/

WILKES COMMUNITY COLLEGE/
Wilkesboro, North Carolina

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Financial Statements
For the Fiscal Year Ended
June 30, 2017

Unaudited

Wilkes Community College
Statement of Net Position
June 30, 2017

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,731,039.01
Restricted Cash and Cash Equivalents	1,089,215.67
Short-Term Investments	144,392.60
Restricted Short-Term Investments	1,674,845.83
Receivables, Net (Note 5)	1,193,524.32
Due from Primary Government	0.00
Due from State of North Carolina Component Units	0.00
Due from Community College Component Units	0.00
Inventories	462,936.14
Prepaid Items	0.00
Notes Receivable, Net (Note 5)	14,019.00
Total Current Assets	6,309,972.57
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	444,039.65
Receivables, Net (Note _)	0.00
Restricted Due from Primary Government	5,393.98
Restricted Due from State of North Carolina Component Units	0.00
Restricted Investments	4,184,579.56
Other Investments	0.00
Notes Receivable, Net (Note 5)	25,701.27
Capital Assets - Nondepreciable (Note 6)	1,841,738.43
Capital Assets - Depreciable, Net (Note 6)	28,941,318.53
Total Noncurrent Assets	35,442,771.42
Total Assets	41,752,743.99
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	5,803,029.00
Total Deferred Outflows of Resources	5,803,029.00

Wilkes Community College
Statement of Net Position
June 30, 2017

LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	1,223,562.58
Due to Primary Government	1,556.38
Due to State of North Carolina Component Units	0.00
Unearned Revenue	399,235.15
Funds Held for Others	421,201.39
Long-Term Liabilities - Current Portion (Note 8)	274,129.81
Total Current Liabilities	2,319,685.31
Noncurrent Liabilities:	
Accounts Payable and Accrued Liabilities (Note _)	0.00
Funds Held for Others	0.00
U.S. Government Grants Refundable	0.00
Long-Term Liabilities (Note 8)	9,843,676.58
Total Noncurrent Liabilities	9,843,676.58
Total Liabilities	12,163,361.89
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	394,983.00
Total Deferred Inflows of Resources	394,983.00
NET POSITION	
Net Investment in Capital Assets	30,686,830.75
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,760,159.41
Loans	0.00
Restricted for Specific Programs	1,440,070.15
Other	0.00
Expendable:	
Scholarships and Fellowships	1,858,141.04
Loans	0.00
Capital Projects	0.00
Restricted for Specific Programs	957,252.02
Other	0.00
Unrestricted	(2,705,025.27)
Total Net Position	$ 34,997,428.10

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

Wilkes Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 1,851,448.69
Federal Grants and Contracts	1,266,456.09
State and Local Grants and Contracts	581,297.22
Nongovernmental Grants and Contracts	0.00
Sales and Services, Net (Note 10)	1,629,147.80
Other Operating Revenues	32,904.54
Total Operating Revenues	5,361,254.34
EXPENSES	
Operating Expenses:	
Salaries and Benefits	21,542,250.79
Supplies and Materials	3,115,547.67
Services	3,721,339.09
Scholarships and Fellowships	2,437,574.24
Utilities	847,696.81
Depreciation/ Amortization	1,665,618.56
Total Operating Expenses	33,330,027.16
Operating Loss	(27,968,772.82)
NONOPERATING REVENUES (EXPENSES)	
State Aid	14,944,432.53
County Appropriations	4,323,296.72
Noncapital Grants - Student Financial Aid	4,530,936.46
Noncapital Grants	244,110.40
Noncapital Gifts, Net	1,455,285.13
Investment Income	480,732.02
Interest and Fees on Debt	0.00
Other Nonoperating Revenues (Expenses)	(13,594.39)
Net Nonoperating Revenues	25,965,198.87
Income (Loss) Before Other Revenues, Expenses, Gains, and Losses	(2,003,573.95)
State Capital Aid	879,406.02
County Capital Aid	97,474.28
Capital Grants	193,676.36
Capital Gifts, Net	0.00
Additions to Endowments	1,019,841.58
Special Items	0.00
Extraordinary Items	0.00
Increase (Decrease) in Net Position	186,824.29
NET POSITION	
Net Position, July 1, 2016 as Restated (Note _)	34,810,603.81
Net Position, June 30, 2017	$ 34,997,428.10

