CLEVELAND COMMUNITY COLLEGE

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

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2018

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

CLEVELAND COMMUNITY COLLEGE
TABLE OF CONTENTS

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Members of the Board of Trustees
Cleveland Community College
Shelby, North Carolina

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

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 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
December 10, 2018

The following is a discussion and analysis of Cleveland Community College's (the "College") financial performance, providing an overview of the activities for fiscal year ended June 30, 2018.

Overview of the Financial Statements

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

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

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

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

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

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

Condensed Statement of Net Position
As of June 30, 2018 and 2017

	June 30, 2018	June 30, 2017	Change
Assets			
Current Assets	$ 8,226,658.96	$ 8,959,540.10	$ (732,881.14)
Noncurrent Assets	89,134.25	151,671.11	(62,536.86)
Capital Assets, Net	20,340,216.62	20,417,154.92	(76,938.30)
Total Assets	28,656,009.83	29,528,366.13	(872,356.30)
Deferred Outflows of Resources	3,494,904.01	4,181,879.01	(686,975.00)
Liabilities			
Current Liabilities	882,921.52	1,050,406.94	(167,485.42)
Long-Term Liabilities	24,283,402.39	6,812,023.24	17,471,379.15
Total Liabilities	25,166,323.91	7,862,430.18	17,303,893.73
Deferred Inflows of Resources	6,679,088.00	271,836.00	6,407,252.00
Net Position			
Investment in Capital Assets	20,340,216.62	20,417,154.92	(76,938.30)
Restricted	3,811,080.16	3,988,651.09	(177,570.93)
Unrestricted	(23,845,794.85)	1,170,172.95	(25,015,967.80)
Total Net Position	$ 305,501.93	$ 25,575,978.96	$ (25,270,477.03)

Total assets decreased by $872,356.30. Of that decrease, cash and cash equivalents decreased by $789,955.78. Inventories decreased by $16,560.52. Other receivables, mainly student receivables, totaling $670,458.38 increased from prior year by $60.642.16. Also, there was a decrease in restricted due from primary government of $90,874.48 for capital improvement funds receivable from the North Carolina Community College System Office.

Capital assets decreased by $76,938.30. Additions of equipment and construction in progress were $1,366,545.18. Increases in accumulated depreciation amounted to $1,192,699.19 and the net effect of losses on disposals was $250,784.29.

Total liabilities increased $17,303,893.73. Accounts payable decreased by $132,338.03 due to general accounts payable accruals decreasing by $92,190.89. Accrued salaries decreased by $39,988.26. Long-term current portion liabilities decreased by $32,198.26 due to accrued leave. Unearned revenue increased by $3,468.95 due to higher summer term attendance resulting in higher summer term revenue and higher unearned revenue. Funds held for others decreased by $6,418.08 due to timing differences in payments for scholarships, health insurance, and bookstore. Long-term liabilities increased by $17,439,180.89 primarily due to implementation of Governmental Accounting Standards Board ("GASB") Statement No. 75 net other postemployment benefit liability of $18,149,963.00, and the GASB No. 68 net pension liability decrease of $776,853.00.

The items described above resulted in a decrease in net position of $25,270,477.03. Net position is the product of current year operations, and GASB No. 75 reporting requirements. GASB

No. 75 reporting requirements are explained in more detail in Note 12 of the Notes to the Financial Statements.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For Fiscal Years Ended June 30, 2018 and 2017

