective net pension liability	**0.0607%**	**0.0589%**
(2) Proportionate Share of TSERS collective net pension liability	**$ 711,660**	**$ 35,758**
(3) Covered-employee payroll	$ 9,542,533	$ 9,205,722
(4) Net pension liability as a percentage of covered-employee payroll	7.46%	0.39%
(5) Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

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

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

		2015	2014	2013	2012
(1)	Contractually required contribution	$ 901,618.96	$ 829,246.07	$ 766,836.66	$ 696,950.59
(2)	Contributions in relation to the contractually determined contribution	901,618.96	829,246.07	766,836.66	696,950.59
(3)	Contribution deficiency (excess)	-	-	-	-
(4)	Covered-employee payroll	$ 9,853,759.15	$ 9,542,532.45	$ 9,205,722.23	$ 9,367,615.49
(5)	Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%

		2011	2010	2009	2008
(1)	Contractually required contribution	$ 473,516.38	$ 342,500.87	$ 780,807.35	$ 723,052.79
(2)	Contributions in relation to the actuarially determined contribution	473,516.38	342,500.87	780,807.35	723,052.79
(3)	Contribution deficiency (excess)	-	-	-	-
(4)	Covered-employee payroll	$ 9,604,794.71	$ 9,593,861.86	$ 9,592,227.91	$ 9,237,393.06
(5)	Contributions as a percentage of covered-employee payroll	4.93%	3.57%	8.14%	7.83%

		2007	2006
(1)	Contractually required contribution	$ 616,999.40	$ 519,234.78
(2)	Contributions in relation to the actuarially determined contribution	616,999.40	519,234.78
(3)	Contribution deficiency (excess)	-	-
(4)	Covered-employee payroll	$ 8,641,438.98	$ 7,613,403.67
(5)	Contributions as a percentage of covered-employee payroll	7.14%	6.82%

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

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

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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*

The Board of Trustees
Cleveland Community College
Shelby, 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 Cleveland Community College (the "College") as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 5, 2016. Our report includes a reference to other auditors who audited the financial statements of Cleveland Community College Foundation, Inc. (the "Foundation"), as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as item 2015-001.

Compliance and Other Matters

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

College's Response to Finding

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

Purpose of this Report

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

Cherry Bekaert LLP

Charlotte, North Carolina
January 5, 2016

2015-001 Significant Deficiency in Controls over Accounts Payable Reconciliation

Criteria: Controls over accounts payable reconciliations should ensure that the recording of transactions, including additions to, and payments of, accounts payable are correctly recorded.

Condition: During our audit, we identified an invoice that had been accrued twice at year-end.

Cause/Effect: A control exists to ensure the proper accrual of accounts payable however; the control was ineffective at year end. Accounts payable were overstated by approximately $70,000. There is a risk that future financial statements may be materially misstated if controls in place over recording accounts payable aren't effective.

Recommendation: We recommend that the College review current accounting policies and controls to ensure the proper recording and cutoff of accounts payable at year end.

Management's Response and Correction Action Plan: The College has begun work to strengthen its internal controls over year-end financial reporting processes and reviews. The College is implementing control procedures including verification of completeness and cross checking for duplicates in the accounts payable general ledger account along with proper review of the process. Training has occurred and will continue with increased focus ensuring the financial statements and notes are complete and accurate.

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NC OSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, James Sprunt Community College

We have completed a financial statement audit of James Sprunt Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
James Sprunt Community College
Kenansville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of James Sprunt Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of James Sprunt Community College, and its discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, James Sprunt Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2016 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of James Sprunt Community College's (College) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2015. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The focus of the Statement of Net Position is designed to be a snapshot of financial condition at a point in time. 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 (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) of the College as of the end of the fiscal year. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. This statement provides the user knowledge of the increases and/or decreases in net position which can be used to measure the financial position of the College at the end of the current year.

The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross costs and the net costs of College activities that are supported mainly by State, local, federal and other revenues. This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public.

The Statement of Cash Flows presents information detailing the sources and uses of cash from operating activities, financing activities and investing activities.

Financial Analysis

Condensed Statement of Net Position

For the Year Ended, June 30, as Indicated

	2015	2014 (as restated)	Increase (Decrease)	Percent Change
Assets:				
Current Assets	$ 2,752,650.66	$ 2,722,380.30	$ 30,270.36	1.1%
Capital Assets, Net	9,056,874.81	8,847,502.45	209,372.36	2.4%
Noncurrent Assets	1,155,989.32	1,105,647.04	50,342.28	4.6%
Total Assets	12,965,514.79	12,675,529.79	289,985.00	2.3%
Deferred Outflows of Resources:	586,054.00	572,260.00	13,794.00	2.4%
Liabilities:				
Current Liabilities	895,398.79	811,709.01	83,689.78	10.3%
Noncurrent Liabilities	1,126,744.83	3,445,650.48	(2,318,905.65)	-67.3%
Total Liabilities	2,022,143.62	4,257,359.49	(2,235,215.87)	-52.5%
Deferred Inflows of Resources:	1,987,260.00		1,987,260.00	100.0%
Net Position:				
Net Investment in Capital Assets	9,033,549.07	8,847,462.45	186,086.62	2.1%
Restricted	1,877,254.67	1,807,193.62	70,061.05	3.9%
Unrestricted	(1,368,638.57)	(1,664,265.77)	295,627.20	17.8%
Total Net Position	$ 9,542,165.17	$ 8,990,390.30	$ 551,774.87	6.1%

Noncurrent liabilities decreased by $2,318,905.65 (67.3%), which was substantially attributable to the change of the College's proportionate share of the collective net pension liability for the Teachers' and State Employees' Retirement System.

With the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributors Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, the College recorded deferred outflows related to pensions of $586,054.00, a net pension liability of $541,190.00, and deferred inflows related to pensions of $1,987,260.00 at June 30, 2015. The College's unrestricted net position at June 30, 2014 was $641,137.23. After restating for GASB 68, unrestricted net position was ($1,664,265.77) as of July 1, 2014 - a decrease of $2,305,403.00. Unrestricted net position at June 30, 2015 was ($1,368,638.57) - an increase of $295,627.20 from the restated July 1, 2014 balance.

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

For the Year Ended, June 30, as Indicated

	2015	2014*	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 590,336.63	$ 647,432.52	$ (57,095.89)	-8.8%
Sales and Services and Other, Net	375,354.85	333,873.24	41,481.61	12.4%
Total Operating Revenues	965,691.48	981,305.76	(15,614.28)	-1.6%
Total Operating Expenses	14,862,532.20	16,272,349.79	(1,409,817.59)	-8.7%
Operating Loss	(13,896,840.72)	(15,291,044.03)	1,394,203.31	9.1%
Nonoperating Revenues (Expenses):				
State Aid	7,497,026.82	7,381,421.67	115,605.15	1.6%
County Appropriations	1,621,168.00	1,543,970.00	77,198.00	5.0%
Noncapital Grants	4,541,843.30	5,146,564.01	(604,720.71)	-11.7%
Investment Income	3,491.62	3,607.06	(115.44)	-3.2%
Other Nonoperating Revenues (Expenses)	11,833.80	(27,043.46)	(38,877.26)	-143.8%
Net Nonoperating Revenues	13,675,363.54	14,048,519.28	(373,155.74)	-2.7%
Other Revenues:				
State Capital Aid	448,673.22	805,195.22	(356,522.00)	-44.3%
County Capital Aid	267,907.00	255,150.00	12,757.00	5.0%
Capital Grants	56,671.83	44,836.74	11,835.09	26.4%
Total Other Revenues	773,252.05	1,105,181.96	(331,929.91)	-30.0%
Increase (Decrease) in Net Assets	551,774.87	(137,342.79)	$ 689,117.66	501.8%
Net Position - Beginning of Year	11,295,793.30	11,433,136.09		
Restatement	(2,305,403.00)			
Net Position - End of Year	$ 9,542,165.17	$ 11,295,793.30		
Reconciliation of Changes in Net Position				
Total Revenues	$ 15,414,307.07	$ 16,162,050.46	$ (747,743.39)	-4.6%
Less: Total Expenses	14,862,532.20	16,299,393.25	(1,436,861.05)	-8.8%
Increase in Net Position	$ 551,774.87	$ (137,342.79)	$ 689,117.66	501.8%

**Note: The year-end June 30,2014, column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Noncapital grants decreased $604,720.71 (11.7%) mainly due to the decrease in the number of Pell grant recipients for fiscal year 2014-2015 as well as more students having met their lifetime eligibility requirement to qualify for Pell grants. State capital aid decreased $356,522.00 (44.3%) due to state budget cuts which impacted the total amount of allocations given to each college.

Operating Expenses

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent Change
Salaries and Benefits	$ 9,414,351.44	$ 10,032,182.70	$ (617,831.26)	-6.2%
Supplies and Materials	1,734,620.42	2,128,150.00	(393,529.58)	-18.5%
Services	1,669,213.61	1,818,882.59	(149,668.98)	-8.2%
Scholarships and Fellowships	1,350,759.29	1,724,883.85	(374,124.56)	-21.7%
Utilities	252,527.55	288,072.84	(35,545.29)	-12.3%
Depreciation	441,059.89	295,548.78	145,511.11	49.2%
Total Expenses	$ 14,862,532.20	$ 16,287,720.76	$ (1,425,188.56)	-8.8%

The College experienced an 8.8% overall decrease in expenditures from the prior fiscal year. Salaries and benefits comprise the largest category of expenditures. This category includes salary and benefit expenses, retirement contribution, and employer tax amounts. The North Carolina government's retirement rate was set as 15.21% as compared to the previous year of 14.69%. There was a 6.2% decrease in this category due to the retirement of several long time employees during the 2014-2015 fiscal year. Supplies and materials showed an 18.5% decrease due to efforts to reduce campus wide spending. The 21.7% decrease in scholarships and fellowships was mainly due to a decrease in Pell grant awards as well as decreases in some state grants including North Carolina Community College Grants and North Carolina Educational Lottery Scholarships. The 49.2% increase in depreciation expense was caused by an extension of the useful lives during the prior period of certain fully depreciated assets still in use.

Capital Assets

At June 30, 2015, the College reported $14,456,695.90 invested in depreciable capital assets less $6,154,305.45 in accumulated depreciation for net depreciable capital assets of $8,302,390.45. There was significant activity in construction in progress due to the building of the new diesel mechanics facility.

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent Change
Land	$ 172,764.05	$ 172,764.05	$ 0.00	0%
Construction in Progress	581,720.31	84,858.00	496,862.31	586%
Buildings	6,147,481.81	6,343,737.05	(196,255.24)	-3%
Machinery and Equipment	928,894.03	991,296.49	(62,402.46)	-6%
General Infrastructure	1,226,014.61	1,254,806.86	(28,792.25)	-2%
Capital Assets, Net	$ 9,056,874.81	$ 8,847,462.45	$ 209,412.36	2%

Economic Factors

For the 2015-2016 fiscal year, the College should receive approximately 50% of its total revenue from the State of North Carolina. The NC Community College System funding formula is expected to continue to provide stability in state revenue.

Enrollment growth in curriculum and occupational extension courses are expected to increase in the fiscal year 2015-2016 as the College continues to revamp the recruitment and marketing efforts within the community. Occupational extension enrollment is projected to increase due to addition of the Certified Nursing Assistant, Manicurist, and Certified Production Technician training classes being added to the continuing education schedule. Also, the continuing education barber school classes continue to maintain steady enrollment with each new semester.

The College expects to finish the construction of the diesel mechanics building during the 2015-2016 fiscal year. This construction project is being funded mainly from a grant received from the Golden Leaf Foundation.

During the 2014-2015 fiscal year, the College also received two additional grant awards. The Duke Energy Community College Grant Program approved a $128,000 grant to the College for the Certified Production Technician Training Program, which is operated under the

Continuing Education Division. The program provides skilled training and education to the local employers and their employees to equip students with skills needed to be productive technicians. Secondly, the College received an $18,000 grant award from the Charles Koch Foundation to be used for educational, scientific, and literary purposes for the Male Mentoring Program.

The continued economic downturn has forced the NC Community College System to continue a legislatively mandated management flexibility reduction. Despite the challenges, the College's administrative staff has established that they can continue to meet most of the needs of planning and monitoring budgets. James Sprunt Community College will seek to aid this economic forecast by supporting the training needs of area businesses and continuing to provide education to the population of Duplin County.

FINANCIAL STATEMENTS

James Sprunt Community College
Statement of Net Position
June 30, 2015

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,056,071.89
Restricted Cash and Cash Equivalents	1,212,235.93
Receivables, Net (Note 3)	313,908.24
Inventories	170,434.60
Total Current Assets	2,752,650.66
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	336,534.32
Restricted Due from Primary Government	19,455.00
Restricted Due from State of NC Component Units	800,000.00
Capital Assets - Nondepreciable (Note 4)	754,484.36
Capital Assets - Depreciable, Net (Note 4)	8,302,390.45
Total Noncurrent Assets	10,212,864.13
Total Assets	12,965,514.79
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	586,054.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	718,160.77
Unearned Revenue	24,643.58
Funds Held for Others	19,677.05
Long-Term Liabilities - Current Portion (Note 6)	132,917.39
Total Current Liabilities	895,398.79
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,126,744.83
Total Liabilities	2,022,143.62
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,987,260.00

James Sprunt Community College
Statement of Net Position
June 30, 2015

NET POSITION	
Net Investment in Capital Assets	9,033,549.07
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	17,653.16
Expendable:	
Loans	5,631.00
Capital Projects	1,026,585.01
Restricted for Specific Programs	641,319.86
Other	186,065.64
Unrestricted	(1,368,638.57)
Total Net Position	$ 9,542,165.17

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

James Sprunt Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	590,336.63
Sales and Services, Net (Note 8)		352,195.40
Other Operating Revenues		23,159.45
Total Operating Revenues		965,691.48
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,414,351.44
Supplies and Materials		1,734,620.42
Services		1,669,213.61
Scholarships and Fellowships		1,350,759.29
Utilities		252,527.55
Depreciation		441,059.89
Total Operating Expenses		14,862,532.20
Operating Loss		(13,896,840.72)
NONOPERATING REVENUES		
State Aid		7,497,026.82
County Appropriations		1,621,168.00
Noncapital Grants - Student Financial Aid		3,052,632.02
Noncapital Grants		1,489,211.28
Investment Income		3,491.62
Other Nonoperating Revenues		11,833.80
Total Nonoperating Revenues		13,675,363.54
Loss Before Other Revenues		(221,477.18)
State Capital Aid		448,673.22
County Capital Aid		267,907.00
Capital Grants		56,671.83
Increase in Net Position		551,774.87
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 14)		8,990,390.30
Net Position, June 30, 2015	$	9,542,165.17

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

James Sprunt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 935,384.43
Payments to Employees and Fringe Benefits	(9,748,885.54)
Payments to Vendors and Suppliers	(3,585,672.30)
Payments for Scholarships and Fellowships	(1,350,759.29)
Other Payments	(6,080.78)
Net Cash Used by Operating Activities	(13,756,013.48)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,497,026.82
County Appropriations	1,621,168.00
Noncapital Grants - Student Financial Aid	3,074,531.75
Noncapital Grants	1,489,211.28
Noncapital Gifts	12,108.00
Cash Provided by Noncapital Financing Activities	13,694,045.85
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	448,673.22
County Capital Aid	267,907.00
Capital Grants	256,671.83
Proceeds from Sale of Capital Assets	656.05
Acquisition and Construction of Capital Assets	(630,031.20)
Net Cash Provided by Capital and Related Financing Activities	343,876.90
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	3,491.62
Cash Provided by Investing Activities	3,491.62
Net Increase in Cash and Cash Equivalents	285,400.89
Cash and Cash Equivalents, July 1, 2014	2,319,441.25
Cash and Cash Equivalents, June 30, 2015	$ 2,604,842.14

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (13,896,840.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	441,059.89
Pension Expense	223,047.00
Nonoperating Other Income	14,062.44
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(19,667.09)
Inventories	(9,552.39)
Accounts Payable and Accrued Liabilities	75,059.66
Unearned Revenue	(15,279.09)
Funds Held for Others	(15,504.09)
Deferred Outflows - Contributions After the Measurement Date	(586,054.00)
Compensated Absences	33,654.91
Net Cash Used by Operating Activities	$ (13,756,013.48)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 1,056,071.89
Restricted Cash and Cash Equivalents	1,212,235.93
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	336,534.32
Total Cash and Cash Equivalents - June 30, 2015	$ 2,604,842.14

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 23,325.74
Loss on Disposal of Capital Assets	(2,228.64)

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

James Sprunt Foundation, Inc.
Statement of Financial Position
June 30, 2015

Exhibit B-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	226,554
Accounts Receivable		7,965
Unconditional Promises to Give Due in One Year, Net		84,296
Investments		5,636
Other Assets		27
Total Current Assets		324,478
Other Assets:		
Unconditional Promises to Give Due After One Year, Net		131,817
Endowment Assets		1,177,927
Total Other Assets		1,309,744
Total Assets	$	1,634,222
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$	539
Total Current Liabilities and Total Liabilities		539
Net Assets:		
Unrestricted:		
Designated by Board of Directors		6,400
Undesignated		68,228
Total Unrestricted		74,628
Temporarily Restricted		488,420
Permanently Restricted		1,070,635
Total Net Assets		1,633,683
Total Liabilities and Net Assets	$	1,634,222

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

James Sprunt Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2015 — *Exhibit B-2*

UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT		
Contributions	$	27,311
Scholarship Income		9,020
Special Event Revenue		43,900
Interest and Dividend Income		734
Net Realized and Unrealized Loss on Investments		(291)
Net Assets Released from Restrictions		56,657
Total Unrestricted Revenue, Gains, and Other Support		137,331
EXPENSES		
Program Services:		
Financial Aid		15,946
Educational Assistance		13,769
Communications and Development		10,920
Total Program Services		40,635
Supporting Activities:		
Management and General		30,441
Cost of Direct Benefits to Donors		20,736
Provision for Uncollectible Promises to Give		14,531
Total Supporting Activities		65,708
Total Expenses		106,343
Increase in Unrestricted Net Assets		30,988
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		67,574
Scholarship Income		117,009
Interest and Dividend Income		35,858
Net Realized and Unrealized Loss on Investments		(29,049)
Transfer to Permanently Restricted Net Assets		(654)
Net Assets Released from Restrictions		(55,037)
Increase in Temporarily Restricted Net Assets		135,701
PERMANENTLY RESTRICTED NET ASSETS		
Endowment Contributions		179,236
Transfer from Temporarily Restricted Net Assets		654
Net Assets Released from Restrictions		(1,620)
Increase in Permanently Restricted Net Assets		178,270
Increase in Net Assets		344,959
Net Assets, Beginning of Year		1,288,724
Net Assets, End of Year	$	1,633,683

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – James Sprunt Foundation, Inc. (Foundation) is a legally separate, tax-exempt, 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 fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 13 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 is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed $24,600 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation's office, 133 James Sprunt Drive, Kenansville, NC 28349, or by calling (910) 296-2417.

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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.

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 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, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. 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. Library books are generally not considered to have a

useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & 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. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities includes net pension liability and compensated absences payable 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 2014 *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 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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 and inflows of resources.

L. **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.

M. **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.

N. **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 as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 or savings and loan association 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 $600.00, and deposits in private financial institutions with a carrying value of $1,995,527.50 and a bank balance of $2,097,358.83.

