



FINANCIAL STATEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2018

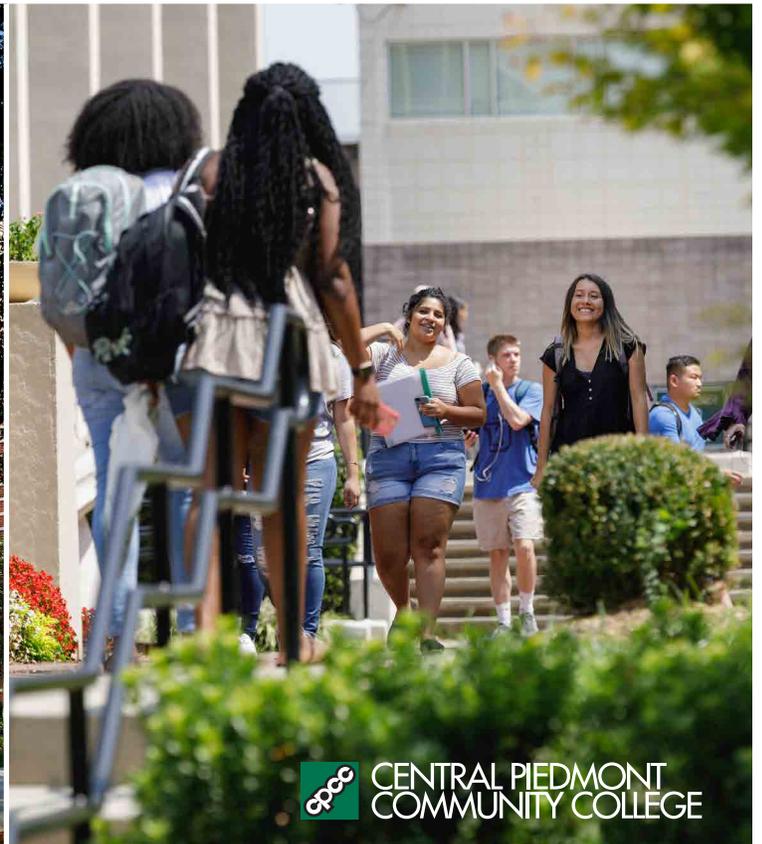


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REPORT OF INDEPENDENT AUDITOR ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	61

Report of Independent Auditor

Members of the Board of Trustees
Central Piedmont Community College
Charlotte, North Carolina

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We 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 the *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 entity'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 entity'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, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the discretely presented component unit of the College as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, 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 20 to the financial statements, the College adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, net position as of July 1, 2017, has been restated. 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 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 management’s discussion and analysis and 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 September 21, 2018 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.

Cherry Bekaert LLP

Charlotte, North Carolina
September 21, 2018

CENTRAL PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

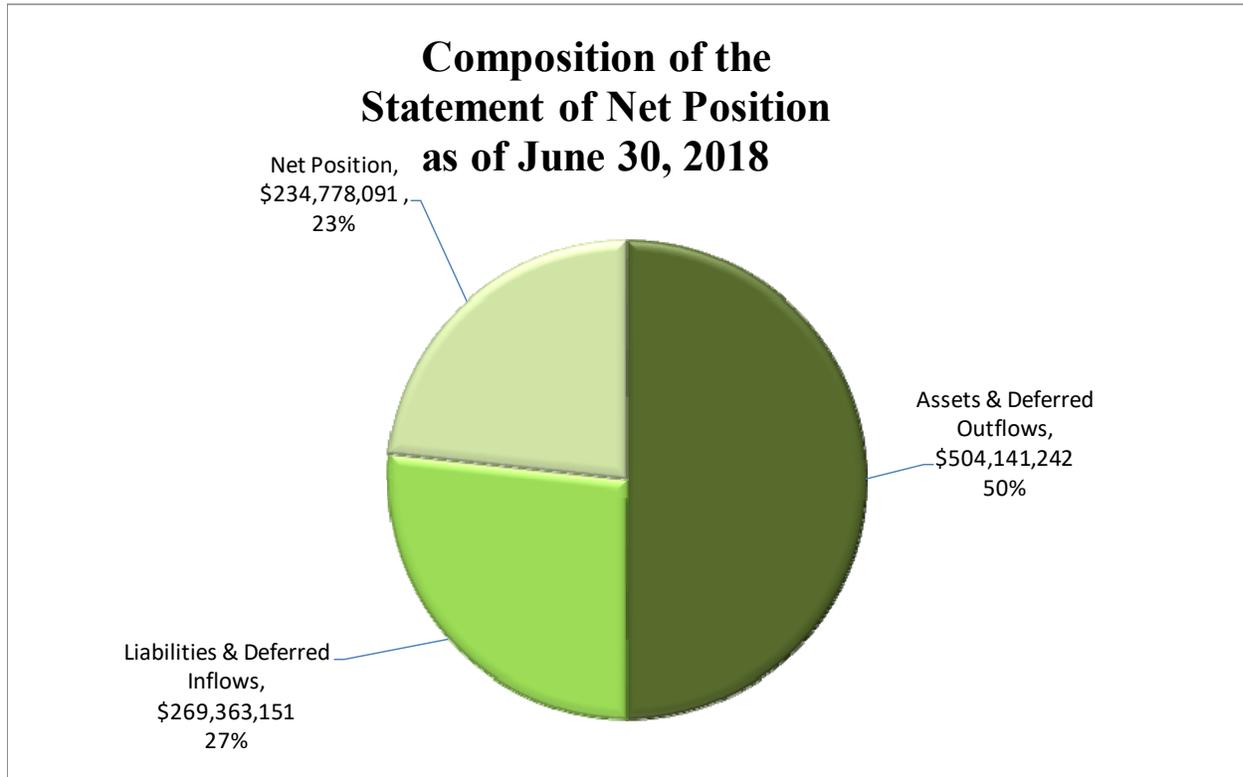
Introduction

The following discussion and analysis provides an overview of the financial position and activities of Central Piedmont Community College (the "College") for the year ended June 30, 2018, with selected comparative information for the year ended June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes to the financial statements which follow this section.

The College is a comprehensive public two-year college serving approximately 70,000 community residents annually and has approximately 2,400 full and part-time employees in nine locations including six campuses in the Charlotte-Mecklenburg region of North Carolina. The College offers a broad range of college transfer, associate, and technical degree programs. The College offers over 300 degree, diploma and certification programs, customized corporate training, market-focused continuing education, and special interest classes. The College consistently ranks among the leaders of community colleges nationally in terms of quality of academic offerings and workforce development.

Financial Highlights

The College's financial position remained strong as of June 30, 2018. The composition of the College's Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position is presented below.



**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Highlights (continued)

Changes in net position represent the operating and nonoperating activity of the College and are summarized for the years ended June 30, 2018 and 2017 as follows:

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Operating Revenues	\$ 39,882,498	\$ 42,775,608	\$ (2,893,110)
Operating Expenses	(198,566,814)	(186,230,830)	(12,335,984)
Net Nonoperating Revenues	141,783,618	133,354,889	8,428,729
Capital Aid Revenues	71,747,668	31,650,858	40,096,810
Increase in Net Position	<u>\$ 54,846,970</u>	<u>\$ 21,550,525</u>	<u>\$ 33,296,445</u>

Using the Financial Statements

The College's financial report includes three financial statements:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

These financial statements are prepared in accordance with the Governmental Accounting Standards Board ("GASB") principles.