	June 30, 2018	June 30, 2017	Change
Revenues			
Student Tuition and Fees	$ 2,006,197.23	$ 1,946,223.29	$ 59,973.94
Sales and Services, Net	71,410.45	230,891.48	(159,481.03)
Other Operating Revenue	1,540.00	1,455.00	85.00
Total Operating Revenue	2,079,147.68	2,178,569.77	(99,422.09)
Expenses			
Salaries and Benefits	17,546,247.78	16,735,086.57	811,161.21
Supplies and Materials	1,869,192.19	3,147,244.58	(1,278,052.39)
Services	3,865,834.79	6,360,108.92	(2,494,274.13)
Scholarships and Fellowships	2,951,437.22	3,226,248.21	(274,810.99)
Utilities	456,321.30	469,615.49	(13,294.19)
Depreciation/Amortization	1,192,699.19	1,363,588.72	(170,889.53)
Total Operating Expenses	27,881,732.47	31,301,892.49	(3,420,160.02)
Operating Loss	(25,802,584.79)	(29,123,322.72)	3,320,737.93
Nonoperating Revenues:			
State Aid and County Appropriations	16,776,656.02	16,318,416.02	458,240.00
Noncapital Grants and Gifts	6,539,969.06	14,283,579.96	(7,743,610.90)
Investment and Other Revenues	24,479.54	12,335.38	12,144.16
Total Nonoperating Revenues	23,341,104.62	30,614,331.36	(7,273,226.74)
Nonoperating Expenses	(200,782.04)	(102,606.41)	(98,175.63)
Income Before Other Revenues	(2,662,262.21)	1,388,402.23	(4,050,664.44)
Capital Contributions	1,127,331.18	637,017.22	490,313.96
(Decrease) Increase in Net Assets	(1,534,931.03)	2,025,419.45	(3,560,350.48)
Net Position			
Net Assets - Beginning of Year	25,575,978.96	23,550,559.51	2,025,419.45
Cumulative Effect of Change in Accounting Principle, Note 16	(23,735,546.00)	-	(23,735,546.00)
Net Assets - End of Year	$ 305,501.93	$ 25,575,978.96	$ (25,270,477.03)

State Aid and County Appropriations increased by $458,240.00. This amount is due to an increase in current State Aid appropriations. There was a decrease in noncapital grants of $7,743,610.90 which is due to the Department of Labor Grant ending on September 30, 2017. The Department of Labor Grant revenue decreased by $4,782,984.93 from prior year. The indirect costs from the Department of Labor Grant was $1,061,911.60 less than the prior year. The Golden Leaf Grant revenue of $1,500,000.00 was received in the prior year to assist with the construction of the Advanced Manufacturing Building. PELL revenue was $499,604.29 less than the prior year also. The College received a Duke Energy Grant for $99,508.00 during the current year.

Operating Expenses decreased by $3,420,160.02. Salaries and Benefits increased by $811,161.21. Services decreased by $2,494,274.13. Supplies and Materials decreased by $1,278,052.39. These decreases are mainly due the Department of Labor Grant ending on September 30, 2017. Scholarships and Fellowships decreased by $274,810.99 partially due to a reduction in Pell Grant Funds of $499,604.29 and a decrease in Pell recipients. This decrease in Pell recipients is due in part to the Department of Education implementation of a 600% lifetime eligibility regulation. Now after receiving six years of federal assistance, students are no longer eligible for Pell. The student financial statement entry increased by $240,813.24. In addition, depreciation expense decreased by $170,889.53, and utilities decreased by $13,294.19.

Currently Known Facts – Cleveland Community College has experienced a decrease in enrollment. The NC State Board of Community Colleges will approve the FY 2019 State Aid Allocation and Budget Policies for all 58 community colleges once a final state budget has been determined. The College is adjusting to declines in budget through cost reduction strategies such as limiting travel, supplies, equipment, and personnel as needed. We are also pursuing grant opportunities as available. County appropriations for FY 2018 increased slightly. The College relies on strong procedures and sound planning to manage FTE fluctuations. Although FTE has declined, we continue to restructure programs to meet the needs of our community. With these changes, we anticipate the College will remain financially stable.

Request for Information - This report provides an overview of the College's finances for those with an interest in this area. For questions concerning any of the information in this report or requests for additional information contact the Executive Vice President, Cleveland Community College, 137 South Post Road, Shelby, NC 28152.