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

Wilkes Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,681,122.75
Payments to Employees and Fringe Benefits	(21,346,443.13)
Payments to Vendors and Suppliers	(7,653,666.01)
Payments for Scholarships and Fellowships	(2,447,195.78)
Loans Issued to Students	(39,720.27)
Collection of Loans to Students	0.00
Other Receipts (Payments)	143,745.18
Net Cash Provided (Used) by Operating Activities	(25,662,157.26)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	14,944,432.53
County Appropriations	4,323,296.72
Noncapital Grants - Student Financial Aid	4,530,759.11
Noncapital Grants	257,326.13
Noncapital Gifts	1,455,285.13
Additions to Endowments	1,019,841.58
William D. Ford Direct Lending Receipts	928,396.00
William D. Ford Direct Lending Disbursements	(928,396.00)
Net Cash Provided (Used) by Noncapital Financing Activities	26,530,941.20
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	949,548.91
County Capital Aid	97,474.28
Capital Grants	193,676.36
Capital Gifts	(53,830.07)
Proceeds from Capital Debt	0.00
Proceeds from Sale of Capital Assets	404.14
Proceeds from Insurance on Capital Assets	0.00
Acquisition and Construction of Capital Assets	(704,154.83)
Principal Paid on Capital Debt and Leases	(29,960.49)
Interest Paid on Capital Debt and Leases	0.00
Net Cash Provided (Used) by Capital and Related Financing Activities	453,158.30
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	2,184,602.05
Investment Income	106,175.32
Purchase of Investments and Related Fees	(3,075,667.24)
Net Cash Provided (Used) by Investing Activities	(784,889.87)
Net Increase (Decrease) in Cash and Cash Equivalents	537,052.37
Cash and Cash Equivalents, July 1, 2016	2,727,241.96
Cash and Cash Equivalents, June 30, 2017	$ 3,264,294.33

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(27,968,772.82)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/ Amortization Expense		1,665,618.56
Provision for Uncollectible Loans and Write-Offs		0.00
Nonoperating Other Income (Expenses)		0.00
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		282,016.84
Inventories		(60,396.67)
Prepaid Items		0.00
Notes Receivable, Net		(39,720.27)
Deferred Outflows for Pensions		(4,299,646.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		161,695.66
Due to Primary Government		(170.94)
Due to State of North Carolina Component Units		0.00
Unearned Revenue		28,230.03
Net Pension Liability		4,988,398.00
Funds Held for Others		143,745.18
Deferred Inflows for Pensions		(353,077.00)
Compensated Absences		(210,077.83)
Net Cash Used by Operating Activities	$	(25,662,157.26)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,731,039.01
Restricted Cash and Cash Equivalents		1,089,215.67
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		444,039.65
Total Cash and Cash Equivalents - June 30, 2017	$	3,264,294.33

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	0.00
Assets Acquired through a Gift		53,830.07
Change in Fair Value of Investments		246,639.20
Increase in Receivables Related to Nonoperating Income		0.00
Loss on Disposal of Capital Assets		(13,594.39)

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

Wilkes Community College Foundation, Inc.
Statement of Financial Position
June 30, 2017

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	2,862,623.73
Receivables, Net		52,731.36
Pledges Receivable/Promises		148,582.67
Inventories		5,216.20
Prepaid Expenses		36,071.19
Property and Equipment, Net		939,704.95
Total Assets	$	4,044,930.10
LIABILITIES		
Accounts Payable and Accrued Expenses	$	13,927.98
Due to Community College and Other Foundations		0.00
Grants Payable to Community College		0.00
Unearned Revenue		12,433.19
Interest Payable		0.00
Deposits Payable		0.00
Funds Held for Others		0.00
Interest Rate Swap Fair Value Liability		0.00
Split Interest Agreement Obligations		0.00
Annuities Payable		0.00
Capital Leases Payable		0.00
Notes Payable		0.00
Bonds Payable		0.00
Total Liabilities		26,361.17
NET ASSETS		
Unrestricted		3,492,197.04
Temporarily Restricted		526,371.89
Permanently Restricted		0.00
Total Net Assets		4,018,568.93
Total Liabilities and Net Assets	$	4,044,930.10