Statement of Net Position

The Statement of Net Position presents the financial position of the College at the end of the fiscal year and includes all assets, deferred inflows and outflows, and liabilities of the College. The difference between total assets plus deferred outflows and total liabilities plus deferred inflows, net position, is one indicator of the current financial position of the College. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

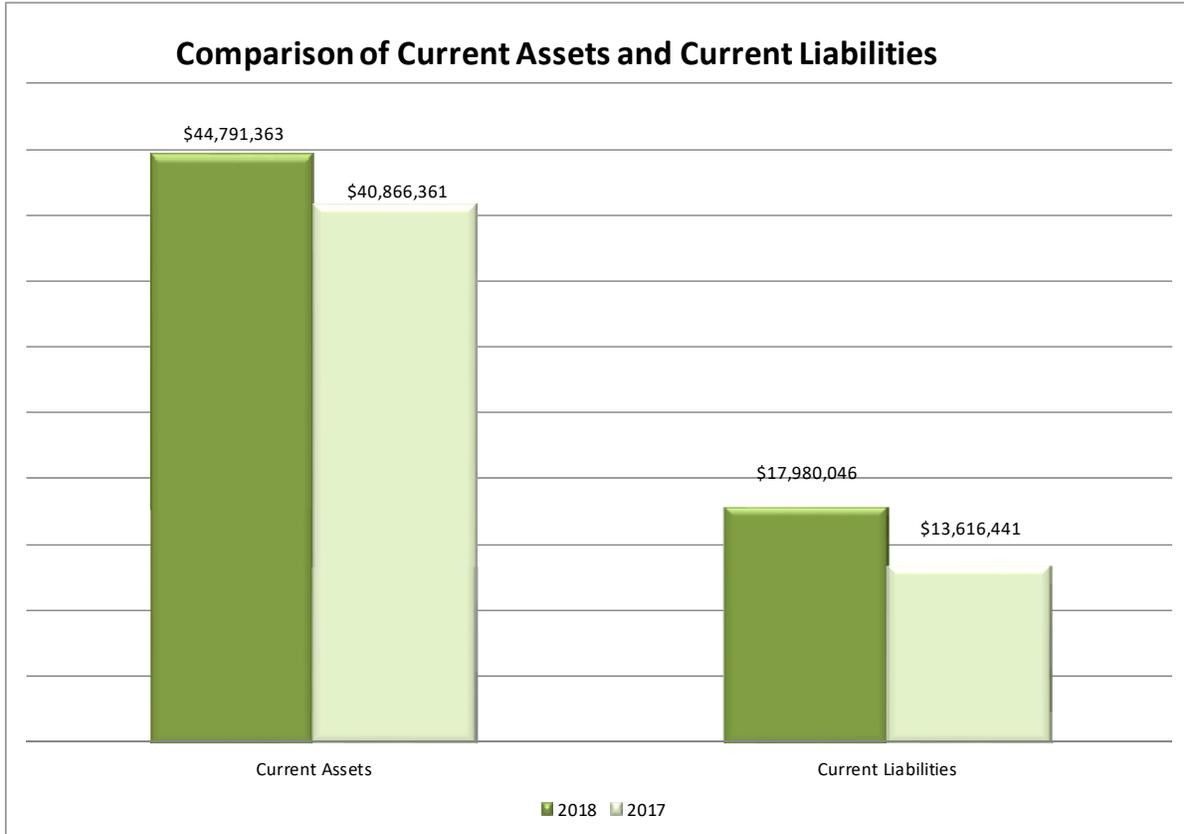
A summarized comparison of the College's assets, deferred outflows, liabilities, deferred inflows, and net position at June 30, 2018 and 2017, is presented below:

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 44,791,363	\$ 40,866,361
Capital Assets	429,524,564	370,979,697
Noncapital Assets	273,708	231,112
Deferred Outflows	29,551,607	35,981,956
Current Liabilities	17,980,046	13,616,441
Noncurrent Liabilities	192,803,528	63,750,685
Deferred Inflows	58,579,577	2,208,176
Net Position	234,778,091	368,483,824

**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Statement of Net Position (continued)

The College’s current assets increased \$3,925,002 while current liabilities increased \$4,363,605. The increase in current assets and current liabilities is primarily attributable to construction reimbursements receivable and construction payables.



Net Position

Net position represents the residual interest in the College’s assets and deferred outflows after liabilities and deferred inflows are deducted. The College’s net position at June 30, 2018 and 2017 are summarized below:

	2018	2017
Net Investment in Capital Assets	\$ 412,129,412	\$ 357,152,445
Restricted Expendable	8,016,923	6,078,103
Unrestricted	(185,368,244)	5,253,276

Net investment in capital assets represents the College’s capital assets of \$429,524,564 less related debt of \$20,014,306, plus deferred outflows of \$2,619,154. Net investment in capital assets increased \$54,976,967, or 15.39% due to an increase in construction activity, purchases of additional machinery and equipment, and updates to general infrastructure. The County bond funds are being used to fund several large capital projects at the College.

**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Statement of Net Position (continued)

The decrease in unrestricted net position is primarily attributable to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and the related restatement of net position as of July 1, 2017, as discussed in Note 20.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the College's results of operations. Below is a summarized comparison of the College's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 27,972,610	\$ 30,132,383	\$ (2,159,773)
Sales and Services, and Other	11,909,888	12,643,225	(733,337)
Total Operating Revenues	<u>39,882,498</u>	<u>42,775,608</u>	<u>(2,893,110)</u>
Operating Expenses	198,566,814	186,230,830	12,335,984
Operating Loss	<u>(158,684,316)</u>	<u>(143,455,222)</u>	<u>(15,229,094)</u>
Nonoperating Revenues (Expenses)			
State Aid	64,795,334	60,667,281	4,128,053
County Appropriations	35,149,940	34,529,949	619,991
Noncapital Grants and Gifts	42,229,212	38,830,889	3,398,323
Capital Contributions	71,747,668	31,650,858	40,096,810
Interest and Fees on Debt	(661,509)	(693,990)	32,481
Net Interest Income	351,065	236,931	114,134
Other Nonoperating Expense	(80,424)	(216,171)	135,747
Net Nonoperating Revenues	<u>213,531,286</u>	<u>165,005,747</u>	<u>48,525,539</u>
Increase in Net Position	54,846,970	21,550,525	33,296,445
Net Position, Beginning of Year	368,483,824	346,933,299	21,550,525
Restatement Note 20	(188,552,703)	-	(188,552,703)
Net Position, End of Year	<u>\$ 234,778,091</u>	<u>\$ 368,483,824</u>	<u>\$ (133,705,733)</u>

One of the College's strengths is its alternative sources of revenues. Gifts and appropriations from Federal, County, and State sources supplement student tuition and fees. The College will continue to aggressively seek alternative funding from those sources. This is consistent with its mission to provide affordable student tuition and to prudently manage financial resources for current and strategic operations.

While tuition and fees and State and County appropriations fund a large percentage of College costs, private support has been, and will continue to be, essential.

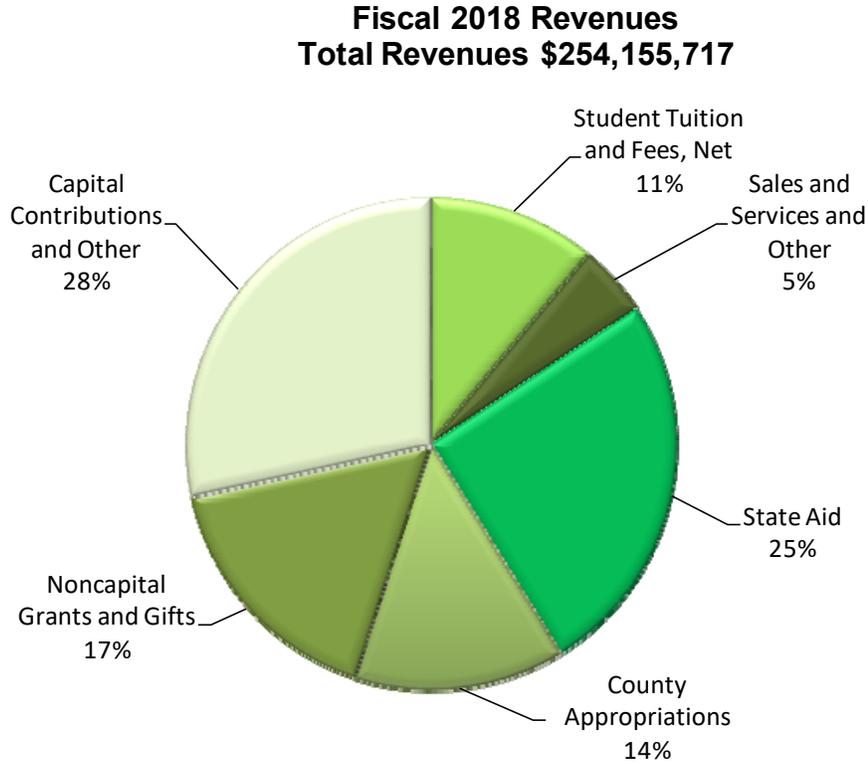
The College continues to make revenue diversification, along with cost containment, an ongoing effort. This is necessary as the College continues to face financial pressures, particularly in the areas of compensation and benefits, energy, and technology costs.

Tuition and fees and State appropriations are the primary sources of funding for the College's academic programs. County funding is vital and allows the College to continue with its long term capital plan and significant construction projects.