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, 2015, 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, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $608,714.64 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 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

following is an analysis of investments by type and includes cash and money market accounts with financial institutions:

Endowment Cash and Cash Equivalents	
Southern Bank-Checking Account	$ 157,386.00
UBS-Money Market Account	2,957.00
Total Endowment Cash and Cash Equivalents	$ 160,343.00
Endowment Investments	
Debt and Equity Securities	$ 1,017,584.00

Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (Level 1 measurements) and are comprised of primarily bonds, mutual funds, and exchange traded funds.

Investments are maintained in two accounts with one brokerage firm, UBS, with the exception of one small direct investment in a mutual fund. These balances are insured by the Securities Investor Protection Corporation (SIPC) up to $500,000 including $250,000 for claims for cash. In addition, UBS maintains supplemental insurance coverage in excess of the standard SIPC coverage. The supplemental coverage insures cash holdings for all accounts an entity holds up to a total of $1.9 million. The account protection applies when a firm fails financially and is unable to meet obligations to security clients, but it does not protect against losses from the rise and fall in the market value of investments.

Investment fees paid during the fiscal year ended June 30, 2015 were $4,907.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 676,485.21	$ 563,364.75	$ 113,120.46
Accounts	181,641.17		181,641.17
Other	19,146.61		19,146.61
Total Current Receivables	$ 877,272.99	$ 563,364.75	$ 313,908.24

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 172,764.05	$ 0.00	$ 0.00	$ 172,764.05
Construction in Progress	84,858.00	501,395.31	4,533.00	581,720.31
Total Capital Assets, Nondepreciable	257,622.05	501,395.31	4,533.00	754,484.36
Capital Assets, Depreciable:				
Buildings	10,992,706.21	21,212.00		11,013,918.21
Machinery and Equipment	1,680,765.84	135,282.63	43,660.95	1,772,387.52
General Infrastructure	1,670,390.17			1,670,390.17
Total Capital Assets, Depreciable	14,343,862.22	156,494.63	43,660.95	14,456,695.90
Less Accumulated Depreciation for:				
Buildings	4,648,969.16	217,467.24		4,866,436.40
Machinery and Equipment	689,469.35	194,800.40	40,776.26	843,493.49
General Infrastructure	415,583.31	28,792.25		444,375.56
Total Accumulated Depreciation	5,754,021.82	441,059.89	40,776.26	6,154,305.45
Total Capital Assets, Depreciable, Net	8,589,840.40	(284,565.26)	2,884.69	8,302,390.45
Capital Assets, Net	$ 8,847,462.45	$ 216,830.05	$ 7,417.69	$ 9,056,874.81

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 440,988.65
Accrued Payroll	253,846.38
Contract Retainage	23,325.74
Total Current Accounts Payable and Accrued Liabilities	$ 718,160.77

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 2,877,663.00	$ 0.00	$ 2,336,473.00	$ 541,190.00	$ 0.00
Compensated Absences	684,817.31	539,157.13	505,502.22	718,472.22	132,917.39
Total Long-Term Liabilities	$ 3,562,480.31	$ 539,157.13	$ 2,841,975.22	$ 1,259,662.22	$ 132,917.39

Additional information regarding the net pension liability is included in Note 10.

NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease revenues under noncancelable operating leases related to wireless broadband services is recorded when received. These minimum future lease revenues consist of the following as of June 30, 2015:

Fiscal Year	Amount
2016	$ 14,526.00
2017	14,526.00
2018	14,526.00
2019	14,526.00
2020	14,526.00
2021-2025	72,630.00
2026-2030	72,630.00
2031-2035	72,630.00
2036	14,526.00
Total Minimum Lease Revenue	$ 305,046.00

Rental revenue for all operating leases during the year was $14,526.00.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,667,018.40	$ 980,314.63	$ 96,367.14	$ 590,336.63
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 940,980.81	$ 615,387.60	$ 0.00	$ 325,593.21
Other	26,602.19			26,602.19
Total Sales and Services	$ 967,583.00	$ 615,387.60	$ 0.00	$ 352,195.40

** Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.*

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,846,494.75	$ 471,633.50	$ 137,837.49	$ 0.00	$ 0.00	$ 0.00	$ 5,455,965.74
Academic Support	753,319.73	50,587.94	16,479.96				820,387.63
Student Services	1,424,671.53	35,894.26	404,956.47	40,240.00			1,905,762.26
Institutional Support	1,689,376.73	129,789.54	518,336.08	1,397.14			2,338,899.49
Operations and Maintenance of Plant	434,613.75	305,449.24	465,097.12		252,527.55		1,457,687.66
Student Financial Aid			4,432.00	1,293,906.69			1,298,338.69
Auxiliary Enterprises	42,827.95	741,265.94	122,074.49	15,215.46			921,383.84
Depreciation/ Amortization						441,059.89	441,059.89
Pension Expense	223,047.00						223,047.00
Total Operating Expenses	$ 9,414,351.44	$ 1,734,620.42	$ 1,669,213.61	$ 1,350,759.29	$ 252,527.55	$ 441,059.89	$ 14,862,532.20

NOTE 10 - PENSION PLAN

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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for

life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $586,054.20, and employee contributions were $384,297.83 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $541,190.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were

used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was 0.04616%, which was a decrease of 2.62% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount	1% Increase (8.25%)
$ 3,885,033.00	$ 541,190.00	$ (2,282,199.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $223,047.00. At June 30, 2015, 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	$ 0.00	$ 126,148.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		1,828,482.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		32,630.00
Contributions Subsequent to the Measurement Date	586,054.00	
Total	$ 586,054.00	$ 1,987,260.00

The amount of $586,054.00 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (499,016.00)
2017	(499,016.00)
2018	(499,016.00)
2019	(490,212.00)
Total	$ (1,987,260.00)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System

(TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $351,632.52, $355,074.76, and $336,697.99, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required

contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $26,260.35, $28,932.02, and $27,952.29, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Loss Insurance

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Losses from employee dishonesty and computer fraud by employees paid from county and institutional funds are covered by a separate policy with private insurance company.

4. Statewide Workers' Compensation Program

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

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on other purchases and outstanding commitments on construction contracts were $889,152.50 at June 30, 2015.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	11,295,793.30
Restatement:		
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB 68 Requirements		(2,305,403.00)
July 1, 2014 Net Position as Restated	$	8,990,390.30

REQUIRED SUPPLEMENTARY INFORMATION

James Sprunt Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit C-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.04616%	0.04740%
Proportionate Share of TSERS Collective Net Pension Liability	$ 541,190.00	$ 2,877,663.00
Covered-Employee Payroll	$ 6,575,458.50	$ 6,352,792.23
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.23%	45.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

James Sprunt Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 586,054.20	$ 571,407.34	$ 529,187.59	$ 475,484.71	$ 321,658.91
Contributions in Relation to the Contractually Determined Contribution	586,054.20	571,407.34	529,187.59	475,484.71	321,658.91
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 6,404,963.89	$ 6,575,458.50	$ 6,352,792.23	$ 6,390,923.46	$ 6,524,521.50
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 234,916.02	$ 227,349.52	$ 213,457.03	$ 179,940.43	$ 148,659.80
Contributions in Relation to the Contractually Determined Contribution	234,916.02	227,349.52	213,457.03	179,940.43	148,659.80
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 6,580,280.77	$ 6,766,354.87	$ 6,998,591.04	$ 6,764,677.70	$ 6,352,982.79
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

James Sprunt Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT 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
James Sprunt Community College
Kenansville, 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 James Sprunt Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 5, 2016. Our report includes a reference to other auditors who audited the financial statements of James Sprunt Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of James Sprunt Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with James Sprunt Foundation, Inc.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or

significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Audit Findings and Responses section to be a material weakness.

Compliance and Other Matters

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

College's Response to Findings

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 5, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control.

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS

Financial statements and notes prepared by the College and submitted for audit contained significant misstatements that were identified and corrected as a result of our audit.

The College did not ensure that controls over financial reporting were designed and implemented to prevent significant misstatements from occurring. The following misstatements resulted from the College's ineffective controls over financial reporting:

Account	Overstated/ (Understated)	Percentage*
Total Net Position	$ 506,083	5%
Unrestricted Net Position	(750,325)	55%
Restricted Expendable Scholarships and Fellowships	23,309	100%
Restricted Expendable Capital Projects	55,759	5%
Restricted Expendable Restricted for Specific Programs	(641,320)	100%
Restricted Expendable Other	336,002	181%
Net Investment in Capital Assets	(17,992)	0%
Cash and Cash Equivalents	(252,159)	24%
Restricted Cash and Cash Equivalents - Current	196,392	16%
Restricted Cash and Cash Equivalents - Noncurrent	55,767	17%
Receivables - Students	8,538	8%
Receivables - Accounts	97,950	54%
Receivables - Intergovernmental	217,308	100%
Receivables - Other	996,024	5202%
Restricted due from State of NC Component Units	(800,000)	100%
Inventories	146,303	86%
Construction in Progress	(70,490)	12%
Accounts Payable	60,377	14%
Contract Retainage	29,173	125%
Noncapital Grants - Student Financial Aid	225,846	7%
Noncapital Grants	196,024	13%
Supplies and Materials	(185,810)	11%
Services	101,597	6%

* Percentage of the overstatement or understatement to the final audited account balance.

Without these error corrections users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance and operating results.

The errors in financial reporting occurred and were not detected and corrected by the College, in part because:

- The College did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.
- The College did not fully understand the complexities associated with the financial reporting process and the need of inexperienced staff to have additional supervision during the preparation of the financial statements.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Further, best practices require management to periodically review and analyze financial information. The Government Accountability Office (GAO) recommends that senior management should regularly review actual performance against prior period results. The GAO also recommends that "financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results."

Recommendation:

The College should ensure that appropriate and adequate resources are provided to ensure:

- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting,
- Accounting staff obtain additional training on financial reporting matters as deemed necessary, and
- Accounting staff have proper supervision that correlates with their level of experience and understanding of financial reporting.

College Response:

The College will place greater emphasis on the year-end financial reporting process. Year-end procedures will be implemented to ensure the accuracy of financial statements and related information. The College will also ensure that a detailed review of financial statements and supporting documentation be performed by a knowledgeable individual or group of individuals, other than the preparer. The College has contacted a consultant who has agreed to assist the Controller in additional training on financial reporting and the year-end process. The Controller will also attend any additional trainings (workshops, classes, webinars, etc.) related to the financial reporting process.

ORDERING INFORMATION

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State of North Carolina
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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 500 audit hours at an approximate cost of $49,500.

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NC OSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Martin Community College

We have completed a financial statement audit of Martin Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Martin Community College
Williamston, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Martin Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Martin Community College, and its discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, Martin Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2016 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Martin Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2015, and June 30, 2014. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

Martin Community College's discussion and analysis provides a summary of the College's financial statements and a comparison of prior year information. This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis for – Public Colleges and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all college activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various college services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

The Statement of Net Position is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources with capital assets. The Statement of Net Position includes all assets, liabilities, and deferred inflows and outflows of resources. Over time, increases or decreases in net position are indicators of the improvement or erosion of the College's financial health.

The Statement of Revenues, Expenses, and Changes in Net Position focuses on both the gross costs, and the net costs of college activities which are supported by state, local, federal, and other revenues. This statement presents the revenues earned, and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on state aid and gifts could result in operating deficits because the financial reporting model classifies state and local appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Statement of Cash Flows.

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

Financial Analysis of Statement of Net Position

The following condensed Statement of Net Position compares the current year information with the prior year and indicates the monetary and percentage increase or decrease between years.

Condensed Statement of Net Position
(in thousands)

	2015	2014 (as restated)	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,998.28	$ 2,487.52	$ 510.76	21%
Capital Assets	7,343.73	7,055.22	288.51	4%
Other Assets	770.73	981.43	(210.70)	-21%
Total Assets	11,112.74	10,524.17	588.57	6%
Deferred Outflows	280.02	272.71	7.31	3%
Liabilities				
Current Liabilities	722.87	233.48	489.39	210%
Long-Term Liabilities	510.57	1,519.91	(1,009.34)	-66%
Total Liabilities	1,233.44	1,753.39	(519.95)	-30%
Deferred Inflows	883.87		883.87	
Net Position				
Invested in Capital Assets	7,343.73	7,055.22	288.51	4%
Restricted	548.42	1,132.13	(583.71)	-52%
Unrestricted	1,383.30	856.14	527.16	62%
Total Net Position	$ 9,275.45	$ 9,043.49	$ 231.96	3%

As of June 30, 2015, the College's total assets were $11.11 million. This is an overall increase of 6% from the previous fiscal year. Current assets increased by 21%. The increase in current assets was mostly due to a $540.68 thousand increase in current cash and cash equivalents. Current restricted cash increased due to $265.00 thousand received from the Golden Leaf Grant and $336.40 thousand in funds related to current liabilities for purchases at year end, while current unrestricted cash decreased by $74.16 thousand due to a loss in the Campus Cafe.

Capital assets increased by $288.51 thousand due to machinery and equipment purchases of $651.90 thousand made during the year to update and refurbish several program areas. The increase in capital assets was offset by increases in depreciation of $358.79 thousand.

Other assets decreased by $210.70 thousand. The decrease was mainly due to noncurrent restricted cash. Noncurrent restricted cash decreased by $194.02 thousand due to equipment purchases.

The current liabilities caption represents the College's accounts payable and current portion of compensated absences. Current liabilities caption increased by $489.39 thousand which was attributed to a $464.40 thousand increase in vendor payables from the prior year which was largely related to increased spending in the latter months of the fiscal year and a $32.89 thousand increase in the current portion of compensated absences resulting from increased employee payouts due to retirements and vacated positions. The long-term

liabilities caption represents the College's compensated absences, which is the noncurrent, unused portion of earned vacation leave and special annual leave bonuses. In 2015 the long-term liabilities decreased by $1.01 million due to employee payouts as discussed above and a reduction of the Net Pension Liability amount required by GASB 68. The College has no other sources of long-term debt.

The largest of the College's net position, $7.34 million, are reflected in invested in capital assets (land, construction in progress, buildings, machinery and equipment, and general infrastructure). Unrestricted net position increased 62% primarily due to an increase in cash balances as discussed above.

Financial Analysis of Statement of Revenues, Expenses, and Changes in Net Position

Revenues

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position and compares the College's revenues for the 2015 and 2014 fiscal years.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(in thousands)

	2015	2014*	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 476.61	$ 432.72	$ 43.89	10%
Sales and Services, Net	246.57	213.74	32.83	15%
Other Operating Revenues	24.75	17.30	7.45	43%
Total Operating Revenues	747.93	663.76	84.17	13%
Less Operating Expenses	9,592.37	8,662.62	929.75	11%
Operating Loss	(8,844.44)	(7,998.86)	(845.58)	11%
Nonoperating and Other Revenues				
State Aid	5,800.23	4,363.76	1,436.47	33%
County Appropriations	978.07	983.01	(4.94)	-1%
Noncapital Grants-Fed Student Financial Aid	1,248.20	1,725.57	(477.37)	-28%
Noncapital Grants	567.15	351.09	216.06	62%
Other Nonoperating Revenues	26.90	25.70	1.20	5%
Additions to Endowments		8.80	(8.80)	100%
Capital Aid and Grants	459.94	435.07	24.87	6%
Total Nonoperating and Other Revenues	9,080.49	7,893.00	1,187.49	15%
Less Nonoperating Expenses	4.09		4.09	
Change in Net Position	231.96	(105.86)	337.82	-319%
Net Position - Beginning of Year	9,043.49	10,175.84	(1,132.35)	-11%
Less: Restatement		1,026.49	1,026.49	100%
Net Position - End of Year	$ 9,275.45	$ 9,043.49	$ 231.96	3%

Fiscal year 2014-2015 total revenues are $9,828,425.09 and total expenses are $9,596,464.34
Fiscal year 2013-2014 total revenues are $8,556,762.13 and total expenses are $8,662,623.26

* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

Overall, total operating revenues increased by $84.17 thousand. Student tuition and fees increased by $43.89 thousand due to an increase in the tuition rate while sales and services increased by $32.83 thousand. The increase in bookstore sales is due to an increase in the costs of books.

Nonoperating and other revenues increased by approximately $1.19 million. State aid increased by $1.44 million last year while county appropriations decreased by $4.94 thousand. Noncapital grants-federal financial aid decreased by $477.37 thousand due to a decline in enrollment. Noncapital grants increased by $216.06 thousand due primarily to a newly acquired Golden LEAF grant.

The College is a state supported college that provides subsidized educational services to the citizens of its service area. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by state and county appropriations, federal financial aid grants and other nonoperating revenues. The College receives appropriations from the State and from Martin, Bertie, and Washington counties. State aid provides funds for the operational and administrative needs of the College based on the number of student Full Time Equivalents (FTE) from the previous year's enrollment. Martin, Bertie, and Washington counties provide funds for the operation and maintenance of the facilities in the respective counties. In upcoming years revenues from Washington County will no longer be a factor because Martin Community College will no longer have centers in the county. These revenues are instrumental to the College's mission and operations; however, these revenues are considered nonoperating for financial reporting purposes in accordance with GASB guidelines.

Expenses

The following chart was prepared from the College's Statement of Revenues, Expenses, and Changes in Net Position and compares the College's operating expenses for the 2015 and 2014 fiscal years.

Operating Expenses
(in thousands)

	2015	2014	Increase (Decrease)
Operating Expenses			
Salaries and Benefits	$ 5,179.37	$ 5,257.43	$ (78.06)
Supplies and Materials	1,981.48	1,117.71	863.77
Services	1,164.82	836.17	328.65
Scholarships and Fellowships	627.08	815.94	(188.86)
Utilities	280.83	289.46	(8.63)
Depreciation	358.79	345.91	12.88
Total Operating Expenses	$ 9,592.37	$ 8,662.62	$ 929.75

Total operating expenses were increased by $929.75 thousand from the previous fiscal year. Salaries and benefits decreased by $78.06 thousand due to positions which were vacant for the majority of the year. Supplies and materials increased by $863.77 thousand which can be attributed to the increased spending of the last quarter of the fiscal year. Services increased by $328.65 thousand largely due to several campus repair and renovation projects during

the year such as painting, replacing tile on floors, and replacing lights with more efficient LED lighting. Scholarships and fellowships expense had a $188.86 thousand decrease due to a decline in enrollment.

Financial Analysis of Capital Assets

At the end of fiscal year 2015, capital assets totaled $7.34 million, net of accumulated depreciation, as presented in the following table.

Capital Assets
(in thousands)

	2015	2014	Increase (Decrease)	Percent Change
Land	$ 166.28	$ 166.28	$ 0.00	0%
Construction in Progress	95.00	95.00		0%
Buildings	4,255.61	4,444.99	(189.38)	-4%
Machinery and Equipment	1,345.67	810.61	535.06	66%
General Infrastructure	1,481.17	1,538.34	(57.17)	-4%
Total Capital Assets, Net	$ 7,343.73	$ 7,055.22	$ 288.51	4%

Overall, capital assets increased by $288.51 thousand. The 4% increase in capital assets resulted from annual depreciation expense of $358.79 thousand, offset by machinery and equipment capital additions of $651.90 thousand, and disposals of $55.78 thousand.

Economic Forecast

Martin Community College's mission is to provide quality, affordable, and accessible learner-centered educational programs and services to citizens in the communities it serves. Inherent in its mission is the commitment to: (a) providing quality educational and training programs that lead to a marketable credential and/or provide a pathway to a university program of study, (b) actively participating as a partner in economic development, and (c) providing education and training for existing and new businesses and industries. The College is confident that it will continue to provide the services and programs that will ensure that it remains true to its mission in spite of societal and economic issues that impact critical resources.

The College's service area includes Martin County, specific geographic areas of Bertie County and specific programs and services in Washington County. Going forward the College will no longer provide services in Washington County. The State legislature has given that service area to Beaufort County Community College.