Cleveland Community College
Statement of Net Position
June 30, 2018

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 3,380,497.89
Restricted Cash and Cash Equivalents	1,575,549.84
Short-Term Investments	718,738.15
Restricted Short-Term Investments	223,490.60
Receivables, Net (Note 4)	670,458.38
Due from State of North Carolina Component Units	1,500,000.00
Inventories	157,924.10
Total Current Assets	8,226,658.96
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	54,968.25
Net Other Postemployment Benefits Asset	34,166.00
Capital Assets - Nondepreciable (Note 5)	586,624.90
Capital Assets - Depreciable, Net (Note 5)	19,753,591.72
Total Noncurrent Assets	20,429,350.87
Total Assets	28,656,009.83
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	2,867,435.01
Deferred Outflows Related to Other Postemployment Benefits	627,469.00
Total Deferred Outflows of Resources	3,494,904.01
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	517,614.79
Unearned Revenue	145,977.89
Funds Held for Others	49,419.62
Long-Term Liabilities - Current Portion (Note 7)	169,909.22
Total Current Liabilities	882,921.52
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	24,283,402.39
Total Liabilities	25,166,323.91
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	162,755.00
Deferred Inflows Related to Other Postemployment Benefits	6,516,333.00
Total Deferred Inflows of Resources	6,679,088.00
NET POSITION	
Investment in Capital Assets	20,340,216.62
Restricted for:	
Expendable:	
Scholarships and Fellowships	525,657.05
Capital Projects	231,445.70
Other	3,053,977.41
Unrestricted	(23,845,794.85)
Total Net Position	$ 305,501.93

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

Cleveland Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 2,006,197.23
Sales and Services, Net (Note 9)	71,410.45
Other Operating Revenues	1,540.00
Total Operating Revenues	2,079,147.68
EXPENSES	
Operating Expenses:	
Salaries and Benefits	17,546,247.78
Supplies and Materials	1,869,192.19
Services	3,865,834.79
Scholarships and Fellowships	2,951,437.22
Utilities	456,321.30
Depreciation/Amortization	1,192,699.19
Total Operating Expenses	27,881,732.47
Operating Loss	(25,802,584.79)
NONOPERATING REVENUES (EXPENSES)	
State Aid	14,821,784.02
County Appropriations	1,954,872.00
Noncapital Grants - Student Financial Aid	6,532,469.06
Noncapital Gifts, Net	7,500.00
Investment Income	24,479.54
Other Nonoperating Expenses	(200,782.04)
Net Nonoperating Revenues	23,140,322.58
Loss Before Other Revenues, Expenses, Gains, and Losses	(2,662,262.21)
State Capital Aid	897,331.18
County Capital Aid	230,000.00
Decrease in Net Position	(1,534,931.03)
NET POSITION	
Net Position, July 1, 2017 as Restated (Note 16)	1,840,432.96
Net Position, June 30, 2018	$ 305,501.93

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

Cleveland Community College
Statement of Cash Flows ***Exhibit A-3***
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	2,124,328.36
Payments to Employees and Fringe Benefits		(16,823,538.15)
Payments to Vendors and Suppliers		(6,266,139.53)
Payments for Scholarships and Fellowships		(2,951,437.22)
Other Payments		(6,418.08)
Net Cash Used by Operating Activities		(23,923,204.62)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		14,821,784.02
County Appropriations		1,954,872.00
Noncapital Grants - Student Financial Aid		6,430,115.17
Noncapital Grants		7,500.00
Noncapital Gifts		24,479.54
Net Cash Provided by Noncapital Financing Activities		23,238,750.73
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		988,205.66
County Capital Aid		230,000.00
Proceeds from Sale of Capital Assets		926.54
Acquisition and Construction of Capital Assets		(1,348,420.18)
Net Cash Used by Capital and Related Financing Activities		(129,287.98)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		30,950.71
Purchase of Investments and Related Fees		(7,164.62)
Net Cash Provided by Investing Activities		23,786.09
Net Decrease in Cash and Cash Equivalents		(789,955.78)
Cash and Cash Equivalents, July 1, 2017		5,800,971.76
Cash and Cash Equivalents, June 30, 2018	$	5,011,015.98