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

Wilkes Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Contributions	$ 441,598.95
Rental Income	21,875.00
Fund-Raising Income	4,266,363.57
Other	57,267.56
Total Unrestricted Revenues and Gains	4,787,105.08
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	0.00
Satisfaction of Equipment Acquisition Restrictions	0.00
Expiration of Time Restrictions	0.00
Total Net Assets Released from Restrictions	0.00
Total Unrestricted Revenues, Gains, and Other Support	4,787,105.08
Expenses and Losses:	
Program Services	751,459.46
Management and General	406,814.64
Fund Raising	2,452,594.75
Total Expenses	3,610,868.85
Loss	0.00
Total Expenses and Losses	3,610,868.85
Increase/(Decrease) in Unrestricted Net Assets	1,176,236.23
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	298,267.10
Other	40,246.76
Interest Income	1,153.36
Change in Allow Doubtful Accounts	5,000.00
Bad Debts	(8,575.22)
Transfer to Wilkes Community College	(636,000.00)
Satisfaction of Program Restrictions	0.00
Satisfaction of Equipment Acquisition Restrictions	0.00
Expiration of Time Restrictions	0.00
Increase/(Decrease) in Temporarily Restricted Net Assets	(299,908.00)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	1,019,657.14
Interest Income	5.14
Transfer to Wilkes Community College	(1,019,662.28)
Increase/(Decrease) in Permanently Restricted Net Assets	0.00
Increase/(Decrease) in Net Assets	876,328.23
Net Assets at Beginning of Year	0.00
Net Assets at End of Year	$ 876,328.23

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

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

		2016	2015	2014	2013
(1)	Proportionate Share Percentage of Collective Net Pension Liability	0.09093%	0.09142%	0.08870%	0.08530%
(2)	Proportionate Share of TSERS Collective Net Pension Liability	$ 8,357,406.00	$ 3,369,008.00	$ 1,039,937.00	$ 5,178,579.00
(3)	Covered Payroll	$ 13,068,729.47	$ 13,107,536.33	$ 12,650,278.72	$ 12,260,469.07
(4)	Net Pension Liability as a Percentage of Covered Payroll	63.95%	25.70%	8.22%	42.24%
(5)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

		2017	2016	2015	2014	2013
(1)	Contractually Required Contribution	$ 1,367,958.02	$ 1,195,788.75	$ 1,199,339.57	$ 1,099,309.22	$ 1,021,297.07
(2)	Contributions in Relation to the Contractually Determined Contribution	1,367,958.02	1,195,788.75	1,199,339.57	1,099,309.22	1,021,297.07
(3)	Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4)	Covered Payroll	$ 13,706,994.22	$ 13,068,729.47	$ 13,107,536.33	$ 12,650,278.72	$ 12,260,469.07
(5)	Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

		2012	2011	2010	2009	2008
(1)	Contractually Required Contribution	$ 889,380.77	$ 593,808.53	$ 422,040.54	$ 416,104.94	$ 360,870.68
(2)	Contributions in Relation to the Contractually Determined Contribution	889,380.77	593,808.53	422,040.54	416,104.94	360,870.68
(3)	Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4)	Covered Payroll	$ 11,954,042.58	$ 12,044,797.86	$ 11,821,863.98	$ 12,372,281.64	$ 11,831,825.51
(5)	Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

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

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

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. Wilkes 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 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 their legal separateness.

Discretely Presented Component Unit*(s)* – The Wilkes Community College Foundation (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 Wilkes Community College Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 28 members of which 2 positions were vacant at June 30, 2017. 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 Wilkes Community College 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, 2017, the Foundation distributed $2,407,121.74 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of the Wilkes Community College Foundation, Wilkes Community College, P.O. Box 120, Wilkesboro, NC 28697-0120.

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

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

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

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

D. **Cash and Cash Equivalents** – This classification includes petty cash and cash on deposit with private bank accounts.

E. **Investments** - To the extent available, investments are recorded at fair value based on the market approach using prices and other relevant information generated by market transactions involving identical or similar items. Additional information regarding the fair value measurement of investments is disclosed in Note 3. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net change in the value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. 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 or last invoice cost method. Bookstore inventories consisting of merchandise for resale are valued at the last invoice cost method for supply and gift items and the average cost method for textbooks.

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

The value of assets constructed includes all material direct and indirect construction costs. 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 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. Library books are generally not considered to have an 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 over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	25-75 years
Machinery and Equipment	5-50 years
General Infrastructure	15-50 years

The art collection is capitalized at cost or acquisition value at the date of donation. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. This collection is depreciated over the life of the collection using the straight-line method. The estimated useful life for the collection is 25 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 and resources whose use is limited by external parties or statute.

J. **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 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources 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.

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

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

L. Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Deferred inflows for pensions qualifies for reporting in this category.