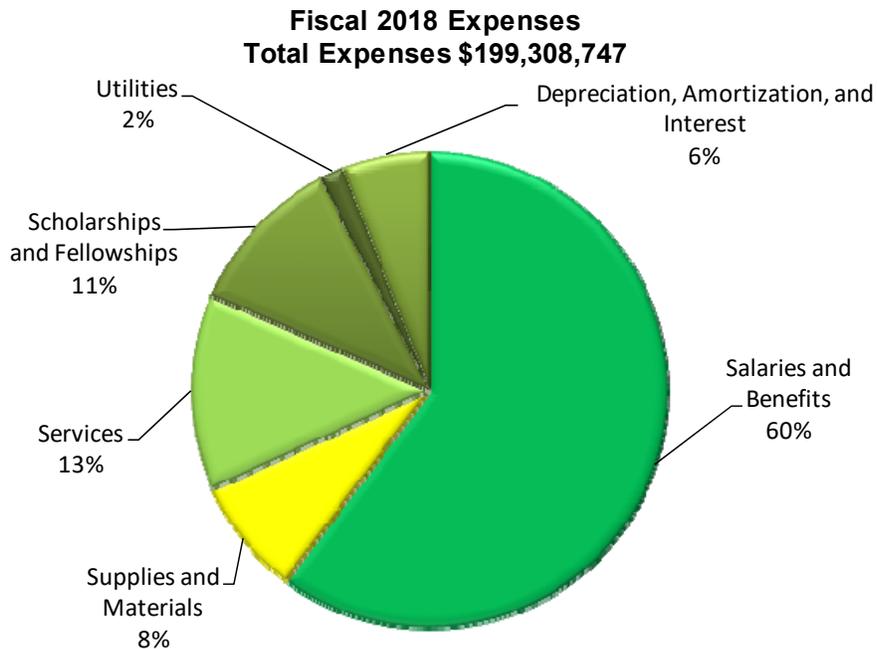
**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The composition of the College's revenues is as follows:



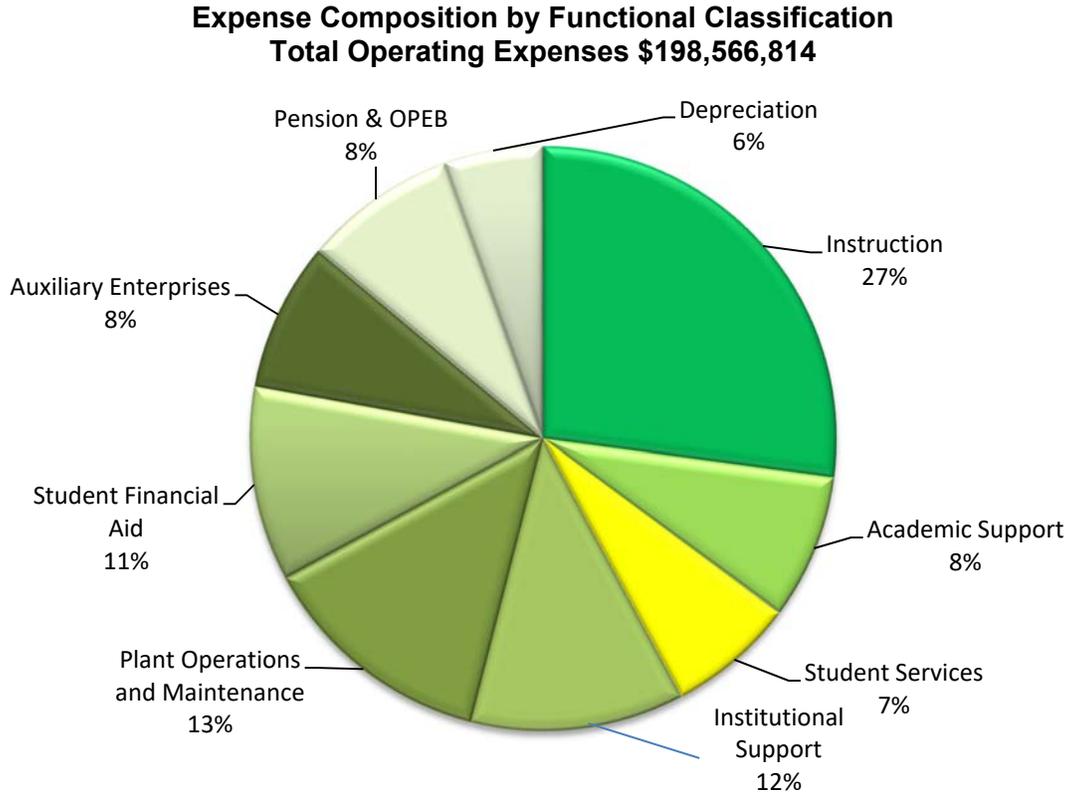
The composition of the College's expenses by natural classification is as follows:



**CENTRAL PIEDMONT COMMUNITY COLLEGE
MANAGEMENT’S DISCUSSION AND ANALYSIS**

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

In addition to natural (object) classification, it is also informative to review operating expenses by function. The composition of the College’s expenses by functional classification, excluding interest expenses, for the year ended June 30, 2018, is as follows:



Capital Activities

The College was able to maintain its capital activity during fiscal year 2018 due to County funding and continued new construction and building improvements in accordance with its Strategic Plan. Using proceeds from County-sponsored bond issuances and other funding sources, the College expended \$65,135,738 on capital asset projects in 2018 as compared to \$18,819,939 in 2017. Capital asset projects primarily are comprised of replacement and renovation of existing buildings and new construction of academic facilities. Current construction in progress totals \$88,844,780.

Economic Factors that will Affect the Future

Management believes the College is well-positioned to maintain its strong financial condition and level of excellent service to the community. A critical element to the College’s future will continue to be our relationship with the State of North Carolina, as we work together to manage tuition costs while simultaneously providing a quality college education. There is a direct relationship between the growth of State and County support and the College’s ability to expand and meet the needs of Mecklenburg County’s citizens. While the State of North Carolina continues to enthusiastically support the Community College System, economic pressures affecting the State may also affect the State’s future support of the College.

CENTRAL PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors that will Affect the Future (continued)

The College will continue to execute its long-range plan to modernize and expand its campus infrastructure and facilities. Mecklenburg County officials passed a \$210 million bond referendum on November 5, 2013. The County authorized an additional \$70 million in capital funding for potential total capital funding of \$280 million that was available as of July 2014. In March 2016, North Carolina voters approved the passage of the ConnectNC Bond Package. CPCC's portion of the bond proceeds is approximately \$9.6 million and became available in September 2016.

On June 20, 2017, Mecklenburg County officials passed a \$1.5 billion Capital Improvement Plan. Within the plan, the College will receive \$151.1 million for a new 68,000 square foot classroom building on the Harris Campus, as well as a new Learning Resource Center on Central Campus to support more than 3,500 students and middle-skill occupational programs. The projects will be funded by the County's PayGo Fund. Capital funding will continue to be a source of support for the College's long-range capital plan that includes land acquisitions, building renovations, and construction of new classroom buildings at all campus locations.

While it is not possible to precisely predict future results, management believes that the College's financial position is strong enough to withstand economic uncertainties.