Martin Community College provides educational opportunities, including Career and College Promise, for high school students in Martin and Bertie County and collaborates in an Early College program at Bertie High School. The College also provides educational opportunities for private and charter schools in its service area. The College also provides educational programs at the Bertie Correctional Institute (BCI).

Beginning in the 2015-16 fiscal year the College anticipates beginning Bertie County welding classes at night in the building previously occupied by Bertie High School before the new

high school was constructed. The plan is to also look at offering HVAC and auto repair at that facility in the future.

A great deal of effort has been made this year to revitalize the automotive technology program on the College's campus. The Basic Law Enforcement Training program (BLET) has been restarted with state-of-the-art equipment and upgraded facilities as well. Fire and EMS programs are a main focus of the school and are being equipped to offer the best and most up to date instruction in the area.

The College continues to benefit from funding from the Bill and Melinda Gates Foundation for its Completion by Design initiative (CBD).

Political rhetoric, economic reports, and economic forecast suggest that the country may have experienced the "worst of the recession." However, the unemployment rate for the College's service area continues to be higher than the unemployment rate for the state. The College, like many, if not most, community colleges in the state and/or the nation, recognizes that resources are diminishing because of the economic situation. It also recognizes that the national trend shows a decline in community college enrollment. As discussed above, the College anticipates some growth in enrollment with a corresponding increase in budgeted FTE. In spite of its optimism, the College understands that it must continue to be prudent with scarce resources and must remain true to its mission even if fewer funds are available. The rescission of the state salary freeze will have a positive effect on the College's ability to attract and retain good employees. The College recognizes and appreciates its outstanding faculty and staff. Several key open positions were filled during this academic year and more are being targeted to be filled in the upcoming year.

FINANCIAL STATEMENTS

Martin Community College
Statement of Net Position
June 30, 2015

Exhibit A-1
Page 1 of 2

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,894,207.77
Restricted Cash and Cash Equivalents	823,931.44
Receivables, Net (Note 4)	119,336.32
Inventories	160,806.50
Total Current Assets	2,998,282.03
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	486,668.98
Restricted Due from Primary Government	284,062.00
Capital Assets - Nondepreciable (Note 5)	261,280.00
Capital Assets - Depreciable, Net (Note 5)	7,082,447.24
Total Noncurrent Assets	8,114,458.22
Total Assets	11,112,740.25
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	280,024.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	673,613.25
Unearned Revenue	10,800.85
Long-Term Liabilities - Current Portion (Note 7)	38,461.31
Total Current Liabilities	722,875.41
Noncurrent Liabilities:	
Funds Held for Others	12,421.38
Long-Term Liabilities (Note 7)	498,150.35
Total Noncurrent Liabilities	510,571.73
Total Liabilities	1,233,447.14
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	883,868.00

Martin Community College
Statement of Net Position
June 30, 2015

NET POSITION	
Investment in Capital Assets	7,343,727.24
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	61,248.76
Expendable:	
Scholarships and Fellowships	75,683.99
Loans	74,003.67
Restricted for Specific Programs	265,000.00
Other	72,488.93
Unrestricted	1,383,296.52
Total Net Position	$ 9,275,449.11

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

Martin Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	476,612.78
Sales and Services, Net (Note 9)		246,572.95
Other Operating Revenues		24,750.28
Total Operating Revenues		747,936.01
EXPENSES		
Operating Expenses:		
Salaries and Benefits		5,179,369.80
Supplies and Materials		1,981,477.34
Services		1,164,823.37
Scholarships and Fellowships		627,075.11
Utilities		280,834.63
Depreciation		358,791.68
Total Operating Expenses		9,592,371.93
Operating Loss		(8,844,435.92)
NONOPERATING REVENUES (EXPENSES)		
State Aid		5,800,225.18
County Appropriations		978,066.00
Noncapital Grants - Student Financial Aid		1,248,202.43
Noncapital Grants		567,152.52
Noncapital Gifts		2,575.00
Investment Income		24,324.07
Other Nonoperating Expenses		(4,092.41)
Net Nonoperating Revenues		8,616,452.79
Loss Before Other Revenues		(227,983.13)
State Capital Aid		222,305.46
County Capital Aid		187,200.00
Capital Grants		50,438.42
Increase in Net Position		231,960.75
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 15)		9,043,488.36
Net Position, June 30, 2015	$	9,275,449.11

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

Martin Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 749,995.76
Payments to Employees and Fringe Benefits	(5,284,968.49)
Payments to Vendors and Suppliers	(2,932,577.88)
Payments for Scholarships and Fellowships	(627,075.11)
Other Payments	(3,980.72)
Net Cash Used by Operating Activities	(8,098,606.44)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	5,800,225.18
County Appropriations	978,066.00
Noncapital Grants - Student Financial Aid	1,248,202.43
Noncapital Grants	567,152.52
Noncapital Gifts	2,575.00
Cash Provided by Noncapital Financing Activities	8,596,221.13
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	238,985.46
County Capital Aid	187,200.00
Capital Grants	50,438.42
Acquisition of Capital Assets	(651,898.25)
Net Cash Used by Capital and Related Financing Activities	(175,274.37)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	24,324.07
Cash Provided by Investing Activities	24,324.07
Net Increase in Cash and Cash Equivalents	346,664.39
Cash and Cash Equivalents, July 1, 2014	2,858,143.80
Cash and Cash Equivalents, June 30, 2015	$ 3,204,808.19

Martin Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(8,844,435.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		358,791.68
Pension Expense		95,149.00
Nonoperating Other Income		502.28
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		969.52
Inventories		28,954.43
Accounts Payable and Accrued Liabilities		498,493.16
Unearned Revenue		1,090.23
Funds Held for Others		(4,483.00)
Deferred Outflows - Contributions After the Measurement Date		(280,024.00)
Compensated Absences		46,386.18
Net Cash Used by Operating Activities	$	(8,098,606.44)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,894,207.77
Restricted Cash and Cash Equivalents		823,931.44
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		486,668.98
Total Cash and Cash Equivalents - June 30, 2015	$	3,204,808.19

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	$	(4,594.69)

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

Martin Community College Foundation, Inc.
Statement of Financial Position
June 30, 2015 — *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	232,805.96
Prepaid Expenses		915.00
Property and Equipment, Net		189,656.57
Total Assets		423,377.53
LIABILITIES		
Accounts Payable and Accrued Expenses		4,466.19
Total Liabilities		4,466.19
NET ASSETS		
Unrestricted		418,911.34
Total Net Assets	$	418,911.34

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

Martin Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Exhibit B-2

PUBLIC SUPPORT REVENUES	**Unrestricted**
Support	
Cash Contributions	$ 400.00
In Kind Contributions - Horses	4,999.00
Revenue	0.00
Investment Income	754.52
Fundraising Income	54,060.00
Total Unrestricted Revenues and Gains	60,213.52
EXPENSES	
Contributions to Martin Community College for Scholarships	1,169.00
Administration	71,848.81
Fundraising Expenses	42,376.10
Total Expenses	115,393.91
Loss on Disposal of Assets	20,759.71
Total Expenses and Losses	136,153.62
Decrease in Unrestricted Net Assets	(75,940.10)
Decrease in Net Assets	(75,940.10)
Net Assets at Beginning of Year	494,851.44
Net Assets at End of Year	$ 418,911.34

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. Martin Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Discretely Presented Component Unit – Martin Community College Foundation, Inc. (Foundation) is a legally separate, tax-exempt, 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 fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of eleven 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 is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed $1,169.00 to the College for restricted purposes. Complete financial statements for the Foundation can be obtained from Martin Community College Foundation, Inc., 1161 Kehukee Park Road, Williamston, NC 27892.

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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, savings accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **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, are valued at cost using last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. 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:

Asset Class	Estimated Useful Life
Buildings	50-100 years
Machinery & Equipment	5-30 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. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences payable 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 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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 and inflows of resources.

L. **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.

M. 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.

N. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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 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 or savings and loan association 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 $903.00, and deposits in private financial institutions with a carrying value of $60,540.85 and a bank balance of $100,064.02.

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, 2015, 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, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $3,143,364.34 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 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2015, net appreciation of $12,028.58 was available to be spent, all of which was restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 108,446.37	$ 64,833.49	$ 43,612.88
Student Sponsors	4,485.03		4,485.03
Accounts	71,238.41		71,238.41
Total Current Receivables	$ 184,169.81	$ 64,833.49	$ 119,336.32

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 166,280.00	$ 0.00	$ 0.00	$ 166,280.00
Construction in Progress	95,000.00			95,000.00
Total Capital Assets, Nondepreciable	261,280.00			261,280.00
Capital Assets, Depreciable:				
Buildings	8,795,318.05			8,795,318.05
Machinery and Equipment	1,883,644.27	651,898.25	55,776.36	2,479,766.16
General Infrastructure	2,054,793.03			2,054,793.03
Total Capital Assets, Depreciable	12,733,755.35	651,898.25	55,776.36	13,329,877.24
Less Accumulated Depreciation for:				
Buildings	4,350,329.72	189,375.12		4,539,704.84
Machinery and Equipment	1,073,034.37	112,245.92	51,181.67	1,134,098.62
General Infrastructure	516,455.90	57,170.64		573,626.54
Total Accumulated Depreciation	5,939,819.99	358,791.68	51,181.67	6,247,430.00
Total Capital Assets, Depreciable, Net	6,793,935.36	293,106.57	4,594.69	7,082,447.24
Capital Assets, Net	$ 7,055,215.36	$ 293,106.57	$ 4,594.69	$ 7,343,727.24

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 517,271.21
Accrued Payroll	152,635.23
Other	3,706.81
Total Current Accounts Payable and Accrued Liabilities	$ 673,613.25

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 1,299,198.00	$ 0.00	$ 1,061,431.00	$ 237,767.00	$ 0.00
Compensated Absences	252,458.48	240,572.41	194,186.23	298,844.66	38,461.31
Total Long-Term Liabilities	$ 1,551,656.48	$ 240,572.41	$ 1,255,617.23	$ 536,611.66	$ 38,461.31

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

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 14,614.56
2017	14,614.56
2018	14,614.56
2019	14,614.56
2020	14,614.56
Total Minimum Lease Payments	$ 73,072.80

Rental expense for all operating leases during the year was $8,221.44.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 925,775.39	$ 0.00	$ 434,540.55	$ 14,622.06	$ 476,612.78
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 424,355.10	$ 2,682.97	$ 253,825.70	$ 0.00	167,846.43
Café	55,375.37				55,375.37
Independent Operations	23,351.15				23,351.15
Total Sales and Services	$ 503,081.62	$ 2,682.97	$ 253,825.70	$ 0.00	$ 246,572.95

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 2,694,179.99	$ 1,299,365.49	$ 335,559.88	$ 4,780.00	$ 21,414.44	$ 0.00	$ 4,355,299.80
Academic Support	488,896.72	43,848.67	13,848.55				546,593.94
Student Services	292,083.96	21,041.48	77,140.90	16,190.00			406,456.34
Institutional Support	1,143,534.44	168,725.54	448,794.90				1,761,054.88
Operations and Maintenance of Plant	268,925.55	75,516.41	233,488.97		259,248.19		837,179.12
Student Financial Aid	68,933.87	466.44	43,532.20	606,105.11			719,037.62
Auxiliary Enterprises	127,666.27	372,513.31	12,457.97		172.00		512,809.55
Depreciation						358,791.68	358,791.68
Pension Expense	95,149.00						95,149.00
Total Operating Expenses	$ 5,179,369.80	$ 1,981,477.34	$ 1,164,823.37	$ 627,075.11	$ 280,834.63	$ 358,791.68	$ 9,592,371.93

NOTE 11 - PENSION PLAN

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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $280,024.27, and employee contributions were $183,622.47 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina

Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $237,767.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was 0.02028%, which was a decrease of 5.23% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 1,706,856.00	$ $237,767.00	$ ($1,002,665.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $95,149.00. At June 30, 2015, 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	$ 0.00	$ 55,422.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		803,328.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		25,118.00
Contributions Subsequent to the Measurement Date	280,024.00	
Total	$ 280,024.00	$ 883,868.00

The amount of $280,024.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows

of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (222,082.00)
2017	(222,082.00)
2018	(222,082.00)
2019	(217,622.00)
Total	$ (883,868.00)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $168,014.56, $169,527.01, and $169,160.17, respectively. The

College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $12,547.54, $13,813.31, and $14,043.49, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The

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

B. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Losses from county and institutional funds paid employees are covered by a separate policy with a private insurance company.

4. Statewide Workers' Compensation Program

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

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on construction contracts and outstanding commitments on other purchases were $876,519.88 at June 30, 2015.

NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 10,069,974.36
Restatements:	
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements	(1,026,486.00)
July 1, 2014 Net Position as Restated	$ 9,043,488.36

REQUIRED SUPPLEMENTARY INFORMATION

Martin Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years *Exhibit C-1*

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.02028%	0.02140%
Proportionate Share of TSERS Collective Net Pension Liability	$ 237,767.00	$ 1,299,198.07
Covered-Employee Payroll	$ 3,139,389.03	$ 3,191,701.31
Net Pension Liability as a Percentage of Covered-Employee Payroll	7.57%	40.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

Martin Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 280,024.27	$ 272,812.91	$ 265,868.72	$ 236,058.87	$ 153,375.28
Contributions in Relation to the Contractually Determined Contribution	280,024.27	272,812.91	265,868.72	236,058.87	153,375.28
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 3,060,374.54	$ 3,139,389.03	$ 3,191,701.31	$ 3,172,834.22	$ 3,111,060.46
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 117,873.72	$ 124,380.54	$ 105,579.34	$ 80,400.10	$ 65,270.47
Contributions in Relation to the Contractually Determined Contribution	117,873.72	124,380.54	105,579.34	80,400.10	65,270.47
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 3,301,784.81	$ 3,701,801.71	$ 3,461,617.75	$ 3,022,560.15	$ 2,789,336.26
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Martin Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase								
2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT 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
Martin Community College
Williamston, 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 Martin Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 20, 2016. Our report includes a reference to other auditors who audited the financial statements of Martin Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Martin Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Martin Community College Foundation, Inc.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Audit Findings and Responses section to be material weaknesses.

Compliance and Other Matters

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

College's Response to Findings

The College's responses to the findings identified in our audit are described in the accompanying Audit Findings and Responses section. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Beth A. Wood, CPA
State Auditor

May 20, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control.

1. FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS

The financial statements and related notes prepared by the College and submitted for audit contained significant misstatements that were identified and corrected as a result of our audit as follows:

- Numerous year end entries necessary for proper classification of cash and net position were either not prepared or prepared incorrectly.
- Entry to record decreases in accumulated depreciation for machinery and equipment disposals was prepared incorrectly.
- Operating revenue was overstated due to improperly reporting noncapital grants.

The College did not ensure that controls over financial reporting were designed and implemented to prevent significant misstatements from occurring. The following misstatements resulted from the College's ineffective controls over financial reporting:

Account	Overstated / (Understated)	Percentage *
Current Restricted Cash	$ (103,562.50)	12.57%
Noncurrent Restricted Cash	103,562.50	21.28%
Restricted Nonexpendable - Other	61,248.76	100%
Restricted Nonexpendable - Scholarships and Fellowships	(61,248.76)	100%
Restricted Expendable - Other	301,713.86	416.22%
Unrestricted	31,603.19	2.28%
Restricted Expendable - Scholarships and Fellowships	(68,317.05)	90.27%
Restricted Expendable - Specific Programs	(265,000.00)	100%
Accumulated Depreciation for Machinery and Equipment	51,181.67	4.51%
Supplies and Materials	55,776.36	2.81%
Other Nonoperating Expenses	(4,594.69)	100%
Federal Grants and Contracts Revenue - Operating	29,292.82	100%
State and Local Grants and Contracts Revenue - Operating	92,587.00	100%
Noncapital Grants - Federal Student Financial Aid Revenue	(29,292.82)	2.35%
Noncapital Grants Revenue	(92,587.00)	16.32%

* Percentage of the overstatement or understatement to the final audited account balance.

Without these error corrections, users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance and operating results.

According to the College, the misstatements and errors in financial reporting occurred and were not detected and corrected, in part because:

- The College had significant turnover of employees involved with the financial reporting process during the year.
- The College did not have adequate staffing levels to perform the year-end financial reporting, as well as, the day-to-day accounting operations.
- The College did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States.

Further, best practices require management to periodically review and analyze financial information. The Government Accountability Office (GAO) recommends that senior management should regularly review actual performance against prior period results. The GAO also recommends that "financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results."[1]

Recommendation:

The College should ensure that appropriate and adequate resources are provided to ensure:

- Staffing levels are adequate to perform year-end financial reporting, and
- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting.

College Response:

During the 2014-15 Academic Year, the Finance area experienced unprecedented turnover. Two (2) staff members left during the last quarter of 2014, one at the end of October and one at the end of December. The College hired three (3) new staff members to replace those two, one in November 2014, one in January 2015, and one in March 2015. In a small rural college, recruiting and hiring experienced staff members in a short period is a challenge.

In addition to the turnover, a couple of the staff members had serious medical issues that needed attention. Absenteeism and related factors affected the workflow, impeded training of new staff, and increased frustrations. One of the former employees did work part-time for a couple of months to assist with financials during this time. We believe turnover and absenteeism will not be a factor in the coming year.

[1] Government Accountability Office, Internal Control Management and Evaluation Tool, 2001

The College recognizes that current staff need more training and is in the process of identifying an individual or individuals with experience in the NCCCS financial database and the necessary accounting expertise to assist staff with reconciling bank statements, reviewing financial statements and records, assessing training needs, and training staff members as needed.

The Dean of Administrative Services/CFO and the Business Services Director will develop and implement a year-end plan. If needed, a consultant may assist in developing the plan and providing guidance and direction. The Dean/CFO will submit the plan to the President for approval.

2. DEFICIENT CASH MANAGEMENT PRACTICES RESULTED IN INACCURATE REPORTING OF CASH

The College did not ensure that controls over cash management were being implemented as designed, during significant staff turnover in the business office, to prevent the inaccurate reporting of cash. As a result, the College's cash balance was overstated.

The following misstatements resulted from the College's ineffective controls over cash management:

Account	Overstated / (Understated)	Percentage *
Current Unrestricted Cash	$ 97,775.00	5.16%
Services	(97,775.00)	8.39%
Unrestricted Net Position	97,775.00	7.07%

* Percentage of the overstatement or understatement to the final audited account balance.

Failure to implement effective processes and procedures over cash management could increase the risks of fraud, mismanagement of funds, and misstatements in the financial statements.

The error in cash management occurred and was not detected and corrected by the College, in part because:

- The College did not review the daily bank deposits from December 2015 through the end of the fiscal year, June 2015.
- The College did not review monthly bank reconciliations from November 2014 through March 2015.
- The College did not prepare monthly bank reconciliations for the months of April, May, and June 2015.
- The College did not have adequate staffing levels to perform day-to-day cash management operations during times of employee turnover, which was significant during the year.

The College's management is responsible for the design, implementation, and maintenance of internal control. Additionally, the Committee of Sponsoring Organizations (COSO) *Internal Control – Integrated Framework*[2] states that when selecting and developing control activities it is important to understand what a particular control is designed to accomplish (i.e., the specific risk response the control addresses) and whether it has been developed and implemented as designed to mitigate the risk.

Further, the Government Accountability Office (GAO)[3] recommends that management identify the actions and control activities needed to address the risks and directed their implementation.