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

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding liabilities related to those capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

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

P. **Internal Sales Activities -** Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the bookstore, the John A. Walker Events functions, hospitality services and the child development center (which closed in fall 2009; however, revenues are being collected on outstanding accounts). 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 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, 2017 was $5,570.00. The carrying amount of the College's deposits not with the State Treasurer was $3,258,724.33 reported as investments on the Statement of Net Position, was $6,003,817.99, and the bank balance was $3,671,392.02.

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, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. **Investments** - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.
Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain

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

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

Investments of the College's component unit, the Wilkes Community College 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2017, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No.3,* 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

		Investment Maturities (in Years)			
	Amount	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Debt Mutual Funds	$ 1,256,057.71	$	$ 117,804.71	$ 1,138,253.00	$
Money Market Mutual Funds	248,562.78	248,562.78			
Total Debt Securities	1,504,620.49	$ 248,562.78	$ 117,804.71	$ 1,138,253.00	$ 0.00
Other Securities					
Mutual Funds	2,122,410.39				
International Mutual Funds	912,131.09				
Real Estate Investment Trust	767,431.46				
Hedge Funds	697,224.56				
Total Investments	$ 6,003,817.99				

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, 2017, the College's investments were rated as follows:

	Amount	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	$ 1,256,057.71	$	$	$ 117,804.59	$ 355,233.77	$ 144,922.39	$ 638,096.96
Money Market Mutual Funds	248,562.78	248,562.78					
Totals	$ 1,504,620.49	$ 248,562.78	$ 0.00	$ 117,804.59	$ 355,233.77	$ 144,922.39	$ 638,096.96

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were not exposed to custodial credit risk as there are no assets held by a counterparty and there are not assets held in trust that are not in the name of the College.

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. More than 5% of the College's investments are in Dodge & Cox Income Fund Com #147, Harbor Capital Appreciation Fund Class Inst #2012, SPDR S&P 500 ETF Trust, T. Rowe Price Equity Income Fund #426, Vanguard FTSE Emerging Markets ETF, and Principal Investors Real Estate Securities Instl Fund #4934. These investments are 5.92%, 7.28%, 9.97%, 6.86%, 6.99%, and 8.57%, respectively, of College's investments.

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 College's exposure to foreign currency risk for their investments is as follows:

Investment	Amount (U.S. Dollars)
Pimco Emerging Local Bond Fund Inst #332	$ 180,223.99
Pimco Emerging Markets bond Fund Instl #137	179,108.45
Pimco Foreign Bond Fund #103	44,941.91
Ishares MSCI Eafe ETF	246,847.20
Mondrian International Equity Fund	245,551.49
Vanguard FTSE Emerging Markets ETF	419,732.40
Total	$ 1,316,405.44

Component Units - Investments of the College's discretely presented component unit, the Wilkes Community College Foundation 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 Wilkes Community College Foundation report*(s)* under the FASB reporting model, disclosures of the various investment risks are not required.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2017, is as follows:

Cash on Hand	$	5,570.00
Carrying Amount of Deposits with Private Financial Institutions		3,258,724.33
Other Investments		6,003,817.99
Total Deposits and Investments	$	9,268,112.32
Deposits		
Current:		
Cash and Cash Equivalents	$	1,731,039.01
Restricted Cash and Cash Equivalents		1,089,215.67
Noncurrent:		
Restricted Cash and Cash Equivalents		444,039.65
Total Deposits		3,264,294.33
Investments		
Current:		
Short-Term Investments		144,392.60
Restricted Short-Term Investments		1,674,845.83
Noncurrent:		
Endowment Investments		4,184,579.56
Total Investments		6,003,817.99
Total Deposits and Investments	$	9,268,112.32

NOTE 3 - FAIR VALUE MEASUREMENTS

COLLEGE - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

	Fair Value	Fair Value Measurements Using Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Debt Mutual Funds	$ 1,256,057.71	$ 1,256,057.71	$	$
Money Market Mutual Funds	248,562.78	248,562.78		
Total Debt Securities	1,504,620.49	1,504,620.49	0.00	0.00
Other Securities				
Short-Term Investment Fund	0.00			
Bond Index Fund	0.00			
Mutual Funds	2,122,410.39			
International Mutual Funds	912,131.09			
Real Estate Investment Trust	767,431.46			
Hedge Strategies-Relative Valu	117,148.84			
Hedge Strategies-Macro	244,128.01			
Hedge Strategies-Event Driven	58,945.19			
Hedge Strategies-Equity Hedge	277,002.52			
Total Investments by Fair Value Level	6,003,817.99	$ 1,504,620.49	$ 0.00	$ 0.00
Investments Measured at the Net Asset Value (NAV)				
Real Estate Investment Trust				
Hedge Funds*				
Other Limited Partnerships				
Pooled Investments				
Others (Describe)				
Total Investments Measured at the NAV	0.00			
Total Investments Measured at Fair Value	$ 6,003,817.99			