Central Piedmont Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	31,148,865
Restricted Cash and Cash Equivalents		2,785,612
Receivables, Net (Note 4)		10,027,179
Due from Community College Component Units		229,562
Inventories		287,355
Prepaid Items		312,790

Total Current Assets 44,791,363

Noncurrent Assets:

Net Other Postemployment Benefits Asset		273,708
Capital Assets - Nondepreciable (Note 5)		120,089,904
Capital Assets - Depreciable, Net (Note 5)		309,434,660

Total Noncurrent Assets 429,798,272

Total Assets 474,589,635

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions (Note 13)		22,168,667
Deferred Outflows Related to Other Postemployment Benefits (Note 14)		4,763,786
Deferred Outflows Related to Others (Note 7)		2,619,154

Total Deferred Outflows of Resources 29,551,607

Central Piedmont Community College
Statement of Net Position
June 30, 2018

Exhibit A-1
Page 2 of 2

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	13,352,597
Unearned Revenue	2,072,747
Funds Held for Others	442,003
Long-Term Liabilities - Current Portion (Note 7)	2,112,699

Total Current Liabilities	<u>17,980,046</u>
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Noncurrent Liabilities:

Unearned Revenue	1,380,000
Long-Term Liabilities (Note 7)	191,423,528

Total Noncurrent Liabilities	<u>192,803,528</u>
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Total Liabilities	<u>210,783,574</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions (Note 13)	1,322,908
Deferred Inflows Related to Other Postemployment Benefits (Note 14)	57,256,669

Total Deferred Inflows of Resources	<u>58,579,577</u>
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NET POSITION

Net Investment in Capital Assets	412,129,412
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Restricted for:

Expendable:

Loans	268
Capital Projects	8,016,655

Unrestricted	<u>(185,368,244)</u>
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Total Net Position	<u>\$ 234,778,091</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 10)	\$ 27,972,610
Sales and Services, Net (Note 10)	11,863,946
Other Operating Revenues	45,942
	<hr/>
Total Operating Revenues	39,882,498

EXPENSES

Operating Expenses:

Salaries and Benefits	119,553,924
Supplies and Materials	15,804,592
Services	27,299,439
Scholarships and Fellowships	21,683,228
Utilities	3,387,582
Depreciation/ Amortization	10,838,049
	<hr/>

Total Operating Expenses 198,566,814

Operating Loss (158,684,316)

NONOPERATING REVENUES (EXPENSES)

State Aid	64,795,334
County Appropriations	35,149,940
Noncapital Grants - Student Financial Aid	33,805,053
Noncapital Grants	6,999,262
Noncapital Gifts	1,424,897
Investment Income	351,065
Interest and Fees on Debt	(661,509)
Other Nonoperating Expenses	(80,424)
	<hr/>
Net Nonoperating Revenues	141,783,618

Loss Before Other Revenues, Expenses, Gains, and Losses (16,900,698)

State Capital Aid	6,526,843
County Capital Aid	65,091,152
Capital Gifts	129,673
	<hr/>

Increase in Net Position 54,846,970

NET POSITION

Net Position, July 1, 2017 as Restated (Note 20) 179,931,121

Net Position, June 30, 2018 \$ 234,778,091

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

Central Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 40,424,592
Payments to Employees and Fringe Benefits	(115,613,584)
Payments to Vendors and Suppliers	(45,872,222)
Payments for Scholarships and Fellowships	(21,683,228)
Other Payments	(1,407,488)
	<u>(144,151,930)</u>
Net Cash Used by Operating Activities	<u>(144,151,930)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	64,795,334
County Appropriations	35,149,940
Noncapital Grants - Student Financial Aid	33,805,053
Noncapital Grants	6,999,262
Noncapital Gifts	1,311,333
	<u>142,060,922</u>
Net Cash Provided by Noncapital Financing Activities	<u>142,060,922</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	6,528,788
County Capital Aid	65,091,152
Capital Gifts	66,662
Acquisition and Construction of Capital Assets	(65,135,738)
Principal Paid on Capital Debt and Leases	(1,292,305)
Interest Paid on Capital Debt and Leases	(661,509)
	<u>4,597,050</u>
Net Cash Provided by Capital and Related Financing Activities	<u>4,597,050</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>351,065</u>
Net Cash Provided by Investing Activities	<u>351,065</u>
Net Increase in Cash and Cash Equivalents	2,857,107
Cash and Cash Equivalents, July 1, 2017	<u>31,077,370</u>
Cash and Cash Equivalents, June 30, 2018	<u>\$ 33,934,477</u>

Central Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2018

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (158,684,316)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation/ Amortization Expense	10,838,049
Nonoperating Other Income	304,599
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	(996,313)
Inventories	12,997
Prepaid Items	549,169
Net Other Postemployment Benefits Asset	5,730
Deferred Outflows Related to Pensions	10,903,118
Deferred Outflows Related to Other Postemployment Benefits	(236,369)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	(34,452)
Unearned Revenue	50,495
Funds Held for Others	(224,175)
Net Pension Liability	(56,682,933)
Net Other Postemployment Benefits Liability	(6,285,531)
Compensated Absences	(43,399)
Deferred Inflows Related to Pensions	57,256,669
Deferred Inflows Related to Other Postemployment Benefits	<u>(885,268)</u>
Net Cash Used by Operating Activities	<u>\$ (144,151,930)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 31,148,865
Restricted Cash and Cash Equivalents	<u>2,785,612</u>
Total Cash and Cash Equivalents - June 30, 2018	<u>\$ 33,934,477</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 9,891,385
Assets Acquired through a Gift	63,011
Loss on Disposal of Capital Assets	(385,023)

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

Central Piedmont Community College Foundation
Statement of Financial Position
June 30, 2018

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 1,833,953
Pledges Receivable, Net (Note 4)	995,320
Investments - Short-Term	2,300,378
Other Current Assets	38,981
Total Current Assets	<u>5,168,632</u>
Investments - Long-Term	40,323,615
Pledges Receivable, Noncurrent, Net (Note 4)	5,919,940
Cash Surrender Value of Life Insurance	34,916
Real Estate Held Under Operating Leases	4,439,290
Total Assets	<u><u>\$ 55,886,393</u></u>

LIABILITIES

Accounts Payable and Accrued Expenses	\$ 256,447
Unearned Revenue	208,334
Obligations Under Annuity Agreements	21,900
Notes Payable	1,731,689
Total Current Assets	<u>2,218,370</u>
Obligations Under Annuity Agreements, Noncurrent	<u>100,739</u>
Total Liabilities	<u>2,319,109</u>

NET ASSETS

Unrestricted	13,634,556
Temporarily Restricted	12,303,387
Permanently Restricted	27,629,341
Total Net Assets	<u>53,567,284</u>
Total Liabilities and Net Assets	<u><u>\$ 55,886,393</u></u>

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

Central Piedmont Community College Foundation
Statement of Activities
For the Fiscal Year Ended June 30, 2018

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 9,202,930
Contributions Other Than Cash	1,195,469
Investment Return	516,321
Rental Income	206,394
Special Event Income	247,684
Other Income	4,049
	<hr/>
Total Unrestricted Revenues and Gains	11,372,847
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Total Net Assets Released from Restrictions	3,244,966
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	14,617,813
	<hr/>
Expenses and Losses:	
Scholarships	981,969
Sponsored Programs	1,846,364
Other Program Expenses	476,108
Management and General	406,485
Fundraising	1,013,785
	<hr/>
Total Expenses	4,724,711
	<hr/>
Increase in Unrestricted Net Assets	9,893,102
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	1,959,946
Contributions Other Than Cash	244,517
Investment Return	1,129,228
Rental Income	88,439
Other Income	500
	<hr/>
Total Temporarily Restricted Revenues and Gains	3,422,630
Temporarily Restricted Net Assets Released from Restrictions	(3,244,966)
Adjustment to Pledges Receivable Value	(11,718)
Change in Value of Annuity Obligations	(15,051)
	<hr/>
Increase in Temporarily Restricted Net Assets	150,895
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	607,400
Other Income	4,996
	<hr/>
Total Permanently Restricted Revenues and Gains	612,396
	<hr/>
Adjustment to Pledges Receivable Value	29,947
	<hr/>
Increase in Permanently Restricted Net Assets	642,343
	<hr/>
Increase in Net Assets	10,686,340
Net Assets at Beginning of Year	42,880,944
	<hr/>
Net Assets at End of Year	\$ 53,567,284
	<hr/> <hr/>

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. Central Piedmont Community College (the "College" or "CPCC") 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 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 College's 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.

Blended Component Units - Based on the application of the criteria for determining component units, the following component units are included within the College's reporting entity:

- Central Piedmont Community College Services Corporation, Inc. ("CPCC Services Corp, Inc."): This organization manages projects for the College, including the Harris Conference Center, the Center for Applied Research, CPCC Press, Performing Arts Facilities, and various other projects.
- WTVI Foundation, Inc.: This organization provides funding to support the activities of WTVI, a public telecommunications station operated by the College.

Condensed combining information regarding blended component units is provided in Note 18.

Discretely Presented Component Unit - Central Piedmont Community College Foundation, Inc. (the "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 graduates and friends of the College. 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 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.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2018. The audited financial statements for the Foundation can be obtained from Central Piedmont Community College Foundation, Inc., PO Box 35009, Charlotte, NC 28235-5009.