Recommendation:

The College should ensure that appropriate and adequate controls over cash management are in place to decrease the risks of fraud, mismanagement of funds and misstatements in the financial statements. The College's controls should include:

- A review of daily bank deposits.
- A prepared monthly bank reconciliation that is reviewed and approved by management.
- Adequate staffing levels to perform day-to-day cash management operations.

College Response:

The Dean/CFO, will address the factors cited in the audit and will develop a plan or strategy to ensure that the College has adequate and appropriate controls over cash management and to ensure that bank deposits are reviewed daily and bank statements are reconciled monthly. The Dean/CFO will review the daily bank deposits and the monthly bank reconciliations and forward them to the President by the 20th of the month.

The College is in the process of hiring a consultant to assist in reconciling bank statements and training the Business Services staff and/or other appropriate staff members. We anticipate having all bank statements reconciled by July 31, 2016.

[2] Committee of Sponsoring Organizations, Internal Control – Integrated Framework, May 2013
[3] Government Accountability Office, Internal Control Management and Evaluation Tool, 2001

ORDERING INFORMATION

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20601 Mail Service Center
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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 345 audit hours at an approximate cost of $34,155.

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NC OSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
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http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Mitchell Community College

We have completed a financial statement audit of Mitchell Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mitchell Community College
Statesville, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Mitchell Community College Endowment for Excellence, which represent 29 percent, 32 percent, and 2 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Mitchell Community College Endowment for Excellence, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Mitchell Community College Endowment for Excellence were not audited in accordance with *Government Auditing Standards.*

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

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

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell Community College, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2015, Mitchell Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2016 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Mitchell Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2015. Please read it in conjunction with the financial statements and notes to the financial statements.

Public colleges and universities are required to include the management's discussion and analysis as a supplement to the financial statements. This section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The discussion and analysis is required to include condensed financial information comparing the current year to the prior year.

Institutional Financial Highlights

Mitchell Community College's state aid increased slightly from the prior year by $27,727.03 or 0.2%, while state capital aid had a minimal decrease of $18,561.54 or 2.5% from the prior year.

Iredell County's financial situation appears to be stable. As a result, the College's county appropriations for current operations and county capital aid totaled $3,922,629.00 for fiscal year 2015, which represented an increase of $165,899.00 or 4.4% from the previous year.

Noncapital grants - federal student financial aid decreased from the prior fiscal year by $838,966.58 or 13.5%, while investment income of $424,291.66 for fiscal year 2015 decreased by $1,980,905.07 or 82.4% from the previous year.

Salaries and benefits expense decreased from the prior year by $1,097,560.89 or 6.1%, as well as scholarships and fellowships expense which decreased $492,469.40 or 14.7%.

The College's change in net position decreased from the prior year's change mainly as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources of $1,007,125.00, deferred inflows of resources of $3,293,004.00, and expenses for the College's defined pension plan that is administered through a trust. Mitchell Community College had a restatement of beginning net position totaling $3,816,073.00. Prior amounts on the condensed Statement of Net Position have been restated for consideration of GASB 68. Refer to Notes 11 and 16 of the notes to the financial statements for details.

Overview of the Financial Statements

This discussion and analysis is an introduction to the College's basic financial statements. The three basic financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, which provide information on the whole operations of the College. For the fiscal year ended June 30, 2015 additional required supplementary information was provided related to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This additional information includes the Schedule of the Proportionate Net Pension Liability, Teachers' and State Employees' Retirement System, Last Two Fiscal Years; the Schedule of College Contributions, Teachers' and State Employees' Retirement System, Last Ten Fiscal Years; and notes for the Schedule of College Contributions, Teachers' and State Employees' Retirement System, for the Fiscal Year Ended June 30, 2015.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the institution as a whole and on its activities. These statements help the users analyze the current year's operations to determine if the institution is better or worse off than the prior year. When revenues and other support exceed expenses, the result is an increase in net position. When expenses exceed revenues and support, the result is a decrease in net position. The Statement of Cash Flows is prepared using the direct method. This statement reports the net change in cash resulting from operating, investing, and financing activities.

The College's net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources and is one measure of the institution's financial health. Over a period of time, increases or decreases in the College's net position are one of several indicators that determine if its financial situation is improving or deteriorating. The user will need to take into account other financial and nonfinancial factors to assess the complete health of the College. The age and condition of its buildings and grounds is one nonfinancial factor that could have an impact on the total health of the institution.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position use the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Revenues and expenses during the current year are taken into account regardless of when cash is received or paid. For the purpose of this continued discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Net Position

Net position serves as a useful indicator of the College's financial position. In the case of Mitchell Community College, net position increased by $698,953.57. Significant differences reported on the Statement of Net Position were mainly the result of the new pension accounting standard.

For the fiscal year 2015, the total assets of the College decreased $152,311.74, or 0.3% from the previous year. This change was mainly due to a modest increase in current assets of $136,565.02, offset by a decrease of $288,876.76 in noncurrent assets. The decrease in noncurrent assets was mainly due to a decrease in investments totaling $395,713.96 and a decrease in capital assets of $229,199.68. These decreases were offset by an increase in noncurrent restricted cash of $419,785.88. The downturn in the global financial markets was the main reason for the decrease in investments, while the decrease in capital assets was attributed to the annual depreciation on the College's depreciable capital assets. The increase in noncurrent restricted cash for fiscal year 2015 was mainly attributed to the reclassification of cash to noncurrent to cover interfund borrowing for cash deficits as well as a reduction in current plant liabilities from the prior year; thus, requiring less cash to be reclassified out of noncurrent at year-end.

Deferred outflows related to pensions represent contributions subsequent to the measurement date and appear for the first time this year as a result of the College's implementation of the new GASB 68 pension reporting standard. The pension liability calculation lags financial reporting by one year. As a result of the lag, recognition of the cash contribution is deferred. The deferred outflows totaled $1,007,125.00 for fiscal year 2015 compared to the restated amount of $937,535.00 from the previous year, resulting in an increase of $69,590.00 for the year.

Current Liabilities decreased by $270,632.23 and were made up of accounts payable, accrued payroll, unearned revenue, funds due to the primary government, funds held for others, and the current portion of compensated absences. All of these liabilities declined from the previous year's liabilities, with the exception of compensated absences that increased slightly by a total of $25,270.91. One of the key contributors to the decline in current liabilities resulted from fewer classes being offered in continuing education for the summer, resulting in lower accrued wages and unearned revenue for the year.

Compensated absences normally makes up the balance in noncurrent liabilities, but a net pension liability is now included in this category due to the implementation of GASB 68. The 2013-2014 noncurrent liabilities were restated to include a $4,753,608.00 net pension liability, which is the primary reason for the decrease of $3,804,047.08 in this account for fiscal year 2015.

Deferred inflows related to pensions reports the cumulative difference between expected performance and actual performance. Cumulative differences between expected and actual pension plan investment returns total $211,550.00. The cumulative difference between projected and actual pension plan investment returns total $3,066,351.00. The change in proportion and differences between the agency's contribution and proportionate share of contribution total $15,103.00. The total deferred inflows related to pensions as reported by the College for fiscal year 2015 was $3,293,004.00. The deferred inflows will reduce net pension expense over the next four fiscal years.

Condensed Statement of Net Position

	6/30/2015	6/30/2014 (As Restated)	Increase (Decrease)
Assets			
Current Assets	$ 6,460,960.19	$ 6,324,395.17	$ 136,565.02
Other Noncurrent Assets	18,281,580.66	18,341,257.74	(59,677.08)
Noncurrent Capital Assets, Net	26,787,684.36	27,016,884.04	(229,199.68)
Total Assets	51,530,225.21	51,682,536.95	(152,311.74)
Deferred Outflows of Resources	1,007,125.00	937,535.00	69,590.00
Liabilities			
Current Liabilities	1,062,605.74	1,333,237.97	(270,632.23)
Long-Term Liabilities	1,511,273.39	5,315,320.47	(3,804,047.08)
Total Liabilities	2,573,879.13	6,648,558.44	(4,074,679.31)
Deferred Inflows of Resources	3,293,004.00		3,293,004.00
Net Position			
Investment in Capital Assets	26,787,684.36	27,016,884.04	(229,199.68)
Restricted:			
Nonexpendable	2,207,340.76	1,970,542.19	236,798.57
Expendable	3,850,681.36	3,770,132.19	80,549.17
Unrestricted	13,824,760.60	13,213,955.09	610,805.51
Total Net Position	$ 46,670,467.08	$ 45,971,513.51	$ 698,953.57

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of $27,536,557.53 and total expenses of $26,837,603.96, resulting in an overall increase in net position at year-end of $698,953.57, a decrease of $1,155,164.40 from the prior year.

Operating revenues consist of student tuition and fees and sales and services. Student tuition and fees decreased by $264,955.27 mainly due to a decrease in student enrollment for the year, while sales and services decreased slightly by $74,203.40.

Total operating expenses were $1,787,434.66 less than the prior year primarily due to a $1,097,560.89 decrease in salaries and benefits that resulted mainly from pension adjustments related to GASB 68 implementation. In addition, scholarships and fellowships expense declined $492,469.40 primarily due to the decrease in student enrollment previously discussed.

Total nonoperating revenues decreased by $2,629,999.25 at June 30, 2015 or 10.4% over the year ended June 30, 2014 primarily due to decreases in investment income and noncapital grants – federal student financial aid of $1,980,905.07 and $838,966.58, respectively. The decrease in investment income was a result of the global downturn in the financial markets from the credit crisis in Europe. The decrease in noncapital grants – federal student financial aid was attributed primarily to a decrease in the number of full-time equivalent students receiving Pell awards for fiscal year 2015, which resulted in a decrease of $857,979.00 from the previous year. There were also some offsetting increases in nonoperating revenues, with the more significant increases occurring in county appropriations for $156,243.00 and noncapital gifts for $194,530.03. The increase in county appropriations resulted from the stable economic situation of Iredell County that allowed for increased funding to the College over the prior year. The increase in noncapital gifts was mainly attributed to a gift of $200,000.00 for the College's nursing program.

Other revenues consisting mainly of capital contributions and additions to endowments consisted of modest changes from the previous year, with the most significant change occurring in additions to endowments of $73,910.40. This change was due to an increase in endowment contributions for fiscal year 2015.

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

	6/30/2015	6/30/2014*	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 2,355,045.89	$ 2,620,001.16	$ (264,955.27)
Sales and Services, Net	883,267.94	957,471.34	(74,203.40)
Total Operating Revenues	3,238,313.83	3,577,472.50	(339,158.67)
Operating Expenses			
Salaries and Benefits	16,989,337.41	18,086,898.30	(1,097,560.89)
Supplies and Materials	3,066,852.05	3,066,816.39	35.66
Services	2,521,090.17	2,683,700.95	(162,610.78)
Scholarships and Fellowships	2,853,740.27	3,346,209.67	(492,469.40)
Utilities	701,901.25	678,829.65	23,071.60
Depreciation	704,682.81	762,583.66	(57,900.85)
Total Operating Expenses	26,837,603.96	28,625,038.62	(1,787,434.66)
Operating Loss	(23,599,290.13)	(25,047,566.12)	1,448,275.99
Nonoperating Revenues			
State Aid	12,632,452.62	12,604,725.59	27,727.03
County Appropriations	3,091,314.00	2,935,071.00	156,243.00
Noncapital Grants - Federal Student Financial Aid	5,354,810.44	6,193,777.02	(838,966.58)
Noncapital Grants	704,546.90	885,894.79	(181,347.89)
Noncapital Gifts	352,625.29	158,095.26	194,530.03
Investment Income, Net	424,291.66	2,405,196.73	(1,980,905.07)
Other Nonoperating Revenues	9,815.40	17,095.17	(7,279.77)
Total Nonoperating Revenues	22,569,856.31	25,199,855.56	(2,629,999.25)
Income (Loss) Before Other Revenues	(1,029,433.82)	152,289.44	(1,181,723.26)
Other Revenues			
State Capital Aid	712,567.71	731,129.25	(18,561.54)
County Capital Aid	831,315.00	821,659.00	9,656.00
Capital Gifts	27,092.00	65,538.00	(38,446.00)
Additions to Endowments	157,412.68	83,502.28	73,910.40
Increase in Net Position	698,953.57	1,854,117.97	(1,155,164.40)
Net Position, July 1	49,787,586.51	47,933,468.54	1,854,117.97
Restatement	(3,816,073.00)		(3,816,073.00)
Net Position, June 30	$ 46,670,467.08	$ 49,787,586.51	$ (3,117,119.43)

**Note: The year ended June 30, 2014 column is not presented "As Restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Capital Assets

On June 30, 2015, the College's capital assets, net of accumulated depreciation of $10,692,200.38, totaled $26,787,684.36. The significant changes related to capital assets consisted mainly of asset acquisitions and recording the current year's depreciation. This activity resulted in only a slight decrease in the net value of capital assets as a whole totaling $229,199.68. In regards to construction, there were no significant construction costs during the year or outstanding commitments on construction projects at year-end. Refer to Note 5 of the notes to the financial statements for more information about the College's capital assets.

Capital Assets

	6/30/2015	6/30/2014	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	$ 1,376,343.69	$ 1,256,287.80	$ 120,055.89
Construction in Progress		105,990.00	(105,990.00)
Total Capital Assets, Nondepreciable	1,376,343.69	1,362,277.80	14,065.89
Capital Assests, Depreciable, Net			
Buildings	22,021,662.17	22,454,108.31	(432,446.14)
Machinery and Equipment	1,793,460.31	1,568,817.05	224,643.26
General Infrastructure	1,596,218.19	1,631,680.88	(35,462.69)
Total Capital Assets, Depreciable, Net	25,411,340.67	25,654,606.24	(243,265.57)
Total Capital Assets, Net	$ 26,787,684.36	$ 27,016,884.04	$ (229,199.68)

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State and, to a lesser degree, the county. The State of North Carolina continues to experience financial difficulties. The budgetary issues facing the State have in turn affected all state agencies, including community colleges.

The College received its 2014-2015 state budget allocation of $17,165,541.00 for the 2014-2015 fiscal year, which represented a decrease of $270,849.00 or 1.69% from the previous year. The College experienced an enrollment drop of 327 or 11.13% during the 2014-2015 academic year. This drop was as a result of the normalization of the community college enrollment which escalated during the financial crisis from 2009-2012.

The 2014-2015 state allocation reflects this decrease in enrollment, modified slightly by a two-year average formula used by the State and does not reflect an allocation based on actual enrollment. The decrease in overall state funding for the 2014-2015 academic year did include a $1,000.00 increase for full-time employees. In addition, during the 2014-2015 fiscal year, the North Carolina Community College System also requested all community colleges reserve 2% of the current fiscal budget for a possible future reversion. This represented approximately $348,728.00 for Mitchell Community College during 2014–2015, of which only 0.94% or $164,211.00 was called back for reversion. These were funds the College was not able to allocate for current expenses.

The College received county current and county capital appropriations of $3,922,629.00 for the 2014-2015 fiscal year, which represented an increase over the previous year for operations. This amounted to an increase of approximately $165,899.00 or 4.4% from the 2013-2014 fiscal year.

During the fiscal year ended June 30, 2015, the Mitchell Community College Endowment for Excellence, the foundation that provides financial support to the College earned $342,248.75 in investment income, while the college endowments earned $82,042.91. Although this increase in investment value was not as large as it was in the prior year, the funds will still be able to assist with the budget shortfalls caused by the reduced state funding. Mitchell Community College Endowment for Excellence approved a $450,000 allocation to the

College for support of college operations in the 2014-2015 fiscal year and a $300,000 allocation for the 2015-2016 fiscal year.

The future for Mitchell Community College resides with the new relevant programs that are offered to students. This past year the Agribusiness program was launched with an enrollment of eight (8) students. This summer the Agribusiness program is moving from pails of dirt to a one (1) plus acre site next to the College's Workforce Development building creating an urban farm. The farm will serve as an outdoor laboratory for the Agribusiness students plus serve as a resource for the food desert (described as an area absent of fresh farm raised foods) that is present in the community.

FINANCIAL STATEMENTS

Mitchell Community College
Statement of Net Position
June 30, 2015

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 4,316,447.17
Restricted Cash and Cash Equivalents	1,205,582.20
Receivables, Net (Note 4)	335,690.01
Due from State of North Carolina Component Units	28,581.44
Inventories	346,124.63
Prepaid Items	228,534.74
Total Current Assets	6,460,960.19
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,545,358.78
Restricted Due from Primary Government	23,014.49
Restricted Investments	3,405,528.12
Other Investments	13,307,679.27
Capital Assets - Nondepreciable (Note 5)	1,376,343.69
Capital Assets - Depreciable, Net (Note 5)	25,411,340.67
Total Noncurrent Assets	45,069,265.02
Total Assets	51,530,225.21
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	1,007,125.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	722,858.58
Due to Primary Government	120,202.74
Unearned Revenue	88,064.26
Funds Held for Others	30,456.29
Long-Term Liabilities - Current Portion (Note 7)	101,023.87
Total Current Liabilities	1,062,605.74
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	1,511,273.39
Total Liabilities	2,573,879.13
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	3,293,004.00

Mitchell Community College
Statement of Net Position
June 30, 2015

NET POSITION	
Investment in Capital Assets	26,787,684.36
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,155,550.76
Restricted for Specific Programs	51,790.00
Expendable:	
Scholarships and Fellowships	1,066,525.71
Capital Projects	1,124,554.16
Restricted for Specific Programs	1,610,778.87
Other	48,822.62
Unrestricted	13,824,760.60
Total Net Position	$ 46,670,467.08

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

Mitchell Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	2,355,045.89
Sales and Services, Net (Note 9)		883,267.94
Total Operating Revenues		3,238,313.83
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,989,337.41
Supplies and Materials		3,066,852.05
Services		2,521,090.17
Scholarships and Fellowships		2,853,740.27
Utilities		701,901.25
Depreciation		704,682.81
Total Operating Expenses		26,837,603.96
Operating Loss		(23,599,290.13)
NONOPERATING REVENUES		
State Aid		12,632,452.62
County Appropriations		3,091,314.00
Noncapital Grants - Federal Student Financial Aid		5,354,810.44
Noncapital Grants		704,546.90
Noncapital Gifts		352,625.29
Investment Income (Net of Investment Expense of $102,888.81)		424,291.66
Other Nonoperating Revenues		9,815.40
Nonoperating Revenues		22,569,856.31
Loss Before Other Revenues		(1,029,433.82)
State Capital Aid		712,567.71
County Capital Aid		831,315.00
Capital Gifts		27,092.00
Additions to Endowments		157,412.68
Increase in Net Position		698,953.57
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 16)		45,971,513.51
Net Position, June 30, 2015	$	46,670,467.08

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

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,199,628.63
Payments to Employees and Fringe Benefits	(17,564,322.39)
Payments to Vendors and Suppliers	(6,506,206.59)
Payments for Scholarships and Fellowships	(2,853,740.27)
Other Payments	(9,767.33)
Net Cash Used by Operating Activities	(23,734,407.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,632,452.62
County Appropriations	3,091,314.00
Noncapital Grants - Federal Student Financial Aid	5,319,924.02
Noncapital Grants	826,093.49
Noncapital Gifts and Endowments	510,037.97
Cash Provided by Noncapital Financing Activities	22,379,822.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	712,567.71
County Capital Aid	831,315.00
Capital Gifts	27,092.00
Acquisition and Construction of Capital Assets	(477,259.98)
Net Cash Provided by Capital and Related Financing Activities	1,093,714.73
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	3,849,910.21
Investment Income	371,127.17
Purchase of Investments and Related Fees	(3,401,031.76)
Net Cash Provided by Investing Activities	820,005.62
Net Increase in Cash and Cash Equivalents	559,134.50
Cash and Cash Equivalents, July 1, 2014	6,508,253.65
Cash and Cash Equivalents, June 30, 2015	$ 7,067,388.15

Mitchell Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (23,599,290.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	704,682.81
Pension Expense	384,502.00
Nonoperating Other Income	11,592.25
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	11,488.93
Inventories	9,119.73
Prepaid Items	(20,736.23)
Accounts Payable and Accrued Liabilities	(214,196.17)
Due to Primary Government	120,202.74
Dut to State of North Carolina Component Units	(130,376.00)
Unearned Revenue	(50,174.13)
Funds Held for Others	(21,359.58)
Deferred Outflows - Contributions Subsequent to the Measurement Date	(1,007,125.00)
Compensated Absences	67,260.83
Net Cash Used by Operating Activities	$ (23,734,407.95)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 4,316,447.17
Restricted Cash and Cash Equivalents	1,205,582.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,545,358.78
Total Cash and Cash Equivalents - June 30, 2015	$ 7,067,388.15

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$ (373,007.11)
Increase in Receivables Related to Nonoperating Income	34,886.42
Loss on Disposal of Capital Assets	(1,776.85)

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. Mitchell Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Blended Component Unit - Although legally separate, the Mitchell Community College Endowment for Excellence (Endowment) is reported as if it was part of the College. The Endowment is governed by a minimum of 25 elected directors. The Endowment's purpose is to aid, support, and promote the educational endeavors of the College. The elected directors of the Endowment are nominated by the Executive Committee of the Mitchell Community College Endowment for Excellence Board of Directors. Because the majority of the Executive Committee Directors consist of College administrators and board members, and the Endowment's sole purpose is to benefit Mitchell Community College, its financial statements have been blended with those of the College.