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

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

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(25,802,584.79)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation/Amortization Expense		1,192,699.19
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		41,711.73
Inventories		16,560.52
Net Other Postemployment Benefits Asset		765.00
Deferred Outflows Related to Pensions		1,314,444.00
Deferred Outflows Related to Other Postemployment Benefits		(9,941.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		(132,338.03)
Unearned Revenue		3,468.95
Funds Held for Others		(6,418.08)
Net Pension Liability		(776,853.00)
Net Other Postemployment Benefits Liability		(6,238,042.00)
Compensated Absences		66,070.89
Deferred Inflows Related to Pensions		(109,081.00)
Deferred Inflows Related to Other Postemployment Benefits		6,516,333.00
Net Cash Used by Operating Activities	$	(23,923,204.62)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,380,497.89
Restricted Cash and Cash Equivalents		1,575,549.84
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		54,968.25
Total Cash and Cash Equivalents - June 30, 2018	$	5,011,015.98

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	102,353.89
Loss on Disposal of Capital Assets		(231,732.75)

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

Cleveland Community College Foundation
Statement of Financial Position
June 30, 2018 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	455,617.00
Investments		2,867,298.00
Real Estate Held for Resale		573,121.00
Pledges Receivable/Promises		968,142.00
Total Assets	$	4,864,178.00
LIABILITIES		
Accounts Payable and Accrued Expenses	$	6,948.00
Interest Payable		8,864.00
Funds Held for Others		657,027.00
Notes Payable		1,330,000.00
Total Liabilities		2,002,839.00
NET ASSETS		
Unrestricted		2,103,098.00
Temporarily Restricted		758,241.00
Total Net Assets		2,861,339.00
Total Liabilities and Net Assets	$	4,864,178.00

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

Cleveland 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	$	1,734,285.00
Fees		284,262.00
Other Investment Income		12,067.00
Total Unrestricted Revenues and Gains		2,030,614.00
Total Net Assets Released from Restrictions		31,957.00
Total Unrestricted Revenues, Gains, and Other Support		2,062,571.00
Expenses and Losses:		
Scholarships		26,741.00
Legrand		60,664.00
Brown Emergency Center		49,951.00
Management and General		163,840.00
Fund Raising		156,322.00
Grants		33,954.00
Total Expenses		491,472.00
Increase in Unrestricted Net Assets		1,571,099.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Income on Long-Term Investments		29,417.00
Temporarily Restricted Net Assets Released from Restriction		(31,957.00)
Decrease in Temporarily Restricted Net Assets		(2,540.00)
Increase in Net Assets		1,568,559.00
Net Assets at Beginning of Year		1,292,780.00
Net Assets at End of Year	$	2,861,339.00

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America ("GAAP"), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cleveland Community College 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. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

Discretely Presented Component Unit - Cleveland Community College Foundation is legally separate, nonprofit corporation and is reported as discretely presented component unit based on the nature and significance of their relationship to the College.

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

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

During the year ended June 30, 2018, the Foundation distributed $60,695.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Kendra Haneline, Foundation and Advancement Coordinator.

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private banks.

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

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

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

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.

Depreciation and amortization are computed using the straight-line and/or units of output method over the estimated useful lives of the assets in the following manner:

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

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

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 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 11 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 other postemployment benefit ("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 12 for further information regarding the College's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

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

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College. Both restricted and unrestricted net position include consideration of deferred outflows of resources and deferred inflows of resources. See Note 8 for further information regarding deferred outflows of resources and deferred inflows of resources that had a significant effect on unrestricted net position.

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank, savings and loan association, whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2018 was $1,900.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit of $942,228.75 reported as investments on the Statement of Net Position, was $5,951,344.73, and the bank balance was $5,390,282.13.

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.

B. Investments -

College - As of June 30, 2018, the college had $942,228.75 in certificates of deposit reported as investments and are also a component of the deposit totals reported in the deposits section of this note.