Debt and Equity Securities - Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - 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. 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 specifies that assets will be invested in total return capacity with no distinction made between investment yields and capital appreciation. Generally, the Board will spend up to 4% of the total foundation assets based on an average 3-year market value. At June 30, 2017, net appreciation of $235,756.86 was available to be spent, of which $206,029.36 was classified in net position as restricted for scholarships and fellowships and $29,727.50 was classified in net position as restricted for specific programs as it is restricted for specific purposes. The entire amount of appreciation is restricted for specific purposes.

During the current year, the College recorded any realized or unrealized gains or losses on endowment fund investments to the corresponding restricted funds account. This maintains the endowment amount as the amount requested by the donor to remain in perpetuity.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 900,906.24	$ 388,804.56	$ 512,101.68
Student Sponsors	31,046.06	867.83	30,178.23
Accounts	9,580.21		9,580.21
Intergovernmental	524,206.16		524,206.16
Other	117,458.04		117,458.04
Total Current Receivables	$ 1,583,196.71	$ 389,672.39	$ 1,193,524.32
Notes Receivable:			
Notes Receivable - Current:			
Estate Promissory Note	$ 14,019.00	$	$ 14,019.00
Total Notes Receivable - Current	$ 14,019.00	$ 0.00	$ 14,019.00
Notes Receivable - Noncurrent:			
Estate Promissory Note	$ 25,701.27	$	$ 25,701.27
Total Notes Receivable - Noncurrent	$ 25,701.27	$ 0.00	$ 25,701.27

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 1,661,047.97	$	$	$ 1,661,047.97
Construction in Progress		180,690.46		180,690.46
Other [Describe]				0.00
Total Capital Assets, Nondepreciable	1,661,047.97	180,690.46	0.00	1,841,738.43
Capital Assets, Depreciable:				
Buildings	38,038,292.43	167,578.65		38,205,871.08
Machinery and Equipment	8,962,789.54	409,289.79	171,368.94	9,200,710.39
Art, Literature, and Artifacts	45,500.00			45,500.00
General Infrastructure	5,202,129.37			5,202,129.37
Other Intangible Assets				0.00
Total Capital Assets, Depreciable	52,248,711.34	576,868.44	171,368.94	52,654,210.84
Less Accumulated Depreciation/Amortization for:				
Buildings	14,755,467.20	965,949.98		15,721,417.18
Machinery and Equipment	4,692,347.12	485,601.11	157,370.41	5,020,577.82
Art, Literature, and Artifacts	43,553.58	277.92		43,831.50
General Infrastructure	2,713,276.26	213,789.55		2,927,065.81
Other Intangible Assets				0.00
Total Accumulated Depreciation/Amortization	22,204,644.16	1,665,618.56	157,370.41	23,712,892.31
Total Capital Assets, Depreciable, Net	30,044,067.18	(1,088,750.12)	13,998.53	28,941,318.53
Capital Assets, Net	$ 31,705,115.15	$ (908,059.66)	$ 13,998.53	$ 30,783,056.96

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 288,443.45
Accrued Payroll	523,846.01
Intergovernmental Payables	411,249.65
Other	23.47
Total Current Accounts Payable and Accrued Liabilities	$ 1,223,562.58

NOTE 8 - LONG-TERM LIABILITIES

A. **Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Notes Payable	$	$	$	$ 0.00	$
Capital Leases Payable	126,186.70		29,960.49	96,226.21	30,993.97
Net Pension Liability	3,369,008.00	4,988,398.00		8,357,406.00	
Compensated Absences	1,874,252.01	1,519,052.49	1,729,130.32	1,664,174.18	243,135.84
Note Payable Anticipation Notes				0.00	
Total Long-Term Liabilities	$ 5,369,446.71	$ 6,507,450.49	$ 1,759,090.81	$ 10,117,806.39	$ 274,129.81

Additional information regarding capital lease obligations is included in Note 9.
Additional information regarding the net pension liability is included in Note 12.