During the year ended June 30, 2015, the Endowment distributed $300,000 to the College for unrestricted purposes. Separate financial statements for the Endowment may be obtained from the Office of the Vice President for Finance and Administration of the College at 500 West Broad Street, Statesville, NC 28677, or by calling (704) 878-3202.

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

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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, cash on deposit with fiscal agents, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices. The net increase in the fair value of investments is recognized as a component of investment income.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the retail inventory method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. 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:

Asset Class	Estimated Useful Life
Buildings	15-60 years
Machinery & Equipment	3-30 years
General Infrastructure	15-50 years

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences 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 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

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

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

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

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

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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 and inflows of resources.

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

N. **Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was $3,070.00. The carrying amount of the College's deposits not with the State Treasurer was $2,733,466.65, and the bank balance was $2,542,335.21.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,330,851.50, 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 and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2015, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value	Investment Maturities (in Years) Less than 5
Investment Type		
Debt Securities		
Mutual Bond Funds	$ 2,976,637.00	$ 2,976,637.00
Other Securities		
Domestic Stocks	7,801,576.31	
Foreign Stocks	448,842.84	
Other Mutual Funds	5,469,040.79	
Real Estate Investment Trust	17,110.45	
Total Investments	$ 16,713,207.39	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2015, the College's investments in Mutual Bond Funds with a fair market value of $2,976,637.00 were rated on an average of BBB by multiple rating agencies (including Moody's).

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. The following table presents investments representing more than 5% of the College's investments:

	Fair Value	Percentage of College Investments
Ishares Trust Russell 1000 Growth	$ 2,733,592.52	16%
Janus Flexible Bond Fund	2,003,360.86	12%
Henderson Intl Opportunities Fd Class 1	1,196,431.07	7%
First Eagle Overseas Fd Class 1	1,053,139.58	6%
Wells Fargo Advantage Absolute	1,007,527.93	6%
Blackrock Strategic Income Oppt Port	1,013,351.01	6%
Templeton Global Bond Fund Advisor	973,276.14	6%
Total	$ 9,980,679.11	59%

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The foreign stocks held by the College are traded in currency of the United States, and thus, there is no foreign currency risk for these investments.

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	$ 3,070.00
Carrying Amount of Deposits with Private Financial Institutions	2,733,466.65
Investments in the Short-Term Investment Fund	4,330,851.50
Other Investments	16,713,207.39
Total Deposits and Investments	$ 23,780,595.54
Current:	
Cash and Cash Equivalents	$ 4,316,447.17
Restricted Cash and Cash Equivalents	1,205,582.20
Noncurrent:	
Restricted Cash and Cash Equivalents	1,545,358.78
Restricted Investments	3,405,528.12
Other Investments	13,307,679.27
Total Deposits and Investments	$ 23,780,595.54

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to

meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to no more than 5% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net position endowment balances to make up the difference. At June 30, 2015, net appreciation of $111,162.70 was available to be spent, all of which was classified in net position as restricted expendable for scholarships and fellowships as it is restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 187,396.58	$ 98,667.91	$ 88,728.67
Student Sponsors	31,194.32	14,202.14	16,992.18
Accounts	165,142.74		165,142.74
Intergovernmental	39,801.42		39,801.42
Other	25,025.00		25,025.00
Total Current Receivables	$ 448,560.06	$ 112,870.05	$ 335,690.01

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 1,256,287.80	$ 120,055.89	$ 0.00	$ 1,376,343.69
Construction in Progress	105,990.00		105,990.00	
Total Capital Assets, Nondepreciable	1,362,277.80	120,055.89	105,990.00	1,376,343.69
Capital Assets, Depreciable:				
Buildings	30,383,018.93			30,383,018.93
Machinery and Equipment	3,188,456.15	457,518.02	37,520.74	3,608,453.43
General Infrastructure	2,106,392.62	5,676.07		2,112,068.69
Total Capital Assets, Depreciable	35,677,867.70	463,194.09	37,520.74	36,103,541.05
Less Accumulated Depreciation for:				
Buildings	7,928,910.62	432,446.14		8,361,356.76
Machinery and Equipment	1,619,639.10	231,097.91	35,743.89	1,814,993.12
General Infrastructure	474,711.74	41,138.76		515,850.50
Total Accumulated Depreciation	10,023,261.46	704,682.81	35,743.89	10,692,200.38
Total Capital Assets, Depreciable, Net	25,654,606.24	(241,488.72)	1,776.85	25,411,340.67
Capital Assets, Net	$ 27,016,884.04	$ (121,432.83)	$ 107,766.85	$ 26,787,684.36

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 117,154.82
Accrued Payroll	605,703.76
Total Current Accounts Payable and Accrued Liabilities	$ 722,858.58

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 4,753,608.00	$ 0.00	$ 3,846,037.00	$ 907,571.00	$ 0.00
Compensated Absences	637,465.43	603,702.39	536,441.56	704,726.26	101,023.87
Total Long-Term Liabilities	$ 5,391,073.43	$ 603,702.39	$ 4,382,478.56	$ 1,612,297.26	$ 101,023.87

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

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for rental of property. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 1,574.69
2017	1,574.69
2018	1,574.69
2019	1,574.69
2020	1,574.69
2021-2025	7,873.45
2026-2030	7,873.45
2031-2035	7,873.45
2036-2040	7,873.45
Total Minimum Lease Payments	$ 39,367.25

Rental expense for all operating leases during the year was $51,710.69.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 4,487,809.32	$ 2,070,049.23	$ 62,714.20	$ 2,355,045.89
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,632,118.14	$ 962,619.84	$ 34,111.80	$ 635,386.50
Vending	26,326.52			26,326.52
Rent	150,670.15			150,670.15
Other	70,884.77			70,884.77
Total Sales and Services, Net	$ 1,879,999.58	$ 962,619.84	$ 34,111.80	$ 883,267.94

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,366,296.86	$ 456,099.44	$ 430,701.10	$ 0.00	$ 0.00	$ 0.00	$ 10,253,097.40
Academic Support	1,324,160.80	21,278.96	53,052.26				1,398,492.02
Student Services	1,497,082.15	45,713.73	82,213.62				1,625,009.50
Institutional Support	3,058,222.25	264,087.82	980,638.40				4,302,948.47
Operations and Maintenance of Plant	1,033,558.30	1,003,802.88	890,793.44		701,901.25		3,630,055.87
Student Financial Aid			2,143.00	2,853,740.27			2,855,883.27
Auxiliary Enterprises	325,515.05	1,275,869.22	81,548.35				1,682,932.62
Depreciation						704,682.81	704,682.81
Pension Expense	384,502.00						384,502.00
Total Operating Expenses	$ 16,989,337.41	$ 3,066,852.05	$ 2,521,090.17	$ 2,853,740.27	$ 701,901.25	$ 704,682.81	$ 26,837,603.96

NOTE 11 - PENSION PLAN

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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,007,125.42, and employee contributions were $660,410.11 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $907,571.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was .07741%, which was a decrease of .00089% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 6,515,175.00	$ 907,571.00	$ (3,827,233.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $384,502.00. At June 30, 2015, 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	$ 0.00	$ 211,550.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		3,066,351.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		15,103.00
Contributions Subsequent to the Measurement Date	1,007,125.00	
Total	$ 1,007,125.00	$ 3,293,004.00

The amount of $1,007,125.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (826,391.00)
2017	(826,391.00)
2018	(826,391.00)
2019	(813,831.00)
Total	$ (3,293,004.00)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term

disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $604,275.25, $582,586.44, and $573,004.08, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal

year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $45,128.02, $47,470.01, and $47,570.15, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. The College is protected for losses from employee dishonesty and theft for employees paid from county and institutional funds by a policy purchased from a private insurance company. The policy covers the College for employee crime losses up to $100,000.

4. Statewide Workers' Compensation Program

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases

workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were $83,332.15 at June 30, 2015.

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2015, is presented as follows:

Condensed Statement of Net Position
June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment For Excellence	Eliminations	Total
ASSETS				
Current Assets	$ 5,757,046.47	$ 703,913.72	$ 0.00	$ 6,460,960.19
Capital Assets, Net	26,071,201.84	716,482.52		26,787,684.36
Other Noncurrent Assets	4,863,901.39	13,417,679.27		18,281,580.66
Total Assets	36,692,149.70	14,838,075.51		51,530,225.21
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,007,125.00			1,007,125.00
LIABILITIES				
Current Liabilities	1,037,305.59	25,300.15		1,062,605.74
Long-Term Liabilities	1,511,273.39			1,511,273.39
Total Liabilities	2,548,578.98	25,300.15		2,573,879.13
TOTAL DEFERRED INFLOWS OF RESOURCES	3,293,004.00			3,293,004.00
NET POSITION				
Investment in Capital Assets	26,071,201.84	716,482.52		26,787,684.36
Restricted - Nonexpendable	2,097,340.76	110,000.00		2,207,340.76
Restricted - Expendable	3,850,681.36			3,850,681.36
Unrestricted	(161,532.24)	13,986,292.84		13,824,760.60
Total Net Position	$ 31,857,691.72	$ 14,812,775.36	$ 0.00	$ 46,670,467.08

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment for Excellence	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 2,355,045.89	$ 0.00	$ 0.00	$ 2,355,045.89
Sales and Services, Net	816,758.41	229,303.39	(162,793.86)	883,267.94
Total Operating Revenues	3,171,804.30	229,303.39	(162,793.86)	3,238,313.83
OPERATING EXPENSES				
Operating Expenses	26,032,792.77	562,922.24	(462,793.86)	26,132,921.15
Depreciation	685,644.31	19,038.50		704,682.81
Total Operating Expenses	26,718,437.08	581,960.74	(462,793.86)	26,837,603.96
Operating Loss	(23,546,632.78)	(352,657.35)	300,000.00	(23,599,290.13)
NONOPERATING REVENUES (EXPENSES)				
State Aid	12,632,452.62			12,632,452.62
County Appropriations	3,091,314.00			3,091,314.00
Noncapital Grants	6,059,357.34			6,059,357.34
Noncapital Gifts	580,208.15	72,417.14	(300,000.00)	352,625.29
Investment Income, Net	82,042.91	342,248.75		424,291.66
Other Nonoperating Revenues	25,333.01			25,333.01
Other Nonoperating Expenses	(5,517.61)	(10,000.00)		(15,517.61)
Net Nonoperating Revenues	22,465,190.42	404,665.89	(300,000.00)	22,569,856.31
Capital Contributions	1,570,974.71			1,570,974.71
Additions to Endowments	47,412.68	110,000.00		157,412.68
Increase in Net Position	536,945.03	162,008.54		698,953.57
NET POSITION				
Net Position, July 1, 2014 (As Restated)	31,320,746.69	14,650,766.82		45,971,513.51
Net Position, June 30, 2015	$ 31,857,691.72	$ 14,812,775.36	$ 0.00	$ 46,670,467.08

Condensed Statement of Cash Flows
June 30, 2015

	Mitchell Community College	Mitchell Community College Endowment for Excellence	Total
Net Cash Used by Operating Activities	$ (23,414,192.21)	$ (320,215.74)	$ (23,734,407.95)
Cash Provided by Noncapital Financing Activities	22,197,404.96	182,417.14	22,379,822.10
Net Cash Provided by Capital and Related Financing Activities	1,093,714.73		1,093,714.73
Net Cash Provided by Investing Activities	131,751.37	688,254.25	820,005.62
Net Increase in Cash and Cash Equivalents	8,678.85	550,455.65	559,134.50
Cash and Cash Equivalents, July 1, 2014	6,246,501.82	261,751.83	6,508,253.65
Cash and Cash Equivalents, June 30, 2015	$ 6,255,180.67	$ 812,207.48	$ 7,067,388.15

NOTE 16 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	49,787,586.51
Restatement:		
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources Per GASB 68 Requirements		(3,816,073.00)
July 1, 2014 Net Position as Restated	$	45,971,513.51

REQUIRED SUPPLEMENTARY INFORMATION

Mitchell Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit B-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07741%	0.07830%
Proportionate Share of TSERS Collective Net Pension Liability	$ 907,571.00	$ 4,753,608.00
Covered-Employee Payroll	$ 10,788,637.77	$ 10,811,398.04
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.41%	43.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

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

Exhibit B-2

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 1,007,125.42	$ 937,532.62	$ 900,589.43	$ 769,996.83	$ 514,261.79
Contributions in Relation to the Contractually Determined Contribution	1,007,125.42	937,532.62	900,589.43	769,996.83	514,261.79
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 11,006,835.19	$ 10,788,637.77	$ 10,811,398.04	$ 10,349,419.80	$ 10,431,273.55
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 342,529.14	$ 317,918.44	$ 271,089.63	$ 218,258.17	$ 176,928.97
Contributions in Relation to the Contractually Determined Contribution	342,529.14	317,918.44	271,089.63	218,258.17	176,928.97
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 9,594,653.69	$ 9,461,858.44	$ 8,888,184.74	$ 8,205,194.39	$ 7,561,067.03
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

Mitchell Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

				Cost of Living Increase				
2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT 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
Mitchell Community College
Statesville, 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 Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 22, 2016. Our report includes a reference to other auditors who audited the financial statements of the Mitchell Community College Endowment for Excellence, as described in our report on the College's financial statements. The financial statements of the Mitchell Community College Endowment for Excellence were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Findings, Recommendations, and Responses section to be a material weakness.

Compliance and Other Matters

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

College's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 22, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control.

IMPROPER SYSTEM ACCESS

System access rights that are inconsistent with proper segregation of duties were assigned to employees. Four members of management were assigned access rights that allowed them to create and approve their own journal entry transactions. As a result, there is an increased risk of error or fraud occurring without detection.

While no instances of error or fraud were identified during the audit period, this dual access provided these employees with a means to override controls that have been established over journal entry processing.

According to college personnel, in 2013 they acquired new software that allowed for processing and documenting journal entries; however, upon implementation, access rights and employee assignments were not reviewed for proper segregation of duties.

Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check of the work of other employees.

As a result of our audit, the College corrected the access deficiencies by taking measures to update the software to disallow the creator of a journal entry from serving as the approver. All access deficiencies were corrected as of 1/27/16.

Recommendation: Prior to the implementation of, or changes to, computer systems and/or software programs used in processing financial transactions such as journal entries, steps should be taken to ensure employees are assigned the minimum access needed to perform his or her job and assigned duties are appropriately segregated.

College's Response: As a result of the testing during the audit, Mitchell Community College Financial Services and Institutional Technologies were able to correct the mechanical component of the system that created the improper system access and segregation of duties the same day the deficiencies were discovered. The College, specifically Institutional Technology, will audit the access rights and follow our current procedures controlling access in technology.

ORDERING INFORMATION

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 640.5 audit hours at an approximate cost of $63,410.

PIEDMONT COMMUNITY COLLEGE

(*A Component Unit of the State of North Carolina*)

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2015

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Trustees
Piedmont Community College
Roxboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Piedmont Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, net position as of July 1, 2014, has been restated. Our opinion is not modified with respect to this matter.

The accompanying financial statements represent the financial position of the College. These financials statements are not intended to be a complete presentation of the financial position of the State of North Carolina, taken as a whole. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this 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 6, 2016, 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 the 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.

Cherry Bekaert LLP

Charlotte, North Carolina
March 6, 2016

This section of Piedmont Community College's Annual Financial Report presents management's discussion and analysis of the College's financial activity during the fiscal years ended June 30, 2015, with comparative data for the year ended June 30, 2014. College management has prepared this discussion, along with the financial statements and related notes. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

The purpose of the management discussion and analysis (MD&A) is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion and analysis should, however, be read in conjunction with, and is qualified in its entirety by, the related financial statements and notes to the financial statements.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). This statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

GASB 68 is effective for the fiscal year ending June 30, 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

A major change is the reporting of the net pension liability on the statement of net position (i.e., total pension liability for the pension plan, which is actuarially based, less the plan's fiduciary net position). Under previous pension standards, this liability was reflected only in the note disclosures. Employers that participate in a cost-sharing multiple-employer defined benefit pension plan, such as the Teachers' and State Employees' Retirement System (TSERS), are required to recognize liabilities for their proportionate share of the collective net pension liability. Also, the auditors of participating employers will require assurances that the pension amounts reported on the statement of net assets are accurate and supported by verifiable audit evidence.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement also establishes requirements related to special funding situations for defined contribution pensions. Note disclosures and Required Supplementary Information requirements about pensions are also addressed.

The provisions of this GASB 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

USING THE ANNUAL REPORT/OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement (GASB) pronouncements. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the College as a whole, with resources classified for accounting and reporting purposes into four net asset categories.

One of the most important questions asked about College finances is whether the College as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Position, Statement of Revenues, Expenses, Changes in Net Position, and the Statement of Cash Flows. This discussion will focus on the first two statements cited here. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicator of the College's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

STATEMENT OF NET POSITION

The Statement of Net Position presents College assets, deferred inflows and outflows, liabilities and net position as of the end of the fiscal year. The assets and liabilities are divided into current and noncurrent portions. The differences between current and noncurrent assets and liabilities are discussed further in the notes to the financial statements. The Statement of Net Position is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

From the data presented, readers of this statement are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. The Statement of Net Position also provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution. Net assets are divided into three major categories: invested in capital assets; unrestricted net assets; and restricted net assets. Restricted net assets are then required to be presented as expendable or non-expendable. The non-expendable category does not apply to the College. These three categories of net assets are discussed further in the notes to the financial statements.