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

Investment Type	Fair Value
Certificates of Deposit	$ 1,498,352.00
Exchange-Traded Funds and Notes	377,506.00
Equities	862,441.00
Equity Mutual Funds	128,999.00
Total	$ 2,867,298.00

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2018, is as follows:

Cash on Hand	$ 1,900.00
Carrying Amount of Deposits with Private Financial Institutions	5,951,344.73
Total Deposits and Investments	$ 5,953,244.73
Deposits	
Current:	
Cash and Cash Equivalents	$ 3,380,497.89
Restricted Cash and Cash Equivalents	1,575,549.84
Noncurrent:	
Restricted Cash and Cash Equivalents	54,968.25
Total Deposits	5,011,015.98
Investments	
Current:	
Short-Term Investments	718,738.15
Restricted Short-Term Investments	223,490.60
Total Investments	942,228.75
Total Deposits and Investments	$ 5,953,244.73

NOTE 3 - FAIR VALUE MEASUREMENTS

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 College'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.

College - At year-end, the College's investments valued at $942,228.75 were held in certificates of deposit which are a Level 2 investment.

Component Unit - The College's discretely presented component unit's financial assets measured at fair value as of June 30, 2018 are all classified as Level 1 investments except for certificates of deposits which are classified as Level 2 investments and valued at cost plus accrued interest which approximates fair value.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 486,599.43	$ 449,180.00	$ 37,419.43
Student Sponsors	36,828.19	-	36,828.19
Intergovernmental	592,372.80	-	592,372.80
Investment Earnings	1,272.94	-	1,272.94
Other	2,565.02	-	2,565.02
Total Current Receivables	$ 1,119,638.38	$ 449,180.00	$ 670,458.38

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2018
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 469,400.00	$ -	$ -	$ 469,400.00
Construction in Progress	18,125.00	117,224.90	18,125.00	117,224.90
Total Capital Assets, Nondepreciable	487,525.00	117,224.90	18,125.00	586,624.90
Capital Assets, Depreciable:				
Buildings	25,455,215.73	840,866.00	-	26,296,081.73
Machinery and Equipment	10,077,842.05	316,048.64	911,517.14	9,482,373.55
General Infrastructure	1,142,144.85	92,405.64	-	1,234,550.49
Total Capital Assets, Depreciable	36,675,202.63	1,249,320.28	911,517.14	37,013,005.77
Less Accumulated Depreciation for:				
Buildings	11,525,937.35	500,731.56	-	12,026,668.91
Machinery and Equipment	4,872,726.79	640,346.47	678,857.85	4,834,215.41
General Infrastructure	346,908.57	51,621.16	-	398,529.73
Total Accumulated Depreciation	16,745,572.71	1,192,699.19	678,857.85	17,259,414.05
Total Capital Assets, Depreciable, Net	19,929,629.92	56,621.09	232,659.29	19,753,591.72
Capital Assets, Net	$ 20,417,154.92	$ 173,845.99	$ 250,784.29	$ 20,340,216.62

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Balance
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 186,800.87
Accrued Payroll	245,466.08
Other	85,347.84
Total Current Accounts Payable and Accrued Liabilities	$ 517,614.79

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 Liabilities					
Compensated Absences	$ 1,262,382.72	$ 874,520.03	$ 808,449.14	$ 1,328,453.61	$ 169,909.22
Net Pension Liability (Note 11)	5,751,748.00	-	776,853.00	4,974,895.00	-
Net OPEB Liability (Note 12)	-	24,388,005.00	6,238,042.00	18,149,963.00	-
Total Long-Term Liabilities	$ 7,014,130.72	$ 25,262,525.03	$ 7,823,344.14	$ 24,453,311.61	$ 169,909.22

Additional information regarding the net pension is included in Note 11.
Additional information regarding the net other postemployment benefit liability is included in Note 12.