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, overnight repurchase agreements, 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. Restricted Cash and Cash Equivalents** - This classification includes undeposited receipts, cash on deposit with private bank accounts, savings accounts, and deposits restricted for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

- F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and capital construction reimbursements receivable. Receivables also include WTVI underwriting and production receivables. Receivables are recorded net of estimated uncollectible amounts. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio.
- G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.
- H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. 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 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:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	10 - 100 years
Machinery and Equipment	2 - 30 years
General Infrastructure	10 - 75 years
Computer Software	2 - 30 years
Art, literature, and artifacts	2 - 25 years

- I. **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. Certain deferred outflows consists of the loss related to the sale-leaseback transaction on a CPCC Parking Deck. The deferred outflow expense will be recognized into expense over the term of the lease.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until then.

Deferred outflows and inflows of resources related to the pension plan and other postemployment benefit plans are further discussed in Notes 13 and 14.

- J. 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.
- K. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable, net pension liability, capital lease obligations, compensated absences that will not be paid within the next fiscal year, and net other postemployment benefit (“OPEB”) liability.

The net pension liability represents the College’s proportionate share of the collective net pension liability reported in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report*. This liability represents the College’s portion of the collective total pension liability less the fiduciary net position of the Teachers’ and State Employees’ Retirement System. See Note 13 for further information regarding the College’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to pensions.

The net OPEB liability represents the College’s proportionate share of the collective net OPEB liability reported in the State of North Carolina’s 2017 *Comprehensive Annual Financial Report*. This liability represents the College’s portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 14 for further information regarding the College’s policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

- 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. Funds Held for Others - Funds Held for Others consist primarily of balances that have not yet been disbursed to the respective third party.

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 liabilities and debt 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. The College had no Restricted Net Position – Nonexpendable as of June 30, 2018.

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

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

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

- 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, nonoperating, or capital contributions and gifts 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 student tuition and fees and sales and services of auxiliary enterprises. 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.

- 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 WTVI, Campus Printing, the Harris Conference Center, the Center for Applied Research, and the Academic and Performing Arts 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.
- 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 revert back to the County at year-end.

NOTE 2 - DEPOSITS AND INVESTMENTS

College - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank, savings and loan association, or trust company whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$17,675, and deposits in private financial institutions with a carrying value of \$10,434,299 and a bank balance of \$12,481,407.

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

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

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, 2018, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$23,482,503, 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 1.4 years as of June 30, 2018. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

Component Unit - Investments of the College's discretely presented component unit, 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 following is an analysis of investments, as of June 30, 2018, by type:

	<u>Cost</u>	<u>Market</u>
Cash	\$ 2,300,378	\$ 2,300,378
Money Market Funds	10,336,840	10,336,840
Private Investment Funds	<u>29,693,363</u>	<u>29,986,775</u>
Total Investments	<u>\$ 42,330,581</u>	<u>\$ 42,623,993</u>

The Foundation places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Foundation from time to time may have amounts on deposit in excess of the insured limits.

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2018. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from

independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

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

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

Short-Term Investment Fund - At year-end, all of the College's investments valued at \$23,482,503 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian. Pool investments are measured at fair value in accordance with GASB 72. The College's position in the pool is measured and reported at fair value. As discussed in Note 2, this amount is classified as cash and cash equivalents in the Statement of Net Position.

Component Units - The following table summarizes the valuation of the College's discreetly presented component unit's financial assets and liabilities measured at fair value as of June 30, 2018, based on the level of input utilized to measure fair value:

	Fair Value Measurements at June 30, 2018 Using:			
	Level 1	Level 2	Level 3	Total
<u>Measurement on a recurring basis:</u>				
Investments:				
Cash	\$ -	\$ 2,300,378	\$ -	\$ 2,300,378
Money market funds	10,336,840	-	-	10,336,840
	<u>10,336,840</u>	<u>2,300,378</u>	<u>-</u>	<u>12,637,218</u>
Private investment funds:				
Equity Fund *				22,916,964
Bond Fund *				6,969,850
Limited Partnerships *				99,961
Total investments				<u>\$ 42,623,993</u>
Obligations under annuity agreements	\$ -	\$ -	\$ 122,639	\$ 122,639

For investments in entities that calculate NAV or its equivalent whose fair value is not readily determinable, the following table provides information about the probability of investments being sold at amounts different from net asset value per share for the year ended June 30, 2018:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Equity Fund ^(a)	\$ 22,916,964	\$ -	monthly	5 days
Bond Fund ^(b)	6,969,850	-	monthly	5 days
Limited Partnership ^(c)	81,614	1,104,480	n/a	n/a
Limited Partnership ^(d)	18,347	490,000	n/a	n/a
Total	<u>\$ 29,986,775</u>	<u>\$ 1,594,480</u>		

(a) Utilizing a fund-of-funds and/or manager-of-managers approach, this fund seeks to outperform the broad U.S. equity market and allocates assets across a broad spectrum of equity and equity related strategies. The majority of the assets in the fund are directly or indirectly in a portfolio of common stocks, and securities convertible into common stocks, of U.S. companies. The fund diversifies its portfolio by allocating assets to common stocks and other equity and equity-related securities of non-U.S. companies in both developed and emerging markets, and investing in hedge funds that seek opportunities in domestic and non-U.S. markets for equity-type returns with low correlation to the equity markets.

(b) Utilizing a fund-of-funds and/or manager-of-managers approach, this fund seeks to outperform the broad U.S. bond market and allocates assets across a broad spectrum of fixed income sectors. The majority of the assets in the fund are directly or indirectly in dollar-denominated investment grade bonds and other fixed income securities. The fund diversifies its portfolio by allocating assets to other fixed income securities and strategies, including but not limited to global bonds, inflation indexed bonds, high yield bonds, emerging markets debt and opportunistic fixed income strategies.

(c) Partnership that invests in three affiliated limited partnerships that make equity capital investments primarily in emerging growth companies, domestic and international private equity investments with the objective of obtaining long-term capital growth and in equity securities, warrants or other options that are generally not actively traded at the time of investment. The Partnership is scheduled to terminate on April 7, 2029, unless terminated earlier or extended in accordance with the Partnership Agreement.

(d) Partnership that primarily seeks to achieve long-term capital appreciation and invests globally in venture capital investments and target investments on either a primary or secondary basis. The Partnership is scheduled to terminate on March 23, 2029, unless terminated earlier or extended in accordance with the Partnership Agreement.

NOTE 4 - RECEIVABLES

College - Receivables at June 30, 2018, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 2,293,992	\$ 875,319	\$ 1,418,673
Accounts	8,743,196	134,690	8,608,506
	<u>\$ 11,037,188</u>	<u>\$ 1,010,009</u>	<u>\$ 10,027,179</u>

Component Unit - The College's discretely presented component unit, the Foundation, had unconditional pledges receivable that are expected to be realized in the following periods as of June 30, 2018:

In One Year or Less	\$ 1,081,981
Between One and Five Years	5,293,954
Five to Ten Years	513,000
Ten Years and Thereafter	<u>1,000,000</u>
	7,888,935
Less:	
Allowance for Uncollectible Pledges	(302,571)
Discount to Net Present Value	<u>(671,104)</u>
Pledges Receivable, Net	6,915,260
Less:	
Pledges Receivable, Current	<u>(995,320)</u>
Pledges Receivable, Noncurrent	<u>\$ 5,919,940</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2018, is presented as follows:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 30,038,420	\$ 1,206,704	\$ -	\$ 31,245,124
Construction in Progress	<u>23,071,756</u>	<u>65,905,895</u>	<u>132,871</u>	<u>88,844,780</u>
Total Capital Assets, Nondepreciable	<u>53,110,176</u>	<u>67,112,599</u>	<u>132,871</u>	<u>120,089,904</u>
Capital Assets, Depreciable:				
Buildings	367,828,847	-	1,391,870	366,436,977
Machinery and Equipment	30,048,409	2,128,083	671,527	31,504,965
Art, Literature, and Artifacts	647,369	-	-	647,369
General Infrastructure	<u>23,318,542</u>	<u>660,128</u>	<u>-</u>	<u>23,978,670</u>
Total Capital Assets, Depreciable	<u>421,843,167</u>	<u>2,788,211</u>	<u>2,063,397</u>	<u>422,567,981</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	85,489,756	8,013,275	1,236,567	92,266,464
Machinery and Equipment	12,300,860	2,150,440	441,807	14,009,493
Art, Literature, and Artifacts	117,704	16,503	-	134,207
General Infrastructure	<u>6,065,326</u>	<u>657,831</u>	<u>-</u>	<u>6,723,157</u>
Total Accumulated Depreciation	<u>103,973,646</u>	<u>10,838,049</u>	<u>1,678,374</u>	<u>113,133,321</u>
Total Capital Assets, Depreciable, Net	<u>317,869,521</u>	<u>(8,049,838)</u>	<u>385,023</u>	<u>309,434,660</u>
Capital Assets, Net	<u>\$ 370,979,697</u>	<u>\$ 59,062,761</u>	<u>\$ 517,894</u>	<u>\$ 429,524,564</u>