Condensed Statements of Net Position
June 30, 2015 and June 30, 2014

	2015	2014	Increase (Decrease)
Assets			
Current Assets	$ 1,766,834.34	$ 1,741,390.39	$ 25,443.95
Noncurrent Assets	96,938.08	39,310.70	57,627.38
Capital Assets	14,288,842.41	14,717,571.37	(428,728.96)
Total Assets	16,152,614.83	16,498,272.46	(345,657.63)
Deferred Outflows of Resources	1,449,757.54	-	1,449,757.54
Liabilities			
Current Liabilities	789,325.39	682,880.33	106,445.06
Long-Term Liabilities	2,480,772.59	1,712,024.73	768,747.86
Total Liabilities	3,270,097.98	2,394,905.06	875,192.92
Deferred Inflows of Resources	3,109,045.00	-	3,109,045.00
Net Position			
Investment in Capital Assets	14,288,842.41	14,717,571.37	(428,728.96)
Restricted			
Expendable	376,443.50	546,582.35	(170,138.85)
Unrestricted	(3,442,056.52)	(1,160,786.32)	(2,281,270.20)
Total Net Position	$ 11,223,229.39	$ 14,103,367.40	$ (2,880,138.01)

Total assets of the College decreased by $345,657.63 for the year (an increase of $25,443.95 for current assets, an increase of $57,627.38 for noncurrent assets, and a decrease of $428,728.96 for capital assets). Capital assets decreased $428,728.96 primarily due to current year capital asset additions of $125,130.99 less depreciation expense of $537,538.95.

Deferred outflows of resources appear for the first time this year as a result of the College's implementation of the new GASB 68 pension reporting standards. The pension liability calculation lags financial reporting by one year. As a result of the lag, recognition of the cash contribution made by the College during FY2014-15 is deferred. This deferred outflow of $1,449,757.54 will be recognized as an expense during FY2015-16.

The total liabilities of the College increased by $875,192.92 for the year (an increase of $106,445.06 in Current Liabilities and an increase of $768,747.86 in Noncurrent Liabilities). This increase was primarily due to recording the net pension liability of $836,640.00.

Deferred inflows of resources report the cumulative difference between expected performance and actual performance of the pension program. The cumulative difference between projected and actual pension plan activity totals $3,109,045.00. The deferred inflows will reduce net pension expense over the next four fiscal years.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues earned by the institution, both operating and non-operating, and the expenses incurred by the institution, operating and non-operating, and any other revenues, expenses, gains and losses earned or incurred by the institution.

Generally speaking, operating revenues are earned for providing goods and services to the various constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues earned for which goods and services are not provided. State and county appropriations and noncapital grants are included as non-operating revenues in accordance with GASB guidelines, even though these revenues are instrumental to the College's mission and operations. Capital contributions are reported separately after non-operating revenues.

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and June 30, 2014

	2015	2014	Increase / (Decrease)
Operating Revenues			
Tuition and Fees	$1,240,841.76	$1,363,296.28	($122,454.52)
Sales and Services	354,308.33	456,977.94	(102,669.61)
Other Operating Revenues	12,694.09	3,885.78	8,808.31
Total Operating Revenues	1,607,844.18	1,824,160.00	(216,315.82)
Less Operating Expenses			
Personal Services	12,801,176.99	15,031,655.95	(2,230,478.96)
Supplies and Materials	1,586,507.54	1,692,617.50	(106,109.96)
Services	1,309,148.70	1,284,284.36	24,864.34
Scholarships and Fellowships	1,579,783.72	1,673,075.36	(93,291.64)
Utilities	325,224.32	332,892.82	(7,668.50)
Depreciation	542,420.86	538,834.86	3,586.00
Total Operating Expenses	18,144,262.13	20,553,360.85	(2,409,098.72)
Operating Loss	(16,536,417.95)	(18,729,200.85)	2,192,782.90
Nonoperating Revenues (Expenses)			
State Aid	10,783,420.30	11,765,618.56	(982,198.26)
County Appropriations	1,324,785.04	1,246,254.00	78,531.04
Noncap Grants-Fed St Fin Aid	3,323,410.72	3,693,754.14	(370,343.42)
Noncapital Grants and Gifts	1,450,391.30	1,675,837.40	(225,446.10)
Other Nonoperating Revenue (Expenses)	(10,224.30)	(219,964.86)	209,740.56
Total Nonoperating Revenues	16,871,783.06	18,161,499.24	(1,289,716.18)
Income (Loss) Before Other Revenues	335,365.11	(567,701.61)	903,066.72
Capital Aid	395,099.88	351,160.14	53,316.33
Increase (Decrease) in Net Position	730,464.99	(216,541.47)	956,383.05
Net Position			
Net Position, Beginning of Year	14,103,367.40	14,319,908.87	(216,541.47)
Restatement	(3,610,603.00)	-	(3,610,603.00)
Net Position, End of Year	$11,223,229.39	$14,103,367.40	($2,870,761.42)

Operating revenue decreased overall by $216,315.82. There was a decrease in tuition and fees of $122,454.52 due to a decline in enrollment of approximately 11.95% and a decrease in sales and service revenue of $102,669.61 primarily due to decreases in day care fees from the Person County Child Development Center.

Operating expenses for fiscal year 2015 decreased $2,409,098.72 over fiscal year 2014. Significant changes are Personal Services decreased $2,230,478.96 partially due to a reduction in workforce and partially due to adjustments made to implement GASB68. Supplies and materials decreased $106,109.96 and Services increased by $24,864.34 due to a concentrated effort to reduce spending due to a reduction in funding. Scholarships and Fellowships decreased $93,291.64 due to decrease in student enrollment.

Non-operating revenues decreased by $1,289,716.18 in fiscal year 2015 from fiscal year 2014. There were some wide swings in the components of this category. State aid and Federal Student Financial Aid Grants decreased by $982,198.26 and $370,343.42, respectively, due to the decline in student enrollment. Non Capital Grants and Gifts decreased $225,446.10 due to a decrease in TRIO funding and staff vacancies. Other Non-operating Expense decreased by $209,740.56 due to the net of an increase of $11,524.83 in the loss on the sale of assets and a decrease of $221,265.39 in refunds to grantors.

ECONOMIC AND OTHER FACTORS IMPACTING FUTURE PERIODS

The economic position of Piedmont Community College is closely tied to the State of North Carolina. State aid constituted 62 percent of total College revenues and is the largest source of funding. As the economic recovery continues, the College continues to experience declining enrollment. State aid is directly tied to enrollment. The College enrollment has declined with the changes to Corrections Education and the Huskins program as well as legislatively-mandated changes to enrollment requirements for the Career and College Promise program. The College has entered into Career and College Promise agreements with Caswell and Person County Schools. These agreements allow high school students to attend Piedmont Community College; however, the more rigorous enrollment requirements have resulted in fewer students able to attend Piedmont Community College while still in high school.

The biggest challenges facing the College continue to be the level of federal, state, and local support and assessment and reallocation of available resources. Increasing student enrollment is another major challenge for the College. However, the College remains confident in its ability to maintain its fiscal stability and to attract citizens into higher education.

The College's Board of Trustees and administrators are dedicated in their efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum, occupational training, and continuing education programs; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to institutional goals, freeing up resources to support change, and growing new programs and opportunities. As a result, Piedmont Community College is positioned to increase enrollment strategically, and when appropriate, eliminate obsolete programs. The College also intends to continue to partner with the State and community in economic development and meet public expectations, while remaining financially sound.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Piedmont Community College's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Piedmont Community College, Controller, P. O. Box 1197, 1715 College Drive, Roxboro, North Carolina 27573.

Piedmont Community College
Statement of Net Position
June 30, 2015 *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 1,058,530.67
Restricted Cash and Cash Equivalents (Note 2)	207,440.34
Receivables, Net (Note 3)	228,012.60
Inventories	272,850.73
Total Current Assets	1,766,834.34
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note 2)	57,629.94
Restricted Due from Primary Government (Note 3)	39,308.14
Capital Assets - Nondepreciable (Note 4)	253,356.15
Capital Assets - Depreciable, Net (Note 4)	14,035,486.26
Total Noncurrent Assets	14,385,780.49
Total Assets	16,152,614.83
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions (Note 10)	1,449,757.54
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	322,877.79
Unearned Revenue	58,803.84
Funds Held for Others	172,405.61
Long-Term Liabilities - Current Portion (Note 6)	235,238.15
Total Current Liabilities	789,325.39
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	2,480,772.59
Total Liabilities	3,270,097.98
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions (Note 10)	3,109,045.00
NET POSITION	
Investment in Capital Assets	14,288,842.41
Restricted for:	
Expendable:	
Scholarships and Fellowships	184,312.31
Capital Projects	149,127.45
Other	43,003.74
Unrestricted	(3,442,056.52)
Total Net Position	$ 11,223,229.39

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

Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 1,240,841.76
Sales and Services, Net (Note 8)	354,308.33
Other Operating Revenues	12,694.09
Total Operating Revenues	1,607,844.18
EXPENSES	
Operating Expenses:	
Salaries and Benefits	12,801,176.99
Supplies and Materials	1,586,507.54
Services	1,309,148.70
Scholarships and Fellowships	1,579,783.72
Utilities	325,224.32
Depreciation	542,420.86
Total Operating Expenses	18,144,262.13
Operating Loss	(16,536,417.95)
NONOPERATING REVENUES (EXPENSES)	
State Aid	10,783,420.30
County Appropriations	1,324,785.04
Noncapital Grants - Student Financial Aid	3,323,410.72
Noncapital Grants	1,450,391.30
Investment Income	1,029.79
Other Nonoperating Revenues (Expenses)	(11,254.09)
Net Nonoperating Revenues	16,871,783.06
Income Before Other Revenues	335,365.11
Capital Aid:	
State Capital Aid	216,510.68
County Capital Aid	131,502.92
Capital Grants	47,086.28
Increase in Net Position	730,464.99
NET POSITION	
Net Position, July 1, 2014 as Restated (Note 14)	10,492,764.40
Net Position, June 30, 2015	$ 11,223,229.39

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

Piedmont Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2015 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,545,308.02
Payments to Employees and Fringe Benefits	(13,760,418.40)
Payments to Vendors and Suppliers	(3,197,545.27)
Payments for Scholarships and Fellowships	(1,571,918.29)
Other Receipts (Payments)	(3,254.59)
Net Cash Used by Operating Activities	(16,987,828.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	10,783,420.30
County Appropriations	1,324,785.04
Noncapital Grants - Student Financial Aid	3,458,464.82
Noncapital Grants	1,452,570.02
Net Cash Provided by Noncapital Financing Activities	17,019,240.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	216,513.24
County Capital Aid	131,502.92
Capital Grants	(3,806.53)
Acquisition and Construction of Capital Assets	(125,130.99)
Principal Paid on Capital Debt and Leases	(50,688.42)
Net Cash Provided by Capital and Related Financing Activities	168,390.22
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,018.22
Net Cash Provided by Investing Activities	1,018.22
Net Increase in Cash and Cash Equivalents	200,820.09
Cash and Cash Equivalents, July 1, 2014	1,122,780.86
Cash and Cash Equivalents, June 30, 2015	$ 1,323,600.95

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(16,536,417.95)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		542,420.86
Pension Expense		335,082.00
Nonoperating Other Income (Expenses)		185.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(43,533.20)
Inventories		25,444.39
Accounts Payable and Accrued Liabilities		11,520.95
Unearned Revenue		(12,172.78)
Funds Held for Others		(2,404.34)
Deferred Outflows - Contributions After the Measurement Date		(1,449,757.54)
Compensated Absences		141,804.08
Net Cash Used by Operating Activities	$	(16,987,828.53)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,058,530.67
Restricted Cash and Cash Equivalents		207,440.34
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		57,629.94
Total Cash and Cash Equivalents - June 30, 2015	$	1,323,600.95

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	11.57
Loss on Disposal of Capital Assets	$	(11,439.09)

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

Piedmont Community College Foundation
Statement of Financial Position
June 30, 2015 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	189,943.00
Pledges Receivable		48,633.00
Real Estate Held for Resale		96,176.00
Investments		1,113,210.00
Total Assets	$	1,447,962.00
LIABILITIES AND NET ASSETS		
Accounts Payable and Accrued Expenses	$	52,950.00
Total Liabilities		52,950.00
Net Assets		
Unrestricted		617,359.00
Temporarily Restricted		110,644.00
Permanently Restricted		667,009.00
Total Net Assets		1,395,012.00
Total Liabilities and Net Assets	$	1,447,962.00

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

Piedmont Community College Foundation
Statement of Activities
For the Fiscal Year Ended June 30, 2015 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	178,354.00
Income on Long-Term Investments		43,003.00
Other		1,177.00
Total Unrestricted Revenues and Gains		222,534.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		244,164.00
Total Unrestricted Revenues and Gains		466,698.00
Expenses:		
Program Expenses		519,897.00
Management and General		94,682.00
Fundraising		18,500.00
Total Expenses		633,079.00
Decrease in Unrestricted Net Assets		(166,381.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		274,742.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(244,164.00)
Increase in Temporarily Restricted Net Assets		30,578.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		2,200.00
Increase in Permanently Restricted Net Assets		2,200.00
Decrease in Net Assets		(133,603.00)
Net Assets at Beginning of Year		1,528,615.00
Net Assets at End of Year	$	1,395,012.00

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

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. Piedmont Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component units are discretely presented in the College's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness. The financial statements for the College and its discretely presented component units are presented as of and for the fiscal year ended June 30, 2015.

Discretely Presented Component Unit – Piedmont Community College Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, 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 Piedmont Community College Foundation is a private not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed $139,121.35 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director, P.O. Box 1101, 1715 College Drive, Roxboro, NC 27573.

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

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

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

Non-exchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, 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.

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, 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 stated at cost using the last invoice cost method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

Asset Class	Estimated Useful Life
Buildings	50 years
Machinery & Equipment	5-25 years
General Infrastructure	25-50 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. Deferred Outflows/Inflows of Resources - Deferred outflows and inflows of resources relates to the pension plan as further described in Note 10.

j. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include a U.S. Department of Education liability, net pension liability, and compensated absences 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 2014 *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 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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. **Funds Held for Others** – Funds Held for Others consist of deposits from various organizations for which the College serves as an agent.

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

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

Restricted Net Position - **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.

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 positions include consideration of deferred outflows and inflows of resources.

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 non-operating 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 non-operating 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*.

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

P. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as a copy center. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

R. New Pronouncements - During the fiscal year ended June 30, 2015, the College adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The cumulative effect of these pronouncements is further disclosed in Notes 10 and 14.

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 or savings and loan association 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 $820.00, and deposits in private financial institutions with a carrying value of $1,124,693.77 and a bank balance of $1,185,343.43.

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, 2015, 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, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $198,087.18 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 and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates 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 State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Component Unit - Investments of the College's discretely presented component unit, the Piedmont Community College Foundation, Inc. is subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Piedmont Community College Foundation, Inc., reports under the FASB reporting model, disclosures of the various investment risks are not required. Investments are carried at fair value on the statements of financial position. The fair value of the Foundation's investments at June 30, 2015 was $1,113,210.00.

A. Reconciliation of Deposits and Investments - A reconciliation of deposits for the College to the basic financial statements as of June 30, 2015, is as follows:

Cash on Hand	$	820.00
Carrying Amount of Deposits with Private Financial Institutions		1,124,693.77
Investments in the Short-Term Investment Fund		198,087.18
Total Deposits and Investments	$	1,323,600.95
Current:		
Cash and Cash Equivalents	$	1,058,530.67
Restricted Cash and Cash Equivalents		207,440.34
Noncurrent:		
Restricted Cash and Cash Equivalents		57,629.94
Total Deposits	$	1,323,600.95

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 221,002.19	$ 69,166.58	$ 151,835.61
Student Sponsors	4,315.30	-	4,315.30
Intergovernmental	71,773.23	-	71,773.23
Other	88.46	-	88.46
Total Current Receivables	$ 297,179.18	$ 69,166.58	$ 228,012.60

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 194,856.15	$ -	$ -	$ 194,856.15
Construction in Progress	58,500.00	-	-	58,500.00
Total Capital Assets, Nondepreciable	253,356.15	-	-	253,356.15
Capital Assets, Depreciable:				
Buildings	16,184,518.04	-	-	16,184,518.04
Machinery and Equipment	3,309,837.91	108,364.50	100,347.83	3,317,854.58
General Infrastructure	3,318,965.24	16,766.49	-	3,335,731.73
Total Capital Assets, Depreciable	22,813,321.19	125,130.99	100,347.83	22,838,104.35
Less Accumulated Depreciation/Amortization for:				
Buildings	6,067,161.24	324,665.09	88,908.74	6,302,917.59
Machinery and Equipment	1,684,155.40	150,176.76	-	1,834,332.16
General Infrastructure	597,789.33	67,579.01	-	665,368.34
Total Accumulated Depreciation/Amortization	8,349,105.97	542,420.86	88,908.74	8,802,618.09
Total Capital Assets, Depreciable, Net	14,464,215.22	(417,289.87)	11,439.09	14,035,486.26
Capital Assets, Net	$ 14,717,571.37	$ (417,289.87)	$ 11,439.09	$ 14,288,842.41

Note 5 - Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 34,534.59
Accrued Payroll	288,343.20
Total Current Accounts Payable and Accrued Liabilities	$ 322,877.79

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Notes Payable	$ 221,265.39	$ -	$ 50,688.42	$ 170,576.97	$ 50,688.42
Net Pension Liability	4,516,838.00	-	3,680,198.00	836,640.00	-
Compensated Absences	1,566,989.69	1,154,219.07	1,012,414.99	1,708,793.77	184,549.73
Total Long-Term Liabilities	$ 6,305,093.08	$ 1,154,219.07	$ 4,743,301.41	$ 2,716,010.74	$ 235,238.15

Additional information regarding the net pension liability is included in Note 10.

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Federal Award Repayment	Department of Education	1.00%	1/1/2019	$ 308,362.00	$ 137,785.03	$ 170,576.97

A review by the U.S. Department of Education on the 2010-2011 and 2011-2012 award years of financial aid provided to students to Piedmont Community College, resulted in a five year liability for the College.

The annual requirements to pay principal and interest on notes payable at June 30, 2015, are as follows:

	Annual Requirements	
Fiscal Year	Principal	Interest
2016	$ 49,075.55	$ 1,612.87
2017	49,568.57	1,119.85
2018	50,066.53	621.89
2019	21,866.32	129.73
	$ 170,576.97	$ 3,484.34

Note 7 - OPERATING LEASE OBLIGATIONS

Operating Lease Obligations - The College has entered into operating leases for equipment and property. Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 27,979.99
2017	21,835.44
2018	17,370.36
2019	2,662.65
Total Minimum Lease Payments	$ 69,848.44

Rental expense for all operating leases during the year was $48,884.44.

NOTE 8 - REVENUES

A summary of eliminations and allowances by revenue classification, for the year ended June 30, 2015, is presented as follows:

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 2,505,195.55	$ -	$ 1,195,187.21	$ 69,166.58	$ 1,240,841.76
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	988,122.58	147,188.55	631,216.52	-	209,717.51
Other	183,331.98	62,320.39	-	-	121,011.59
Sales and Services of Education and Related Activities	23,579.23	-	-	-	23,579.23
Total Sales and Services	$ 1,195,033.79	$ 209,508.94	$ 631,216.52	$ 0.00	$ 354,308.33

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 7,862,948.11	$ 654,286.70	$ 585,795.51	$ -	$ -	$ -	$ 9,103,030.32
Academic Support	1,664,926.39	49,800.41	56,366.95	-	-	-	1,771,093.75
Student Services	870,950.78	23,034.65	47,224.70	-	-	-	941,210.13
Institutional Support	1,185,874.70	56,490.64	407,138.94	-	-	-	1,649,504.28
Operations and Maintenance of Plant	568,003.64	164,305.47	143,975.39	-	325,224.32	-	1,201,508.82
Student Financial Aid	-	638,589.67	7,417.00	1,579,783.72	-	-	2,225,790.39
Auxiliary Enterprises	313,391.37	-	61,230.21	-	-	-	374,621.58
Depreciation	-	-	-	-	-	542,420.86	542,420.86
Pension Expense	335,082.00	-	-	-	-	-	335,082.00
Total Operating Expenses	$ 12,801,176.99	$ 1,586,507.54	$ 1,309,148.70	$ 1,579,783.72	$ 325,224.32	$ 542,420.86	$ 18,144,262.13

NOTE 10 - PENSION PLAN

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 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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $872,142.24, and employee contributions were $571,896.31 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $836,640.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was 0.07136%, which was a decrease of 0.00304% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate.