NOTE 8 - NET POSITION

The unrestricted net deficit amount of $(23,845,794.85) 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 the 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	$ 2,867,435.01	$ -	$ 2,867,435.01
Deferred Outflows Related to OPEB	-	594,099.00	594,099.00
Noncurrent Liabilities			
Long-Term Liabilities			
Net Pension Liability	4,974,895.00	-	4,974,895.00
Net OPEB Liability	-	18,149,963.00	18,149,963.00
Deferred Inflows Related to Pensions	(162,755.00)	-	(162,755.00)
Deferred Inflows Related to OPEB	-	6,516,333.00	6,516,333.00
Effect on Unrestricted Net Position	$ 7,679,575.01	$ 25,260,395.00	$ 32,939,970.01

See Notes 11 and 12 for detailed information regarding the amortization of the Deferred Outflows of Resources and Deferred Inflows of Resources relating to pensions and OPEB, respectively.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,811,406.69	$ 1,801,845.46	$ 3,364.00	$ 2,006,197.23
Sales and Services:				
Sales and Services of Auxiliary Enterprises				
Bookstore	22,393.92	-	-	22,393.92
Cosmetology	42,000.75	-	-	42,000.75
Vendors	275.78	-	-	275.78
Other	6,740.00	-	-	6,740.00
Total Sales and Services, Net	$ 71,410.45	$ -	$ -	$ 71,410.45

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation/ Amortization	Total
Instruction	$ 9,357,159.71	$ 864,884.65	$ 1,102,854.52	$ -	$ -	$ -	$ 11,324,898.88
Academic Support	2,329,017.07	670,615.25	729,269.38	-	-	-	3,728,901.70
Student Services	1,073,009.50	21,375.14	152,957.83	-	-	-	1,247,342.47
Institutional Support	2,047,336.01	217,711.72	1,066,423.62	-	41,247.37	-	3,372,718.72
Operations and Maintenance of Plant	315,383.80	94,605.43	799,117.57	-	415,073.93	-	1,624,180.73
Student Financial Aid	-	-	-	2,951,437.22	-	-	2,951,437.22
Auxiliary Enterprises	61,290.68	-	15,211.87	-	-	-	76,502.55
Pension & OPEB Expense	2,363,051.00	-	-	-	-	-	2,363,051.00
Depreciation	-	-	-	-	-	1,192,699.19	1,192,699.19
Total Operating Expenses	$ 17,546,247.77	$ 1,869,192.19	$ 3,865,834.79	$ 2,951,437.22	$ 456,321.30	$ 1,192,699.19	$ 27,881,732.46

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration - The State of North Carolina administers the Teachers' and State Employees' Retirement System ("TSERS") plan. This plan is a cost-sharing, multiple-employer, defined benefit 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 $588,877.99, and the College's contributions were $1,058,016.72 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 $4,974,895.00 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 .06270%, which was a decrease of .00012% from its proportion measured as of June 30, 2016, which was 0.06258%.

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:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 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 (7.20%)**	**1% Increase (8.20%)**
$ 10,240,392.23	$ 4,974,895.00	$ 563,078.60

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 $1,486,089.00. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 107,847.00	$ 162,755.00
Changes of Assumptions	785,958.00	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	673,272.00	-
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	241,781.01	-
Contributions Subsequent to the Measurement Date	1,058,577.00	-
Total	$ 2,867,435.01	$ 162,755.00

The amount of $2,867,435.01 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	$ 409,160.00
2020	1,019,769.00
2021	486,624.00
2022	(269,450.00)
2023	-
Total	$ 1,646,103.00

NOTE 12 - 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 13. 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 $594,099.00 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 13, 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 $13,748.00 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 $18,149,963.00 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 .05536%, which was a decrease of .0007% from its proportion measured as of June 30, 2016, which was .05606%.

Net OPEB Asset - At June 30, 2018, the College reported an asset of $34,166.00 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 .05590%, which was a decrease of .00035% from its proportion measured as of June 30, 2016, which was .05625%.