NOTE 6- ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Balance</u>
Accounts Payable	\$ 1,747,042
Accounts Payable - Capital Assets	6,597,718
Accrued Payroll	1,714,170
Contract Retainage	<u>3,293,667</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 13,352,597</u>

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2018, is presented as follows:

	Balance July 1, 2017 (As Restated)	Additions	Reductions	Balance June 30, 2018	Current Portion
Long-Term Debt					
Note Payable	\$ 7,703,373	\$ -	\$ 812,226	\$ 6,891,147	\$ 784,727
Capital Leases Payable	3,711,853	-	480,079	3,231,774	473,301
Total Long-Term Debt	11,415,226	-	1,292,305	10,122,921	1,258,028
Other Long-Term Liabilities					
Compensated Absences	6,342,995	4,509,051	4,552,450	6,299,596	854,671
Net Pension Liability (Note 13)	46,722,616	-	6,285,531	40,437,085	-
Net OPEB Liability (Note 14)	193,359,558	-	56,682,933	136,676,625	-
Total Other Long-Term Liabilities	246,425,169	4,509,051	67,520,914	183,413,306	854,671
Total Long-Term Liabilities	\$ 257,840,395	\$ 4,509,051	\$ 68,813,219	\$ 193,536,227	\$ 2,112,699

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, 2018	Principal Outstanding June 30, 2018
Guaranteed Energy Savings Contract #1	SunTrust Equipment Financing & Leasing Corp.	4.09%	9/1/2023	\$ 3,626,784	\$ 1,557,148	\$ 2,069,636
Guaranteed Energy Savings Contract #2	Bank of America Public Capital Corp.	2.64%	10/15/2028	6,457,918	1,636,407	4,821,511
Total Notes Payable				\$ 10,084,702	\$ 3,193,555	\$ 6,891,147

The Energy Management Contract Notes Payable represent a financial arrangement with a Financial Institution to finance the construction of services, systems, and facilities designed to reduce energy consumption and costs in specific buildings owned and operated by the College.

The annual requirements to pay principal and interest on notes payable at June 30, 2018, are as follows:

Fiscal Year	Note Payable		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2019	\$ 784,727	\$ 200,240	\$ 473,301	\$ 121,721
2020	800,507	174,304	466,652	104,176
2021	831,632	147,420	423,207	86,309
2022	862,898	119,229	416,774	70,360
2023	900,435	89,781	367,898	54,664
2024-2028	2,540,925	189,043	1,083,942	88,769
2029-2033	170,023	929	-	-
Total	\$ 6,891,147	\$ 920,946	\$ 3,231,774	\$ 525,999

- C. Capital Lease Obligation** - During fiscal 2013, at the request of Mecklenburg County (the "County"), CPCC transferred the deed to its parking deck at the corner of Charlottetown Avenue and East 4th Street to the County. CPCC continues to be obligated to repay the County for the County's bond proceeds used to fund the construction of the parking deck, however, in connection with the transfer of the deed, CPCC entered into a lease agreement with the County which calls for annual lease payments of \$1 and a bargain purchase option of \$1 at the end of the lease term in March 2027. CPCC retains the rights to use and operate the deck and repays the County from parking fees earned. The College payments are due quarterly in arrears. The parking deck was constructed via County issued Variable Rate Certificates of Participation (2005 and 2007A Mecklenburg County) of which a portion was used to fund the parking deck construction.

The substance of the transaction created a capital lease obligation whereby the principal and interest payments on the existing obligation to the County are, in substance, considered to be the lease payments. At the transaction date, the College removed the net book value of the parking deck from capital assets and recorded a new capital asset based on the present value of future minimum lease payments. The difference between the net book value of the prior capital asset, the book value of the new capital asset, the carrying value of the note payable to the County, and the present value of the future capital lease payments has been recorded as a deferred outflow and will be amortized on the straight-line basis over the term of the lease agreement. As of June 30, 2018 the deferred outflow amount was \$ 2,619,154.

The parking deck acquired under capital lease amounted to \$5,812,102. Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$737,775 at June 30, 2018.

NOTE 8 - OPERATING LEASE OBLIGATIONS

A. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2018:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 1,030,129
2020	1,019,821
2021	1,033,729
2022	1,030,817
2023	575,860
2024 - 2028	2,197,188
2029 - 2033	400,000
Total Minimum Lease Payments	<u>\$ 7,287,544</u>

Mecklenburg County leases the building and land used for WTVI operations to the College for \$1 per year. The lease expires in 2062. For financial reporting purposes, the rental expense of the facilities is recorded at its estimated fair value of \$560,010 for the fiscal year ended June 30, 2018, and is offset by an equal amount of support from the County. Leasehold improvements to the land and building are reflected in the Statement of Net Position. The estimated insured value of the operating facility (excluding contents), broadcast towers and land is approximately \$6,000,000.

Rental expense for all operating leases during the year was \$1,301,433, which does not include the estimated fair value of the in-kind contribution from Mecklenburg County discussed above.

NOTE 9 - NET POSITION

The unrestricted net position amount of \$(185,368,244) has been significantly affected by transactions that resulted in the recognition of deferred outflows of resources, deferred inflows of resources, and long-term liabilities. A summary of balances reported within unrestricted net position relating to the reporting of net pension liability and net other postemployment benefits (“OPEB”) liability, and the related deferred outflows of resources and deferred inflows of resources is presented as follows:

	TSERS	Retiree Health Benefit Fund	Total
Deferred Outflows Related to Pensions	\$ 10,903,118	\$ -	\$ 10,903,118
Deferred Outflows Related to OPEB	-	(4,521,587)	(4,521,587)
Noncurrent Liabilities			
Long-Term Liabilities			
Net Pension Liability	(6,285,531)	-	(6,285,531)
Net OPEB Liability	-	136,676,625	136,676,625
Deferred Inflows Related to Pensions	(885,268)	-	(885,268)
Deferred Inflows Related to OPEB	-	57,256,669	57,256,669
Effect on Unrestricted Net Position	<u>\$ 3,732,319</u>	<u>\$ 189,411,707</u>	<u>\$ 193,144,026</u>

See Notes 13 and 14 for detailed information regarding the amortization of the Deferred Outflows of Resources and Deferred Inflows of Resources relating to pensions and OPEB, respectively.

NOTE 10 - REVENUES

A summary of eliminations and allowances by revenue classification for the year ended June 30, 2018 is presented as follows:

	<u>Gross Revenues</u>	<u>Less Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Bad Debt Expense</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 44,981,598	\$ -	\$ 17,001,770	\$ 7,218	\$ 27,972,610
Sales and Services:					
Sales and Services of Auxiliary Enterprises					
Student Union Services	1,488,036	-	-	-	1,488,036
Parking and Security Fee	3,103,047	-	-	-	3,103,047
Bookstore and Vending Commissions	1,360,214	-	-	-	1,360,214
WTVI	2,733,406	409,588	-	-	2,323,818
Harris Conference Center	1,439,900	51,225	-	-	1,388,675
Theatre and The Arts	1,050,098	18,597	-	-	1,031,501
Center for Applied Research	518,080	28,979	-	-	489,101
Other Campus Service Centers	1,138,278	605,194	-	-	533,084
Other Sales and Services	146,470	-	-	-	146,470
Total Sales and Services	\$ 12,977,529	\$ 1,113,583	\$ -	\$ -	\$ 11,863,946

NOTE 11 - LEASE REVENUE

CPCC receives rental revenue as lessor of broadband capacity, tower space, and excess Instruction Television Fixed Service airtime. Revenue related to the lease of broadband capacity is included in Other Nonoperating Revenues, Net of Expenses and revenue related to tower space and Instructional Television Fixed Service airtime is located in Sales and Services, Net.