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
$6,005,979.00	$836,640.00	($3,528,115.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $335,082.00. At June 30, 2015, 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	$ -	$ 195,016.00
Net difference between projected and actual earnings on pension plan investments (see note below)	-	2,826,699.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	-	87,330.00
Contributions subsequent to the measurement date	1,449,757.54	-
Total	$ 1,449,757.54	$ 3,109,045.00

$1,449,757.54 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (781,173.00)
2017	(781,173.00)
2018	(781,173.00)
2019	(765,526.00)
Total	$ (3,109,045.00)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $523,285.15, $563,184.89, and $573,867.63, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $39,079.58, $45,889.14, and $47,641.84, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. Losses from county and institutional funds paid employees are covered by contracts with private insurance companies.

Statewide Workers' Compensation Program

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $39,308.14 at June 30, 2015.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

C. Federally funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 14 - NET POSITION RESTATEMENTS

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 14,103,367.40
Restatements:	
Record the College's net pension liability and pension related deferred outflows of resources per GASB 68 requirements	(3,610,603.00)
July 1, 2014 Net Position as Restated	$ 10,492,764.40

NOTE 15 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through March 6, 2016, which is the date the financial statements were available to be issued.

NOTE 16 - AUDIT HOURS AND COST

This audit required 385 audit hours at an approximate cost of $33,500.00. The cost represents 0.19% of the College's total assets and 0.185% of total expenses subjected to audit.

Piedmont Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

	Measurement Date Ending June 30, 2014	Measurement Date Ending June 30, 2013
(1) Proportionate share percentage of collective net pension liability	**0.07136%**	**0.07440%**
(2) Proportionate Share of TSERS collective net pension liability	**$ 836,640**	**$ 4,516,838**
(3) Covered-employee payroll	$ 10,429,350	$ 10,827,691
(4) Net pension liability as a percentage of covered-employee payroll	8.02%	41.72%
(5) Plan fiduciary net position as a percentage of the total pension liability	98.24%	90.60%

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

		2015	2014	2013	2012
(1)	Contractually required contribution	$ 872,142.24	$ 906,310.50	$ 901,946.68	$ 767,862.32
(2)	Contributions in relation to the contractually determined contribution	872,142.24	906,310.50	901,946.68	767,862.32
(3)	Contribution deficiency (excess)	-	-	-	-
(4)	Covered-employee payroll	$ 9,531,605.66	$ 10,429,349.85	$ 10,827,691.21	$ 10,320,730.09
(5)	Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%

		2011	2010	2009	2008
(1)	Contractually required contribution	$ 551,904.73	$ 394,394.80	$ 371,375.00	$ 320,520.90
(2)	Contributions in relation to the actuarially determined contribution	551,904.73	394,394.80	371,375.00	320,520.90
(3)	Contribution deficiency (excess)	-	-	-	-
(4)	Covered-employee payroll	$ 11,194,822.16	$ 11,047,473.41	$ 11,052,827.45	$ 10,508,881.93
(5)	Contributions as a percentage of covered-employee payroll	4.93%	3.57%	3.36%	3.05%

		2007	2006
(1)	Contractually required contribution	$ 261,501.41	$ 201,691.87
(2)	Contributions in relation to the actuarially determined contribution	261,501.41	201,691.87
(3)	Contribution deficiency (excess)	-	-
(4)	Covered-employee payroll	$ 9,830,880.04	$ 8,619,310.81
(5)	Contributions as a percentage of covered-employee payroll	2.66%	2.34%

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

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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*

The Board of Trustees
Piedmont Community College
Roxboro, 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 Piedmont Community College (the "College") as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2016. Our report includes a reference to other auditors who audited the financial statements of Piedmont Community College Foundation, Inc. (the "Foundation"), as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as item 2015-001.

Compliance and Other Matters

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

College's Response to Finding

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

Purpose of this Report

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

Cherry Bekaert LLP

Charlotte, North Carolina
March 6, 2016

2015-001 Significant Deficiency in Controls over Year End Accruals

Criteria: Controls over recording accrued liabilities and accounts receivables should ensure that the recording of transactions, including additions to, and payments of, are correctly recorded.

Condition: During our audit, we identified an accrual account that the College was unable to reconcile to detail of the underlying transactions.

Cause/Effect: A control exists to record accruals however; the control was ineffective at year end. A combination of misstatement of accruals has resulted in a potential overstatement of revenue of approximately $54,000.00 and a net overstatement of liabilities of $31,000. There is a risk that future financial statements may be materially misstated if controls in place over recording accrual transactions aren't effective.

Recommendation: We recommend that the College review current accounting policies and controls to ensure the proper recording and reconciliation accrual accounts at year end.

Management's Response and Correction Action Plan: Piedmont Community College will work with the North Carolina Community College System experts focusing on ensuring the accuracy of its year-end financial reporting processes. Specific training is scheduled for April 26-27, 2016 to ensure proper recording and reconciliation of accrual accounts at year end.

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, South Piedmont Community College

We have completed a financial statement audit of South Piedmont Community College for the year ended June 30, 2015, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of South Piedmont Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Piedmont Community College, and its discretely presented component unit, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, South Piedmont Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2016 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of South Piedmont Community College (College) provides this Management's Discussion and Analysis for readers of the College's financial statements. This narrative overview and analysis of the financial activities of the College is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the additional information that is furnished in the College's financial statements.

Overview of the Financial Statements

The discussion and analysis is intended to provide an introduction to the College's financial statements. The College's basic financial statements consist of three components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; and 3) Statement of Cash Flows.

As part of the implementation of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No.27*, the College's proportionate share of net pension liability relating to the Teachers and State Employees Retirement System (TSERS) has been reported on the financial statements. Additionally, GASB issued Statement No. 71 - *Pension Transition for Contribution Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* As a result of the implementation of GASB 68 and 71, net pension liability, a deferred outflow for pensions, and a deferred inflow for pensions have been recorded. Prior year amounts in the condensed Statement of Net Position have been restated to reflect this change in accounting standards.

Basic Financial Statements

The Statement of Net Position presents the assets and liabilities of the College as current and noncurrent. The difference between total assets plus total deferred outflows of resources and total liabilities plus total deferred inflows of resources is net position and may provide a useful indicator of the state of the College's financial position.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the revenues and expenses for the fiscal year have affected changes to the net position of the College. The College's net position serves as an indicator of the financial condition of the College.

The Statement of Cash Flows presents information showing how the College's cash changes as a result of current year operations. The Statement of Cash Flows is summarized by different types of activities: operating, capital financing, and noncapital financing.

Notes to the Financial Statements and the Required Supplementary Information provide additional information that is essential to gaining a full understanding of the data provided by the basic financial statements. The Notes to the Financial Statements and the Required Supplementary information follows the basic financial statements.

Comparative Data

A comparative analysis of key elements of the financial statements relative to the previous fiscal year is presented in this analysis.

Financial Highlights

The College's Full-Time Equivalent enrollment (FTE) decreased slightly (2.28%) in 2014-2015 when compared to 2013-2014 (2,825 FTE in 2014-2015 compared to 2,891 FTE

in 2013-2014). The College's FTE has decreased (4.20%) over the two year period of 2014-2015 and 2012-2013 having decreased from 2,949 in 2012-2013 to 2,825 in 2014-2015. The College has added several new programs including welding technology, agribusiness, and autobody technology. The College expects FTE to remain stable with little fluctuation.

As compared to the final 2013-2014 state budget, the final 2014-2015 state budget remained virtually unchanged as it showed an increase of 0.83%, or an increase of $130,655.00.

The Anson County budget and the Union County budget both remained stable from 2013-2014 to 2014-2015.

Analysis of Assets and Deferred Outflows of Resources

For the year, ended June 30, 2015, the College's total assets decreased by $604,920.25 or 2.32%.

	2014-2015	2013-2014 (as restated)	Difference	% Change
Assets				
Current Assets	$ 2,662,047.99	$ 3,174,767.59	$ (512,719.60)	-16.15%
Noncurrent Assets	20,179.90	14,492.86	5,687.04	39.24%
Capital Assets	22,836,964.04	22,934,850.83	(97,886.79)	-0.43%
Total Assets	$ 25,519,191.93	$ 26,124,111.28	$ (604,919.35)	-2.32%
Deferred Outflows Related to Pensions	$ 1,308,469.00	$ 894,259.00	$ 414,210.00	46.32%

Current Assets

Current assets decreased by $512,719.60 or 16.15%. Cash and cash equivalents decreased by $894,059.03 due in part to expenses paid on the College's welding lab project in the amount of $189,918.02 that had not been reimbursed by year end by Union County. These funds were received on July 27, 2015. Restricted cash and cash equivalents increased by $259,110.45, mostly due to additional funds received from Anson County of $233,250 for capital outlay expenses. Receivables increased by $162,112.41 due to an outstanding receivable from Union County of $235,922.92 for June 2015 appropriations. Inventory decreased by $39,883.43.

Capital Assets

Capital Assets decreased by $97,886.79 or 0.43%. The College added value to the Center for Technology and Health Education building by adding a welding lab at a cost of $651,602.58. The College purchased $263,866.38 in equipment mostly relating to the welding lab. The College disposed of obsolete assets with an original value of $173,329.23, with a carrying value of $5,751.47 at the time of disposal and recorded depreciation expense of $1,006,628.77.

Deferred Outflows of Resources

Deferred outflows related to pensions appears for the first time this year as a result of the implementation of the GASB 68 pension reporting requirements. For the current fiscal year, the deferred outflow represents the College's contributions for retirement benefits made during the year. The amount of deferred outflow for FY15 is $1,308,469.00.

Analysis of Liabilities and Deferred Inflows of Resources

Compared with the year ended June 30, 2014, the current fiscal year showed a decrease in the amount of $3,079,401.76 or 51.49% in total liabilities.

	2014-2015	2013-2014 (as restated)	Difference	% Change
Current Liabilities	$ 1,144,086.79	$ 932,864.53	$ 211,222.26	22.64%
Long-Term Liabilities	1,756,571.59	5,047,195.61	(3,290,624.02)	-65.20%
Total Liabilities	$ 2,900,658.38	$ 5,980,060.14	$ (3,079,401.76)	-51.49%
Deferred Inflows Related to Pensions	$ 3,184,319.00	$ 0.00	$ 3,184,319.00	100.00%

Current Liabilities

Current liabilities increased by $211,222.26 or 22.64%. Accounts payable increased by $163,671.53 due to several departments submitting invoices for payment after June 30, 2015 of goods or services that were already received. Unearned revenues increased by $31,724.88 due to increased tuition and fees paid during the current year for classes occurring in the 15-16 fiscal year.

Long-Term Liabilities

Long-term liabilities decreased by $3,290,624.02 or 65.20% due to recording the implementation of GASB 68 and GASB 71, including a prior year adjustment to record the College's beginning balance of $4,219,358.00 for net pension liability. The College's ending balance of $881,661.00 for net pension liability offsets the decrease of the prior period adjustment to account for a majority of the variance in long-term liabilities. The net pension liability is the College's portion of the present value of projected benefit payments to be provided through the pension plan. The disclosure and accrual of the net pension liability, including deferred outflows and inflows of resources and the pension expense, is required under GASB 68, which became effective for the 2015 fiscal year.

Deferred Inflows Related to Pensions

Deferred inflows related to pensions is another new section required by the implementation of GASB 68. The deferred inflows of resources totaled $3,184,319.00 during the current year and represents the difference between actual and expected experience for pensions as well as the net difference between projected and actual earnings on pension plan investments.

Analysis of Net Position

Total net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Total net position decreased 1.57% compared

with the previous fiscal year. As described previously, the increase to net investment in capital assets is related to the construction of a welding lab in the Center for Technology and Health Education building, and equipment purchases during the year, offset by deprecation expense. Expendable capital projects increased due to the receivable from Union County. Unrestricted net position decreased as a function of the implementation of GASB 68 requirements. Additional information on net position is available in Exhibit A-1 and Notes to the Financial Statement 1-K, 4, and 14.

	2014-2015	2013-2014 (as restated)	Difference	% Change
Net Position				
Net Investment in Capital Assets	$ 22,728,992.19	$ 22,744,468.64	$ (15,476.45)	-0.07%
Restricted for:				
Expendable				
Scholarships & Fellowships	99,988.46	1,811.61	98,176.85	5419.31%
Loans	19,372.18	21,703.86	(2,331.68)	-10.74%
Capital Projects	190,808.02		190,808.02	100.00%
Other	86,851.68	120,488.12	(33,636.44)	-27.92%
Unrestricted	(2,383,328.98)	(1,815,440.34)	(567,888.64)	31.28%
Total Net Position	$ 20,742,683.55	$ 21,073,031.89	$ (330,348.34)	-1.57%

Analysis of Revenues

Compared with the year ended June 30, 2014, the current fiscal year showed a 5.14% increase in total revenues.

	2014-2015	2013-2014	Difference	% Change
Operating Revenues:				
Student Tuition & Fees, Net	$ 2,168,231.51	$ 2,165,636.31	$ 2,595.20	0.12%
State & Local Grants & Contracts	334,468.39	258,205.90	76,262.49	29.54%
Sales & Services, Net	120,815.55	249,289.84	(128,474.29)	-51.54%
Other Revenues	(1,292.76)	5,866.44	(7,159.20)	-122.04%
Total Operating Revenues	$ 2,622,222.69	$ 2,678,998.49	$ (56,775.80)	-2.12%
Nonoperating Revenues:				
State Aid	12,905,836.34	12,666,162.72	239,673.62	1.89%
County Appropriations	2,651,983.63	1,736,661.45	915,322.18	52.71%
Noncapital Grants	4,107,960.78	4,734,428.03	(626,467.25)	-13.23%
Other Nonoperating Revenues	30,516.00	30,516.00	-	0.00%
Total Nonoperating Revenues	$ 19,696,296.75	$ 19,167,768.20	$ 528,528.55	2.76%
Other Revenues:				
State Capital Aid	52,871.57	163,137.94	(110,266.37)	-67.59%
County Capital Appropriations	988,119.44	264,406.55	723,712.89	273.71%
Capital Grants	85,036.37	24,416.00	60,620.37	248.28%
Total Other Revenues	$ 1,126,027.38	$ 451,960.49	$ 674,066.89	149.14%
Total Revenues	$ 23,444,546.82	$ 22,298,727.18	$ 1,145,819.64	5.14%

Operating

Total Operating Revenues decreased 2.12% ($56,775.80) when compared to the year ending June 30, 2014 mostly due to a decrease in other sales and services of $110,423.17 related to decreased rental income. State and local grants and contracts increased by $76,262.49 mostly due to a grant received from the Alliance for Children for Education Stars, which enables child care providers to take early childhood education classes at the College, in the amount of $86,433.00.

Nonoperating

Nonoperating revenues increased by 2.76%, or $528,528.55. Union County provided additional general county appropriations for maintenance and campus revitalization of $965,163.30. Conversely, PELL Grant funds decreased by $677,735.98 due to a decrease in students eligible to receive the grants.

Other

The majority of the increase, $674,066.89 or 149.14%, in other revenues is related to county capital appropriations. Union County funded the construction of the new welding lab in Union County by providing capital aid in the amount of $564,061.42.

Analysis of Expenses

Total operating expenses increased by $592,678.69 or 2.56% when compared to 2013-2014. The most significant new expense was $453,280.00 for the College's proportionate share of the TSERS pension expense, included in salaries and benefits expense, added per GASB 68 for 2014-2015. Scholarships and Fellowships also decreased as a result of the decrease in PELL Grant awards mentioned in the nonoperating revenues section above.

	2014-2015	2013-2014*	Difference	% Change
Operating Expenses				
Salaries & Benefits	$ 16,043,402.62	$ 15,550,729.61	$ 492,673.01	3.17%
Supplies & Materials	1,920,240.33	1,760,080.30	160,160.03	9.10%
Services	2,054,217.08	1,822,678.70	231,538.38	12.70%
Scholarships & Fellowships	2,277,546.12	2,658,679.53	(381,133.41)	-14.34%
Utilities	466,285.78	455,460.36	10,825.42	2.38%
Depreciation	1,006,628.77	928,013.51	78,615.26	8.47%
Total Operating Expenses	$ 23,768,320.70	$ 23,175,642.01	$ 592,678.69	2.56%
Nonoperating Expenses				
Interest and Fees on Debt	$ 6,574.46	$ 0.00	$ 6,574.46	100.00%
Total Expenses	$ 23,774,895.16	$ 23,175,642.01	$ 599,253.15	2.59%

*Note: Expenses for the year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

Capital Asset Activity

The College's net capital assets as of June 30, 2015, totaled $22,836,964.04 which is a 0.43% decrease compared to June 30, 2014. As mentioned before, the College added a welding lab at the Center of Technology and Health Building in Union County for $651,602.58 and purchased equipment worth $263,866.38, which was offset by current year depreciation expense of $1,006,628.77.

	2014-2015 (as restated)	2013-2014	Difference	% Change
Capital Assets:				
Land and Permanent Easements	$ 3,142,960.17	$ 3,142,960.17	$ 0.00	0.00%
Construction in Progress	57,235.49	58,211.00	(975.51)	-1.68%
Buildings	26,438,317.47	25,786,714.89	651,602.58	2.53%
Machinery & Equipment	4,251,224.11	4,160,686.96	90,537.15	2.18%
General Infrastructure	706,153.75	706,153.75		0.00%
Total	34,595,890.99	33,854,726.77	741,164.22	2.19%
Less: Accumulated Depreciation	11,758,926.95	10,919,875.94	839,051.01	7.68%
Net Capital Assets	$ 22,836,964.04	$ 22,934,850.83	$ (97,886.79)	-0.43%

Economic Factors and Next Year's Budget

The economy of the State of North Carolina is expected to remain flat. With the 2015-2016 budget, the College expects another Management Flexibility Reduction and the possibility of a reversion of up to 2%.

County funding will remain stable in both counties of the service area. The population growth is expected to be 2% for Union County and remain static in Anson County over the next four years.