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.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
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:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 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)		
	1% Decrease (2.58%)	**Current Discount Rate (3.58%)**	**1% Increase (4.58%)**
RHBF	21,652,713.22	18,149,963.00	15,373,062.34
	1% Decrease (2.75%)	**Current Discount Rate (3.75%)**	**1% Increase (4.75%)**
DIPNC	(29,046.20)	(34,166.00)	(39,297.70)

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	$ 14,827,430.30	$ 18,149,963.00	$ 22,567,692.78
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 $857,888.00 for RHB and $19,074.00 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	$ -	$ 9,368.00	$ 9,368.00
Changes of Assumptions	-	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	7,489.00	7,489.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	-	2,765.00	2,765.00
Contributions Subsequent to the Measurement Date	594,099.00	13,748.00	607,847.00
Total	$ 594,099.00	$ 33,370.00	$ 627,469.00

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

	RHBF	DIPNC	Total
Difference Between Actual and Expected Experience	$ 1,301,386.00	$ -	$ 1,301,386.00
Changes of Assumptions	4,998,417.00	-	4,998,417.00
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	6,745.00	-	6,745.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	209,785.00	-	209,785.00
Total	$ 6,516,333.00	$ -	$ 6,516,333.00

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability related to RHBF and an increase of the net OPEB asset related to DIPNC in the fiscal year 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

Year Ended June 30:	RHBF	DIPNC
2019	$ (1,303,604.00)	$ 5,917.00
2020	(1,303,604.00)	5,917.00
2021	(1,303,604.00)	5,916.00
2022	(1,303,604.00)	1,872.00
2023	(1,301,917.00)	-
Total	$ (6,516,333.00)	$ 19,622.00

NOTE 13 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

College employees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer contributions. Certain plans also require contributions from employees. The Plan has contracted with third parties to process claims. See Note 11, 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.

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

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 11, long-term disability benefits are payable as another 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. 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. The College is protected for losses from employee dishonesty for employees paid from county and institutional funds by contracts with private insurance company.

4. Statewide Workers' Compensation Program

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $7,980,000.00 at June 30, 2018.

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

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

NOTE 15 - 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 16 - NET POSITION RESTATEMENT

As of July 1, 2017, net position as previously reported was restated as follows:

	Amount
July 1, 2017 Net Position as Previously Reported	$ 25,575,978.96
Restatement:	
Record the College's Net OPEB Asset and Liability and OPEB Related Deferred Outflows of Resources per GASB 75 Requirements	(23,735,546.00)
July 1, 2017 Net Position as Restated	$ 1,840,432.96

NOTE 17 - SUBSEQUENT EVENTS

The College has evaluated events through December 10, 2018, which is the date the financial statements were available to be issued.

NOTE 18 - AUDIT HOURS AND COSTS

The audit required 255 audit hours at an approximate cost of $31,500. The cost represents 0.11% of the College's total assets and 0.11% of total expenses subject to audit.

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

Exhibit C-1

	2017	2016	2015	2014	2013
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.06270%	0.06258%	0.06392%	0.06070%	0.05890%
(2) Proportionate Share of TSERS Collective Net Pension Liability	$ 4,974,895.00	$ 5,751,748.00	$ 2,355,579.00	$ 711,660.00	$ 3,575,830.00
(3) Covered Payroll	$ 9,981,802.10	$ 10,048,273.07	$ 9,853,759.15	$ 9,542,532.45	$ 9,205,722.23
(4) Net Pension Liability as a Percentage of Covered Payroll	49.84%	57.24%	23.91%	7.46%	38.84%
(5) Plan Fiduciary Net Position as a Percentage of the 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.

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

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

	2018	2017	2016	2015	2014
(1) Contractually Required Contribution	$ 1,058,016.72	$ 996,183.85	$ 919,416.99	$ 901,618.96	$ 829,246.07
(2) Contributions in Relation to the Contractually Determined Contribution	1,058,016.72	996,183.85	919,416.99	901,618.96	829,246.07
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,814,626.37	$ 9,981,802.10	$ 10,048,273.07	$ 9,853,759.15	$ 9,542,532.45
(5) Contributions as a Percentage of Covered Payroll	10.78%	9.98%	9.15%	9.15%	8.69%