Future minimum lease revenues under the noncancelable broadband lease are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 488,590
2020	398,862
2021	362,906
2022	336,305
2023	318,688
2024 - 2028	1,048,905
2029 - 2033	923,338
2034 - 2038	738,671
Total Minimum Lease Revenue	<u>\$ 4,616,265</u>

NOTE 12 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification, for the year ended June 30, 2018, are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 48,031,106	\$ 2,237,653	\$ 3,407,312	\$ 155,274	\$ -	\$ -	\$ 53,831,345
Academic Support	14,006,199	1,131,539	809,136	2,544	-	-	15,949,418
Student Services	13,312,339	195,505	339,265	93,385	-	-	13,940,494
Institutional Support	18,576,980	849,689	3,987,051	54,981	-	-	23,468,701
Operations and Maintenance of Plant	2,446,100	8,231,635	11,969,713	-	3,387,582	-	26,035,030
Student Financial Aid	-	-	140	21,377,044	-	-	21,377,184
Auxiliary Enterprises	6,436,542	3,158,571	6,786,822	-	-	-	16,381,935
Pension & OPEB Expense	16,744,658	-	-	-	-	-	16,744,658
Depreciation	-	-	-	-	-	10,838,049	10,838,049
Total Operating Expenses	\$ 119,553,924	\$ 15,804,592	\$ 27,299,439	\$ 21,683,228	\$ 3,387,582	\$ 10,838,049	\$ 198,566,814

NOTE 13 - PENSION PLANS

A. DEFINED BENEFIT PLAN-

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

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

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2018 was 10.78% of covered payroll. Employee contributions to the pension plan were \$4,484,230, and the College's contributions were \$8,056,645 for the year ended June 30, 2018.

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

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

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

Net Pension Liability: At June 30, 2018, the College reported a liability of \$40,437,085 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the College's proportion was .50964%, which

was an increase of .00129% from its proportion measured as of June 30, 2016, which was .50835%.

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

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

* Salary Increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expenses, 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 mortality rates also contain a provision to reflect future mortality improvements.

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

Future ad hoc Cost of Living Adjustment (“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, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.30%.

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

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

Net Pension Liability (Asset)		
1% Decrease (6.20%)	Current Discount Rate	1% Increase (8.20%)
\$ 83,236,260	\$ 40,437,085	\$ 4,576,832

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2018, the College recognized pension expense of \$11,775,342. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Employer Balances of Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions by Classification**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 876,601	\$ 1,322,908
Changes of Assumptions	6,388,450	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	5,472,509	-
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	1,374,462	-
Contributions Subsequent to the Measurement Date	8,056,645	-
Total	\$ 22,168,667	\$ 1,322,908

The amount of \$8,056,645 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

**Schedule of 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
2019	\$ 3,036,018
2020	8,119,125
2021	3,824,128
2022	(2,190,157)
2023	-
Total	\$ 12,789,114

B. DEFERRED COMPENSATION AND SUPPLEMENTAL RETIREMENT INCOME PLANS

Internal Revenue Code (“IRC”) Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the “Plan”). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, the North Carolina Public Employee Deferred Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$274,527 for the year ended June 30, 2018.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$879,462 for the year ended June 30, 2018.

IRC Section 401(k) Plan with Roth options. All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$137,344 for the year ended June 30, 2018.

IRC Section 403(b) - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b). The employee’s eligible contributions, made through salary reduction agreements, are exempt from Federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$573,701 for the year ended June 30, 2018.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

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

A. Summary of Significant Accounting Policies and Plan Asset Matters

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

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

B. Plan Descriptions

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

The Retiree Health Benefit Fund ("RHBF") has been established as a fund to provide health benefits to retired and disabled employees and their

applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

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

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

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

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General

Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The College's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The College's contributions to the RHBF were \$4,521,587 for the year ended June 30, 2018. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

2. **Disability Income- Plan Administration:** As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina ("DIPNC"), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the

participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The College's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The College's contributions to DIPNC were \$104,632 for the year ended June 30, 2018. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

C. Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018, the College reported a liability of \$136,676,625 for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The College's proportion of the net OPEB liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the

College's proportion was .41687%, which was a decrease of .02760% from its proportion measured as of June 30, 2016, which was .44447%.

Net OPEB Asset: At June 30, 2018, the College reported an asset of (\$273,708) for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The College's proportion of the net OPEB asset was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the College's proportion was .44782%, which was a decrease of .00216% from its proportion measured as of June 30, 2016, which was .44998%.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	<u>Retiree Health Benefit Fund</u>	<u>Disability Income Plan of N.C.</u>
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3.00%
Salary Increases*	3.50%-8.10%	3.50% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00% - 6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00% - 7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00% - 5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

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

N/A - Not applicable

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

The projected long-term investment returns and inflation assumptions are developed through a review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projects are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical

data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target asset allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 (the valuation date) was 1.30%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the College's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

		Net OPEB Liability (Asset)		
		Current Discount		
		1% Decrease (2.58%)	Rate	1% Increase (4.58%)
RHBF	\$ 163,048,529	\$ 136,676,625		\$ 115,761,714
		Current Discount		
		1% Decrease (2.75%)	Rate	1% Increase (4.75%)
DIPNC	\$ (232,692)	\$ (273,708)		\$ (314,817)

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

	1% Decrease (Medical - 4.00-5.50%, Pharmacy - 4.00-6.25%, Med. Advantage - 3.00-4.00% Administrative - 2.00%)	Current Healthcare - Cost Trend Rates (Medical - 5.00-6.50%, Pharmacy - 5.00-7.25%, Med. Advantage - 4.00-5.00% Administrative - 3.00%)	1% Increase (Medical - 6.00-7.50%, Pharmacy - 6.00-8.25%, Med. Advantage - 5.00-6.00% Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 111,653,014	\$ 136,676,625	\$ 169,938,477
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the College recognized OPEB expense of \$4,823,053 for RHB and \$146,263 for DIPNC. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

	RHBF	DIPNC	Total
Difference Between Actual and Expected Experience	\$ -	\$ 75,046	\$ 75,046
Changes of Assumptions	-	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	59,994	59,994
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	-	2,527	2,527
Contributions Subsequent to the Measurement Date	4,521,587	104,632	4,626,219
Total	\$ 4,521,587	\$ 242,199	\$ 4,763,786

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

	<u>RHBF</u>	<u>DIPNC</u>	<u>Total</u>
Difference Between Actual and Expected Experience	\$ 9,799,965	\$ -	\$ 9,799,965
Changes of Assumptions	37,640,119	-	37,640,119
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	50,795	-	50,795
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	9,765,790	-	9,765,790
Contributions Subsequent to the Measurement Date	-	-	-
Total	<u>\$ 57,256,669</u>	<u>\$ -</u>	<u>\$ 57,256,669</u>

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

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

<u>Year Ended June 30:</u>	<u>RHBF</u>	<u>DIPNC</u>
2019	\$ (11,453,874)	\$ 40,864
2020	(11,453,874)	40,864
2021	(11,453,874)	40,851
2022	(11,453,874)	14,988
2023	(11,441,173)	-
Total	<u>\$ (57,256,669)</u>	<u>\$ 137,567</u>

NOTE 15 - RISK MANAGEMENT

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

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

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. 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.

3. Disability Income Plan

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

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

Fire and other property losses are covered by contracts with private insurance companies. The policy limit is \$500,000,000 and carries a deductible of \$25,000. 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 County and Institutional fund paid employees are covered by private insurance. Employee dishonesty coverage carries a deductible of \$1,000 with a limit of \$500,000. Forgery or alteration has a \$1,000 deductible with a \$500,000 limit. Deception Fraud/Fraud Impersonation has a \$2,500 deductible with a \$500,000 limit.

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 Professional Liability insurance from a private insurance company to cover instructors and students in the Health Sciences and Dietary Manager Programs with a liability limit of \$1,000,000 per claim and a \$5,000,000 aggregate.

The College purchased Broadcaster's Liability coverage from a private insurance company to cover (PBS station WTVI that became a part of CPCC 07/03/2012) News Media and Multimedia, with a \$2,000,000 limit of liability and \$5,000 retention amount, Internet Liability Coverage, with a \$2,000,000 limit of liability and \$5,000 retention amount.

The College purchased Cyber Liability coverage from a private insurance company to cover Media Content Insurance with a \$5,000,000 sub limit liability and a \$100,000 retention, Security and Privacy Liability Insurance with a \$5,000,000 sub limit liability and a \$100,000 retention, Regulatory Action with a \$5,000,000 sub limit liability, Event Management Insurance with a \$2,000,000 sub limit liability and a \$100,000 retention and Cyber Extortion Insurance with a \$5,000,000 sub limit liability and a \$100,000 retention.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$75,859,654 at June 30, 2018.