FINANCIAL STATEMENTS

South Piedmont Community College
Statement of Net Position
June 30, 2015

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,154,828.29
Restricted Cash and Cash Equivalents	394,772.65
Receivables, Net (Note 3)	1,049,470.41
Inventories	62,976.64
Total Current Assets	2,662,047.99
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	20,179.90
Capital Assets - Nondepreciable (Note 4)	3,200,195.66
Capital Assets - Depreciable, Net (Note 4)	19,636,768.38
Total Noncurrent Assets	22,857,143.94
Total Assets	25,519,191.93
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	1,308,469.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	816,528.16
Due to Primary Government	2,018.79
Unearned Revenue	149,366.43
Funds Held for Others	16,764.49
Long-Term Liabilities - Current Portion (Note 6)	159,408.92
Total Current Liabilities	1,144,086.79
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,756,571.59
Total Liabilities	2,900,658.38
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	3,184,319.00
NET POSITION	
Net Investment in Capital Assets	22,728,992.19
Restricted for:	
Expendable:	
Scholarships and Fellowships	99,988.46
Loans	19,372.18
Capital Projects	190,808.02
Other	86,851.68
Unrestricted	(2,383,328.98)
Total Net Position	$ 20,742,683.55

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

South Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2015

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,168,231.51
State and Local Grants and Contracts		334,468.39
Sales and Services, Net (Note 8)		120,815.55
Other Operating Revenues		(1,292.76)
Total Operating Revenues		2,622,222.69
EXPENSES		
Operating Expenses:		
Salaries and Benefits		16,043,402.62
Supplies and Materials		1,920,240.33
Services		2,054,217.08
Scholarships and Fellowships		2,277,546.12
Utilities		466,285.78
Depreciation		1,006,628.77
Total Operating Expenses		23,768,320.70
Operating Loss		(21,146,098.01)
NONOPERATING REVENUES (EXPENSES)		
State Aid		12,905,836.34
County Appropriations		2,651,983.63
Noncapital Grants - Student Financial Aid		3,966,323.72
Noncapital Grants		141,637.06
Interest and Fees on Debt		(6,574.46)
Other Nonoperating Revenues		30,516.00
Net Nonoperating Revenues		19,689,722.29
Loss Before Other Revenues		(1,456,375.72)
State Capital Aid		52,871.57
County Capital Aid		988,119.44
Capital Grants		85,036.37
Decrease in Net Position		(330,348.34)
NET POSITION		
Net Position, July 1, 2014 as Restated (Note 14)		21,073,031.89
Net Position, June 30, 2015	$	20,742,683.55

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

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,719,327.43
Payments to Employees and Fringe Benefits	(16,514,770.95)
Payments to Vendors and Suppliers	(4,223,073.08)
Payments for Scholarships and Fellowships	(2,269,115.47)
Other Receipts	32,798.16
Net Cash Used by Operating Activities	(20,254,833.91)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,905,836.34
County Appropriations	2,651,983.63
Noncapital Grants - Student Financial Aid	3,966,323.72
Noncapital Grants	194,220.76
Cash Provided by Noncapital Financing Activities	19,718,364.45
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	52,871.57
County Capital Aid	752,196.52
Capital Grants	85,036.37
Proceeds from Sale of Capital Assets	2,000.00
Acquisition and Construction of Capital Assets	(914,493.45)
Principal Paid on Capital Debt and Leases	(63,828.63)
Interest Paid on Capital Debt and Leases	(6,574.46)
Net Cash Used by Capital and Related Financing Activities	(92,792.08)
Net Decrease in Cash and Cash Equivalents	(629,261.54)
Cash and Cash Equivalents, July 1, 2014	2,199,042.38
Cash and Cash Equivalents, June 30, 2015	$ 1,569,780.84

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (21,146,098.01)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,006,628.77
Provision for Uncollectible Loans and Write-Offs	
Pension Expense	453,280.00
Nonoperating Other Income	34,267.47
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	73,810.51
Inventories	39,833.43
Accounts Payable and Accrued Liabilities	163,671.53
Due to Primary Government	(566.79)
Unearned Revenue	31,724.88
Funds Held for Others	(1,469.31)
Deferred Outflows - Contributions Subsequent to the Measurement Date	(1,020,868.00)
Compensated Absences	110,901.61
Net Cash Used by Operating Activities	$ (20,254,883.91)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 1,154,828.29
Restricted Cash and Cash Equivalents	394,772.65
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	20,179.90
Total Cash and Cash Equivalents - June 30, 2015	$ 1,569,780.84

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$ 235,922.92
Loss on Disposal of Capital Assets	(3,751.47)

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

South Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2015 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	727,986
Marketable Securities		660,285
Pledges Receivable (Net)		100,717
Total Current Assets		1,488,988
Other Assets:		
Restricted Endowments		1,535,721
Property and Equipment:		
Land		9,700
Total Assets	$	3,034,409
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Credit Card Payable	$	651
Net Assets:		
Unrestricted		506,085
Temporarily Restricted		982,572
Permanently Restricted		1,545,101
Total Net Assets		3,033,758
Total Liabilities and Net Assets	$	3,034,409

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

South Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2015

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions				
Equipment	$ 0	$ 12,073	$ 0	$ 12,073
New Century - Anson		100		100
New Century - Union		2,000		2,000
Student Access		19,074	52,837	71,911
Other	42,776	23,318	250	66,344
In-Kind	241,908			241,908
Fundraising		153,099		153,099
Investment Earnings	602	41,633	1,354	43,589
Net Assets released from Restriction	106,039	(106,039)		0
Total Revenue, Gains, and Other Support	391,325	145,258	54,441	591,024
EXPENSES				
Program Services	234,198			234,198
Supporting Services				
Management and General	123,322			123,322
Fundraising	48,087			48,087
Total Expenses	405,607			405,607
Change in Net Assets	(14,282)	145,258	54,441	185,417
Net Assets at Beginning of Year	431,038	882,589	1,457,585	2,771,212
Prior Period Adjustment	89,329	(45,275)	33,075	77,129
Net Assets at End of Year	$ 506,085	$ 982,572	$ 1,545,101	$ 3,033,758

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

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 24 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 is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2015, the Foundation distributed $240,567.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Ginger McLain, Advancement Operations Coordinator, SPCC Foundation, PO Box 126, Polkton, NC 28135 or through an e-mail request to Ginger McLain at gmclain@spcc.edu.

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private bank accounts.

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, are valued at cost using the last invoice cost method.

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

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

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery & Equipment	2-40 years
General Infrastructure	10-15 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. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities includes a note payable, net pension liability, capital lease obligations, and compensated absences 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 2014 *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 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

K. **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 debt obligations 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.

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 and inflows of resources.

L. **Scholarship Discounts** - Student tuition and fees revenues 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 and fees, the College has recorded a scholarship discount.

M. **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.

N. **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

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 or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2015 was $1,990.65. The carrying amount of the College's deposits not with the State Treasurer was $1,567,790.19, and the bank balance was $1,704,734.26.

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, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Component Unit - Investments of the College's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation has investments stated at fair value, of $1,341,392.00 in equity securities.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 630,821.33	$ 181,835.09	$ 448,986.24
Student Sponsors	78,765.62		78,765.62
Intergovernmental	235,922.92		235,922.92
Other	285,795.63		285,795.63
Total Current Receivables	$ 1,231,305.50	$ 181,835.09	$ 1,049,470.41

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 3,142,960.17	$ 0.00	$ 0.00	$ 3,142,960.17
Construction in Progress	58,211.00	650,627.07	651,602.58	57,235.49
Total Capital Assets, Nondepreciable	3,201,171.17	650,627.07	651,602.58	3,200,195.66
Capital Assets, Depreciable:				
Buildings	25,786,714.89	651,602.58		26,438,317.47
Machinery and Equipment	4,160,686.96	263,866.38	173,329.23	4,251,224.11
General Infrastructure	706,153.75			706,153.75
Total Capital Assets, Depreciable	30,653,555.60	915,468.96	173,329.23	31,395,695.33
Less Accumulated Depreciation for:				
Buildings	9,017,791.46	654,185.40		9,671,976.86
Machinery and Equipment	1,596,587.75	313,276.57	167,577.76	1,742,286.56
General Infrastructure	305,496.73	39,166.80		344,663.53
Total Accumulated Depreciation	10,919,875.94	1,006,628.77	167,577.76	11,758,926.95
Total Capital Assets, Depreciable, Net	19,733,679.66	(91,159.81)	5,751.47	19,636,768.38
Capital Assets, Net	$ 22,934,850.83	$ 559,467.26	$ 657,354.05	$ 22,836,964.04

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 431,293.38
Accrued Payroll	384,148.83
Other	1,085.95
Total Accounts Payable and Accrued Liabilities	$ 816,528.16

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Note Payable	$ 73,659.68	$ 0.00	$ 32,737.44	$ 40,922.24	$ 32,737.44
Capital Leases Payable	98,140.80		31,091.19	67,049.61	35,208.00
Net Pension Liability	4,219,358.00		3,337,697.00	881,661.00	
Compensated Absences	815,446.05	838,413.10	727,511.49	926,347.66	91,463.48
Total Long-Term Liabilities	$ 5,206,604.53	$ 838,413.10	$ 4,129,037.12	$ 1,915,980.51	$ 159,408.92

Additional information regarding capital lease obligations is included in Note 7.

Additional information regarding the net pension liability is included in Note 10.

B. Note Payable - The College was indebted for a note payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2015	Principal Outstanding June 30, 2015
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	$ 376,481.00	$ 335,558.76	$ 40,922.24

The annual requirements to pay principal and interest on the note payable at June 30, 2015, is as follows:

	Annual Requirements Note Payable	
Fiscal Year	Principal	Interest
2016	$ 32,737.44	$ 1,085.95
2017	8,184.80	56.72
Total Requirements	$ 40,922.24	$ 1,142.67

NOTE 7 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to educational equipment and copiers are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 35,208.00
2017	24,519.76
2018	11,136.01
Total Minimum Lease Payments	70,863.77
Amount Representing Interest (4.9% Rate of Interest)	3,814.16
Present Value of Future Lease Payments	$ 67,049.61

Machinery and equipment acquired under capital lease amounted to $170,012.76 at June 30, 2015.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $61,092.36 at June 30, 2015.

B. Operating Lease Obligations - The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	$ 36,846.72
2017	10,430.88
Total Minimum Lease Payments	$ 47,277.60

Rental expense for all operating leases during the year was $175,665.82.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 3,677,601.69	$ 1,498,990.54	$ 10,379.64	$ 2,168,231.51
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 104,081.10	$ 0.00	$ (10,298.71)	$ 114,379.81
Other	5,983.80		(451.94)	6,435.74
Total Sales and Services	$ 110,064.90	$ 0.00	$ (10,750.65)	$ 120,815.55

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 8,408,196.30	$ 408,299.96	$ 433,517.18	$ 0.00	$ 2,674.85	$ 0.00	$ 9,252,688.29
Academic Support	1,784,881.84	131,731.57	16,457.80				1,933,071.21
Student Services	1,441,807.51	130,735.58	45,109.32		323.23		1,617,975.64
Institutional Support	3,779,663.45	297,752.20	736,851.03				4,814,266.68
Operations and Maintenance of Plant	383,856.67	850,549.21	760,275.04		463,287.70		2,457,968.62
Student Financial Aid			2,004.50	2,277,546.12			2,279,550.62
Auxiliary Enterprises	244,996.85	101,171.81	60,002.21				406,170.87
Depreciation						1,006,628.77	1,006,628.77
Total Operating Expenses	$ 16,043,402.62	$ 1,920,240.33	$ 2,054,217.08	$ 2,277,546.12	$ 466,285.78	$ 1,006,628.77	$ 23,768,320.70

NOTE 10 - PENSION PLAN

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. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC 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, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,020,867.92, and employee contributions were $669,421.58 for the year ended June 30, 2015.

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 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment

portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $881,661.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. 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, 2014, the College's proportion was 0.07520%, which was an increase of 0.00570% from its proportion measured as of June 30, 2013.

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	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) 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, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for 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 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 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 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it

were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 6,329,171.15	$ 881,660.00	$ (3,717,968.46)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $453,280.00. At June 30, 2015, 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	$ 0.00	$ 205,510.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,978,809.00
Change in Proportion and Differences Between Agency'sCcontributions and Proportionate Share of Contributions	287,601.08	
Contributions Subsequent to the Measurement Date	1,020,867.92	
Total	$ 1,308,469.00	$ 3,184,319.00

The amount of $1,020,867.92 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	$ (723,043.00)
2017	(723,043.00)
2018	(723,043.00)
2019	(727,589.00)
Total	$ (2,896,718.00)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of TSERS and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $612,520.75, $556,759.54, and $518,078.31, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of TSERS. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General

Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $45,743.81, $45,365.59, and $43,010.27, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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

B. Employee Benefit Plans

1. State Health Plan

College employees and retirees 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.

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

C. Other Risk Management and Insurance Activities

1. Automobile

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

2. Public Officers' and Employees' Liability Insurance

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

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. In addition, all full-time employees are covered by contracts with private insurance companies with coverage of $98,000 per occurrence and no deductible.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Professional liability insurance is provided for instructors and students in the nursing program. This insurance is provided through a private insurance company with coverage of $1,000,000 per occurrence with no deductible.

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $13,500.00 and on other purchases were $29,255.00 at June 30, 2015.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	$ 24,430,494.46
Restatements:	
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB 68 Requirements	(3,325,099.00)
Correct Prior Period Capital Assets Error	(103,528.98)
Correct Prior Period Net Position Error	71,165.41
July 1, 2014 Net Position as Restated	$ 21,073,031.89

REQUIRED SUPPLEMENTARY INFORMATION

South Piedmont Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years

Exhibit C-1

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07520%	0.06950%
Proportionate Share of TSERS Collective Net Pension Liability	$ 881,661.00	$ 4,219,358.00
Covered-Employee Payroll	$ 10,310,361.94	$ 9,775,062.38
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.55121%	43.16451%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

South Piedmont Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2015	2014	2013	2012	2011
Actuarial Required Contribution	$ 1,020,867.92	$ 895,970.45	$ 814,262.70	$ 714,986.36	$ 481,712.45
Contributions in Relation to the Contractually Determined Contribution	1,020,867.92	895,970.45	814,262.70	714,986.36	481,712.45
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 11,157,026.37	$ 10,310,361.94	$ 9,775,062.38	$ 9,610,031.73	$ 9,771,043.63
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Actuarial Required Contribution	$ 328,270.05	$ 309,624.97	$ 263,329.40	$ 217,997.21	$ 166,215.08
Contributions in Relation to the Contractually Determined Contribution	328,270.05	309,624.97	263,329.40	217,997.21	166,215.08
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 9,195,239.41	$ 9,215,029.01	$ 8,633,750.77	$ 8,195,383.90	$ 7,103,208.34
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

South Piedmont Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase								
2014	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT 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
South Piedmont Community College
Polkton, 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 South Piedmont Community 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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 10, 2016. Our report includes a reference to other auditors who audited the financial statements of South Piedmont Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with South Piedmont Community College Foundation, Inc.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the

accompanying Audit Findings, Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Audit Findings, Recommendations, and Responses section to be material weaknesses.

Compliance and Other Matters

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

College's Response to Finding

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 10, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent a deficiency in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters. This finding was also reported in the prior year.

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS AND OMISSIONS

The financial statements, related notes, and required supplementary information prepared by the College and submitted for audit contained significant misstatements and omissions that were corrected as a result of our audit. The misstatements and omissions noted during our audit include:

a. Required supplementary information for the Teachers' and State Employees' Retirement System was not included as part of the financial statements submitted for audit. As a result, information considered to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context was not presented.

b. The College did not properly calculate employer retirement contributions for the current fiscal year. As a result, deferred outflows related to pensions were understated by $866,376 and salaries and benefits were understated by the same amount.

c. The College did not record a receivable from Union County for a reimbursement of funds spent during the year and received from the county after year-end. As a result, intergovernmental receivables were understated by $235,923. County capital appropriations and county aid were also understated by $190,808 and $45,115, respectively.

d. The College failed to record a payable for goods received prior to year-end and paid for after year-end. As a result, accounts payable and supplies and materials were understated in the amount of $139,882.

e. The College did not properly reconcile its capital asset subsidiary ledger to the general ledger. As a result, the College did not capitalize several pieces of equipment in the amount of $156,839, nor did it record depreciation expense of $2,871 for those items. As a result, machinery and equipment was misstated by the net amount of these two errors, $153,968. Several other minor errors were noted related to buildings as well as machinery and equipment as a result of the College's failure to reconcile its subsidiary ledger to the general ledger.

f. As a result of our audit, other reclassification entries were necessary, as well as multiple changes to the financial statement note disclosures, the Statement of Cash Flows, and Management's Discussion and Analysis.

These misstatements and omissions indicate that the College's internal control over financial reporting was not effective. Without these error corrections and inclusion of all required statements and disclosures, users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance, and operating results.

The omissions and errors in financial reporting occurred and were not detected and corrected by the College, in part because:

- The College did not fully understand the reporting and disclosure requirements related to Governmental Accounting Standards Board Statement No. 68.
- The College did not perform a complete and thorough review of the financial statements prior to submission for audit.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America. Additionally, the Committee of Sponsoring Organizations (COSO) *Internal Control – Integrated Framework*[1] states that organizations develop information systems to source, capture, and process large volumes of data into meaningful and actionable information. Management establishes information management policies with clear responsibility and accountability for the quality of information. COSO further states that maintaining quality of information is necessary to an effective internal control system.

Further, best practices require management to periodically review and analyze financial information. The Government Accountability Office (GAO) recommends that senior management should regularly review actual performance against prior period results. The GAO also recommends that "financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results."[2]

Recommendation: The College should ensure that appropriate and adequate resources are provided to ensure:

- The impact of implementation of financial reporting standards are adequately considered,
- Employees are provided with a sufficient understanding of the new or modified standards and their impact on the financial reporting process, and
- A knowledgeable individual, or group of individuals, performs a complete and thorough review of the financial statements and related information to ensure timely, accurate, and complete year-end reporting.

College's Response: We are in agreement with the finding. We received a lot of advice from the state auditors on how to establish a system to backup and review the various areas that we reconcile and review. We plan to review and study all GASB standards so that we fully understand the scope of their requirements and reporting. We will take advantage of webinars and classes provided by NCCCS that will help increase our knowledge and understanding of financial statement reporting. The Associate Vice President of Finance will develop a program and schedule whereby financial statements have a complete and thorough review prior to the completion of the statements. Major improvements will be made to thoroughly review capital assets.

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[1] Committee of Sponsoring Organizations, Internal Control – Integrated Framework, May 2013
[2] Government Accountability Office, Internal Control Management and Evaluation Tool, 2001

The College responded to each individual aspect of the finding as follows:

a. The Associate Vice President of Finance will work to learn about the information that makes up the Required Supplementary Information and where the information is located.

b. This understatement was the result of not understanding the calculation and using the incorrect amount of Covered Employee Payroll. We will work to understand GASB 68 and how to properly calculate employer retirement contributions.

c. This was an oversight by the Associate of VP of Finance. An email was sent by the Coordinator, Financial and Administrative Services informing that the funds had been required in June 2015, but no receivable was generated. To correct this in the future, we have created a file in Sharepoint to record all manual invoices or requests for refunds made by the Business Office. The Associate VP of Finance will monitor this file prior to year end to verify if any receivables need to be accrued.

d. We looked into this and found that the missed payable was three June 2015 invoices that were paid on an August 2015 check along with two August 2015 invoices. The three June 2015 invoices were overlooked. Our new year-end accounts payable accrual procedures will have the Accounts Payable Technician report accruals to the Director of Financial Services who will review all checks written after June 30. The list of accounts payable accruals will be presented to the Associate VP of Finance for final review.

e. The Associate VP of Finance has established a schedule to reconcile fixed assets each month. He is working with our Purchasing and Inventory Technician and our Coordinator, Purchasing and Contracts. All corrections are made before proceeding to the next month. We are reaching out to the System Office to contact a SME for capital assets to obtain help in establishing our program for recording and reconciling. We are also going to contact other community colleges to discuss how their program is working so that we can make improvements to our fixed assets program.

f. The Associate VP of Finance has reviewed the other reclassification entries that were made and is establishing methods to make sure that these errors will not be repeated. Changes in the formatting and procedures to the notes to the financial statements will be made. Notebooks will be kept to backup all notes to the financials. Regarding the Statement of Cash Flows, the state auditor left us with a template to follow to learn and make it easier to prepare the statement. The Management's Discussion and Analysis will be formatted correctly and more depth will be included in the analysis.

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For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 561.5 audit hours at an approximate cost of $55,588.50.