NOTE 9 - LEASE OBLIGATIONS

A. **Capital Lease Obligations** - Capital lease obligations relating to server equipment 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, 2017:

Fiscal Year	Amount
2018	$ 34,313.30
2019	34,313.30
2020	34,313.30
2021	
2022	
2023-2027	
2028-2032	
2033-2037	
2038-2042	
Total Minimum Lease Payments	102,939.90
Amount Representing Interest (3.45% Rate of Interest)	6,713.69
Present Value of Future Lease Payments	$ 96,226.21

Machinery and equipment acquired under capital lease amounted to $160,500.00 at June 30, 2017.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled $29,425.00 at June 30, 2017

B. **Operating Lease Obligations** - The College entered into operating leases for printing/copying equipment and vehicles. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year		Amount
2018	$	108,079.44
2019		108,079.44
2020		108,079.44
2021		27,124.33
2022		10,781.36
2023-2027		
2028-2032		
2033-2037		
2038-2042		
Total Minimum Lease Payments	$	362,144.01

Rental expense for all operating leases during the year was $213,846.05.

NOTE 10 - 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*	Less Indigent Care and Contractual Adjustments	Net Revenues
perating Revenues:						
Student Tuition and Fees, Net	$ 4,087,527.93	$ 2,329.00	$ 2,221,322.34	$ 12,427.90	$	$ 1,851,448.69
Sales and Services:						
Sales and Services of Auxiliary Enterprises:						
Vending	$ 47,711.65	$	$	$	$	$ 47,711.65
John A. Walker Events	239,026.71					239,026.71
Child Development Center	4,604.42			4,454.82		149.60
Bookstore	1,931,341.82	112,966.11	864,203.14	161,661.04		792,511.53
Hospitality Services	477,089.87	31,362.68				445,727.19
Other						0.00
Sales and Services of Education and Related Activities	104,145.35			124.23		104,021.12
Independent Operations						0.00
Total Sales and Services, Net	$ 2,803,919.82	$ 144,328.79	$ 864,203.14	$ 166,240.09	$ 0.00	$ 1,629,147.80

NOTE 11 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 11,414,000.73	$ 1,339,083.07	$ 1,090,804.58	$	$	$	$ 13,843,888.38
Public Service	22,835.33	10,474.20	32,140.02				65,449.55
Academic Support	2,364,799.90	56,463.78	105,392.09				2,526,655.77
Student Services	1,571,934.08	31,800.07	107,226.22				1,710,960.37
Institutional Support	2,298,452.21	238,488.32	1,415,922.95	195,880.45	42,254.51		4,190,998.44
Operations and Maintenance of Plant	1,643,362.49	205,686.65	414,222.22		805,442.30		3,068,713.66
Student Financial Aid			24,996.72	2,241,693.79			2,266,690.51
Auxiliary Enterprises	524,036.05	1,233,551.58	530,634.29				2,288,221.92
Pension Expense	1,702,830.00						1,702,830.00
Depreciation/ Amortization						1,665,618.56	1,665,618.56
Total Operating Expenses	$ 21,542,250.79	$ 3,115,547.67	$ 3,721,339.09	$ 2,437,574.24	$ 847,696.81	$ 1,665,618.56	$ 33,330,027.16

NOTE 12 - PENSION PLANS

Defined Benefit Plan

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $820,485.86, and the College's contributions were $1,367,958.02 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $8,357,406.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was 0.09093%, which was a decrease of 0.00049% from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

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

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

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 at June 30, 2016 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%)
$ 15,718,666.00	$ 8,357,406.00	$ 2,167,596.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,702,830.00. At June 30, 2017, 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	$		$	394,983.00
Changes of Assumptions		1,232,514.00		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,980,519.00		
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		222,038.00		
Contributions Subsequent to the Measurement Date		1,367,958.00		
Total	$	5,803,029.00	$	394,983.00

The amount of $1,367,958.00 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, 2018. 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
2018	$	736,917.00
2019		738,786.00
2020		1,651,533.00
2021		912,852.00
2022		
Total	$	4,040,088.00

NOTE 13 - 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 5.81% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $794,564.39, $731,848.85, and $719,603.74, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $52,086.58, $53,581.79, and $53,740.90, 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 14 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees 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 $100,000 deductible. Losses from employee dishonesty for employees paid from county and institutional funds are covered with private insurance companies.

4. **Statewide Workers' Compensation Program**

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

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

5. **Other Insurance Held by the College**

The College retained the following risks as of June 30, 2017 associated with employees who are involved in healthcare environments and the risk that results with the possibility of malpractice liability involved with a classroom laboratory environment. The College is protected from such risks by the purchase of insurance through private insurance companies.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

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 $101,775.00 at June 30, 2017.