NOTE 17 - RELATED PARTIES

Foundation - The 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. Support received of \$2,262,511 for the year ended June 30, 2018 was included in Noncapital Gifts, Net and Capital Gifts, Net on the Statement of Revenues, Expenses, and Changes in Net Position. The College also leases the use of certain real estate owned by the Foundation. During the fiscal year ended June 30, 2018, the College made total payments of \$24,000 to the Foundation. These payments are included in Services Expense on the Statement of Revenues, Expenses and Changes in Net Position.

NOTE 18 - BLENDED COMPONENT UNIT

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

**Condensed Statement of Net Position
June 30, 2018**

Total Assets	\$ 5,868,145
Total Liabilities	<u>514,388</u>
Total Net Position	<u>\$ 5,353,757</u>

**CPCC Services Corp., Inc.
Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018**

Operating Revenues	
Sales and Services	<u>\$ 2,909,702</u>
Operating Expenses	
Salaries and Benefits	1,532,921
Contracted Services	567,245
Other Expenses	<u>535,145</u>
Total Operating Expenses	<u>2,635,311</u>
Nonoperating Revenues	
Interest Income	<u>36,141</u>
Total Nonoperating Revenues	<u>36,141</u>
Transfers to the College	<u>148,284</u>
Change in Net Position	458,816
Net Position, July 1, 2017	<u>4,894,941</u>
Net Position, June 30, 2018	<u>\$ 5,353,757</u>

**Condensed Statement of Cash Flows
For the Year Ended June 30, 2018**

Net Cash Provided by Operating Activities	\$ 461,632
Cash and Cash Equivalents, July 1, 2017	<u>3,424,627</u>
Cash and Cash Equivalents, June 30, 2018	<u>\$ 3,886,259</u>

NOTE 19 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2018, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB Statement No. 85, Omnibus 2017

GASB Statement No. 75 improves accounting and financial reporting requirements by state and local governments for postemployment benefits other than pensions (“OPEB”). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

NOTE 20 - NET POSITION RESTATEMENT

The implementation of GASB Statement No. 75 requires a restatement of beginning net position. As of July 1, 2017, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2017 Net Position as Previously Reported	\$ 368,483,824
Restatement:	
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows of Resources per GASB 75 Requirements	<u>(188,552,703)</u>
July 1, 2017 Net Position as Restated	<u>\$ 179,931,121</u>

NOTE 21 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through September 21, 2018, which is the date the financial statements were available to be issued.

On July 12, 2018, the College purchased parcels of land located at 1412 Elizabeth Avenue for a total purchase price of \$3,130,000.

NOTE 22 - AUDIT HOURS AND COST

The audit required 245 audit hours at an approximate cost of \$46,900. The cost represents .01% of the College's total assets and .02% of the total expenses subject to audit.

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

Exhibit C-1

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.50964%	0.50835%	0.48573%	0.46411%	0.44450%
(2) Proportionate Share of TSERS Collective Net Pension Liability	\$ 40,437,085	\$ 46,722,616	\$ 17,900,112	\$ 5,441,323	\$ 26,985,679
(3) Covered Payroll	\$ 73,247,218	\$ 71,439,188	\$ 69,503,113	\$ 66,472,799	\$ 64,075,918
(4) Net Pension Liability as a Percentage of Covered Payroll	55.21%	65.40%	25.75%	8.19%	42.12%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.51%	87.32%	94.64%	98.24%	90.60%

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

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

Exhibit C-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
(1) Contractually Required Contribution	\$ 8,056,645	\$ 7,310,072	\$ 6,536,686	\$ 6,359,535	\$ 5,776,486
(2) Contributions in Relation to the Contractually Determined Contribution	<u>8,056,645</u>	<u>7,310,072</u>	<u>6,536,686</u>	<u>6,359,535</u>	<u>5,776,486</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 74,736,968	\$ 73,247,218	\$ 71,439,188	\$ 69,503,113	\$ 66,472,799
(5) Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually Required Contribution	\$ 5,337,524	\$ 4,555,018	\$ 2,987,589	\$ 2,108,402	\$ 1,987,397
(2) Contributions in Relation to the Contractually Determined Contribution	<u>5,337,524</u>	<u>4,555,018</u>	<u>2,987,589</u>	<u>2,108,402</u>	<u>1,987,397</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 64,075,918	\$ 61,223,362	\$ 60,600,173	\$ 59,058,885	\$ 59,148,721
(5) Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	3.36%

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

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

Changes of Benefit Terms:

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

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

Central Piedmont Community College
Required Supplementary Information
Schedule of the Proportionate Net OPEB Liability (Asset)
Cost-Sharing, Multiple-Employer, Defined Benefit OPEB Plans
Last Two Fiscal Years **Exhibit C-3**

	<u>2017</u>	<u>2016</u>
Retiree Health Benefit Fund		
(1) Proportionate Share Percentage of Collective Net OPEB Liability	0.41687%	0.44447%
(2) Proportionate Share of Collective Net OPEB Liability	\$ 136,676,625	\$ 193,359,558
(3) Covered Payroll	\$ 73,247,218	\$ 71,439,188
(4) Net OPEB Liability as a Percentage of Covered Payroll	186.60%	270.66%
(5) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	3.52%	2.41%
Disability Income Plan of North Carolina		
(1) Proportionate Share Percentage of Collective Net OPEB Asset	0.44782%	0.44998%
(2) Proportionate Share of Collective Net OPEB Asset	\$ 273,708	\$ 279,438
(3) Covered Payroll	\$ 73,247,218	\$ 71,439,188
(4) Net OPEB Asset as a Percentage of Covered Payroll	0.37%	0.39%
(5) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* .

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

Exhibit C-4

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Retiree Health Benefit Fund					
(1) Contractually Required Contribution	\$ 4,521,587	\$ 4,254,302	\$ 4,000,595	\$ 3,815,721	\$ 3,589,531
(2) Contributions in Relation to the Contractually Determined Contribution	<u>4,521,587</u>	<u>4,254,302</u>	<u>4,000,595</u>	<u>3,815,721</u>	<u>3,589,531</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 74,736,968	\$ 73,247,218	\$ 71,439,188	\$ 69,503,113	\$ 66,472,799
(5) Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually Required Contribution	\$ 3,396,024	\$ 3,061,168	\$ 2,969,408	\$ 2,657,650	\$ 2,425,098
(2) Contributions in Relation to the Contractually Determined Contribution	<u>3,396,024</u>	<u>3,061,168</u>	<u>2,969,408</u>	<u>2,657,650</u>	<u>2,425,098</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 64,075,918	\$ 61,223,362	\$ 60,600,173	\$ 59,058,885	\$ 59,148,721
(5) Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	4.10%
Disability Income Plan of North Carolina					
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
(1) Contractually Required Contribution	\$ 104,632	\$ 278,339	\$ 292,901	\$ 284,963	\$ 292,480
(2) Contributions in Relation to the Contractually Determined Contribution	<u>104,632</u>	<u>278,339</u>	<u>292,901</u>	<u>284,963</u>	<u>292,480</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 74,736,968	\$ 73,247,218	\$ 71,439,188	\$ 69,503,113	\$ 66,472,799
(5) Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually Required Contribution	\$ 281,934	\$ 318,361	\$ 315,121	\$ 307,106	\$ 307,573
(2) Contributions in Relation to the Contractually Determined Contribution	<u>281,934</u>	<u>318,361</u>	<u>315,121</u>	<u>307,106</u>	<u>307,573</u>
(3) Contribution Deficiency (Excess)	<u>\$ -</u>				
(4) Covered Payroll	\$ 64,075,918	\$ 61,223,362	\$ 60,600,173	\$ 59,058,885	\$ 59,148,721
(5) Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

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

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

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

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

Method and Assumptions Used in Calculations of Actuarially Determined Contributions: An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rates in the Schedule of employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 14 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans.

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

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

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

**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***

Members of the Board of Trustees
Central Piedmont Community College
Charlotte, 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 Central Piedmont Community College (the “College”), a component unit of the State of North Carolina, and the discretely presented component unit as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the College’s basic financial statements, and have issued our report thereon dated September 21, 2018. The financial statements of Central Piedmont Community College Foundation, Inc. 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 entity’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 report and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College’s financial statements are free 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*.

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 Bekart LLP

Charlotte, North Carolina
September 21, 2018