	2013	2012	2011	2010	2009
(1) Contractually Required Contribution	$ 766,836.66	$ 696,950.59	$ 473,516.38	$ 342,500.87	$ 780,807.35
(2) Contributions in Relation to the Contractually Determined Contribution	766,836.66	696,950.59	473,516.38	342,500.87	780,807.35
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,205,722.23	$ 9,367,615.49	$ 9,604,794.71	$ 9,593,861.86	$ 9,592,227.91
(5) Contributions as a Percentage of Covered Payroll	8.33%	7.44%	4.93%	3.57%	8.14%

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

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

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
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.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

Cleveland 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

	2017	2016
Retiree Health Benefit Fund		
(1) Proportionate Share Percentage of Collective Net OPEB Liability	0.055%	0.056%
(2) Proportionate Share of Collective Net OPEB Liability	$ 18,149,963.00	$ 24,388,005.00
(3) Covered Payroll	$ 9,981,802.10	$ 10,048,273.07
(4) Net OPEB Liability as a Percentage of Covered Payroll	181.83%	242.71%
(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	0.056%	0.056%
(2) Proportionate Share of Collective Net OPEB Asset	$ (34,166.00)	$ (34,931.00)
(3) Covered Payroll	$ 9,981,802.10	$ 10,048,273.07
(4) Net OPEB Asset as a Percentage of Covered Payroll	-0.34%	-0.35%
(5) Plan Fiduciary Net Position as a Percentage of the Total OPEB Asset	116.23%	116.06%

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

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

Exhibit C-4

Retiree Health Benefit Fund

	2018	2017	2016	2015	2014
(1) Contractually Required Contribution	$ 593,784.90	$ 579,445.31	$ 562,703.29	$ 540,971.38	$ 515,296.75
(2) Contributions in Relation to the Contractually Determined Contribution	593,784.90	579,445.31	562,703.29	540,971.38	515,296.75
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,814,626.37	$ 9,981,802.10	$ 10,048,273.07	$ 9,853,759.15	$ 9,542,532.45
(5) Contributions as a Percentage of Covered Payroll	6.05%	5.81%	5.60%	5.49%	5.40%

	2013	2012	2011	2010	2009
(1) Contractually Required Contribution	$ 487,653.38	$ 468,380.77	$ 485,334.94	$ 431,723.78	$ 322,298.63
(2) Contributions in Relation to the Contractually Determined Contribution	487,653.38	468,380.77	485,334.94	431,723.78	322,298.63
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,205,722.23	$ 9,367,615.49	$ 9,904,794.71	$ 9,593,861.86	$ 9,592,227.91
(5) Contributions as a Percentage of Covered Payroll	5.30%	5.00%	4.90%	4.50%	3.36%

Disability Income Plan of North Carolina

	2018	2017	2016	2015	2014
6 Contractually Required Contribution	$ 13,740.48	$ 37,930.85	$ 41,197.92	$ 40,400.41	$ 41,987.14
(2) Contributions in Relation to the Contractually Determined Contribution	13,740.48	37,930.85	41,197.92	40,400.41	41,987.14
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,814,626.37	$ 9,981,802.10	$ 10,048,273.07	$ 9,853,759.15	$ 9,542,532.45
(5) Contributions as a Percentage of Covered Payroll	0.14%	0.38%	0.41%	0.41%	0.44%

	2013	2012	2011	2010	2009
(1) Contractually Required Contribution	$ 40,484.43	$ 48,711.60	$ 51,504.93	$ 49,888.08	$ 49,879.59
(2) Contributions in Relation to the Contractually Determined Contribution	40,484.43	48,711.60	51,504.93	49,888.08	49,879.59
(3) Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4) Covered Payroll	$ 9,205,722.23	$ 9,367,615.49	$ 9,904,794.71	$ 9,593,861.86	$ 9,592,227.91
(5) Contributions as a Percentage of Covered Payroll	0.44%	0.52%	0.52%	0.52%	0.52%

Cleveland 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 12 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

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

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
Cleveland Community College
Shelby, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cleveland Community College (the "College"), a component unit of the State of North Carolina, and the discretely presented component unit, Cleveland Community College Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2018. Our report includes a reference to other auditors who audited the financial statements of the Foundation, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free 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 Bekaert LLP

Charlotte, North Carolina
December 10, 2018