

**CATAWBA VALLEY  
COMMUNITY COLLEGE**

**FINANCIAL STATEMENTS**

*For the Year Ended June 30, 2015*

*And Independent Auditor's Report*

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## Independent Auditor's Report

Members of the Board of Trustees  
Catawba Valley Community College  
Hickory, North Carolina

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

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

**Emphasis of Matters**

As discussed in Note 14 to the financial statements, the College adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, net position as of July 1, 2014, has been restated. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, the College corrected accumulated depreciation on fixed assets recorded in prior years. As a result, net position as of July 1, 2014, 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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.



Charlotte, North Carolina  
October 30, 2015

## **CATAWBA VALLEY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of Catawba Valley Community College's annual financial report presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2015, with comparative data for fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

### **Financial Highlights**

- The storm pipe replacement due to the sinkhole that was approximately 30 feet deep and 40-50 feet in diameter was completed this past fall at a final cost of \$2,221,253.91. County capital aid decreased from the prior year because of this completion.
- The College's budget FTE for the 2014-15 year was 4,507 which was approximately 5.6% lower than the 2013-14 budget FTE of 4,775. This decrease in budget FTE impacted the state aid resulting in a decrease of \$778,887 from the prior year.
- The College's initial state budget allocation was \$27,217,550. This initial allocation was immediately reduced by \$1,136,559 through a Management Flexibility Reduction. Management Flexibility Reduction is a budget cut that the General Assembly does not specify how to implement, but gives the College's management the flexibility to determine the budget area to reduce. This was followed up with a 1% reversion (approximately \$250,000) in February.
- The Governmental Accounting Standards Board (GASB) issued Statement No. 68 in June 2012. GASB Statement No. 68 is effective for fiscal year 2015 and required the College, who previously had no reporting responsibility related to pension liability/assets, to now include our proportionate share of the net pension liability on our financial statements, as well as other information such as pension expense and deferred inflows/outflows. The effect of this statement is reflected as deferred outflows related to pensions of \$1,665,515, net pension liability of \$1,446,416, deferred inflows related to pensions of \$5,224,062, and a \$5,987,829 restatement to unrestricted net position. Unrestricted net position as of June 30, 2015 totals (\$1,795,718) as a result of this but is not a sign of financial distress. The net pension liability has existed in the past, but prior to this year, it was not reflected on the face of the financial statements.

### **Overview of the Financial Statements**

The basic financial statements consist of three statements: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements are prepared in accordance with standards issued by the Governmental Accounting Standards Board and focus on the financial position of the College, the results of operations, and cash flows of the College as a whole. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are prepared under the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is reported as net position. The balance of net position is one indicator of the College's financial health when considered with certain non-financial facts such as enrollment levels and the condition of the College's facilities.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies state and county funding, grants, and gifts as nonoperating revenues. This required classification of certain revenues usually results in an operating loss, although the College may have an overall increase in net position for the year.

The Statement of Cash Flows presents the cash inflows and outflows of the College for the year summarized by operating, capital, noncapital financing, and investing activities. The statement provides a reconciliation of cash balances at the beginning of the year to cash balances at the end of the year.

For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position. Comparative totals are being used in explaining the College's financial position and results of operations.

**Statement of Net Position**

For the year, total assets of the College have increased \$421,601 or 0.7% from the previous year. The majority of the increase was due to noncurrent assets. Noncurrent assets increased by \$330,650 primarily because the College received cash for the Duke Energy Foundation Grant in the amount of \$250,000.

Total liabilities increased by \$1,407,805 or 37.1%. Total liabilities at fiscal year ended June 30, 2015 were \$5,202,856. Long term liabilities totaled \$3,647,613 or 70.1% at year-end. In previous years long term liabilities only represented accrued vacation for employees. For the fiscal year ending June 30, 2015, GASB 68 and 71 became effective. The objective of this statement was to improve accounting and financial reporting by state and local governments for pensions. As a result of this statement and as cost-sharing employers in the retirement system, the College reported a net pension liability of \$1,446,416 which is our proportionate share of the collective net pension liability. This liability accounted for the increase in total liabilities. Due to the level of funding in the North Carolina retirement system, no current liability will be recognized for pension expenses at this time. Other liabilities, consisting mainly of accounts payable, accrued payroll and unearned revenues totaled approximately \$1,555,243 or 29.9% of the total liabilities at year-end.

Another effect of GASB 68 was the recording of deferred outflows and inflows for pensions. The amount reported as deferred outflow of pensions will be amortized over time as pension expense. Deferred inflows for pensions were \$5,224,062.

In regards to GASB 68, it is important to provide context for the numbers. The presence of a large number representing unfunded pension costs could give the incorrect impression that

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

employers/taxpayers have an immense debt that must be paid off immediately, in one year. However, this is not the case. Pension costs are amortized or paid off over long periods much like mortgages. The liability will be paid down by the College's annual contributions to the retirement system over many years.

The College's net position totaled \$46,453,291 at June 30, 2015, an decrease of \$4,544,751 from the previous year. The total net position consists of \$46,592,098 invested in capital assets and \$1,656,911 in expendable net position. Unrestricted net position was a negative \$1,795,718 due to the implementation of GASB 68 and 71.

**Condensed Statement of Net Position**

	6/30/2015	6/30/2014 As Restated	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 7,084,691.38	\$ 7,039,634.65	\$ 45,056.73
Noncurrent Assets	1,537,905.09	1,207,254.17	330,650.92
Capital Assets	46,592,098.43	46,546,204.99	45,893.44
<b>Total Assets</b>	<b>55,214,694.90</b>	<b>54,793,093.81</b>	<b>421,601.09</b>
<b>Deferred Outflows</b>			
Deferred Outflows for Pensions	1,665,515.00	-	1,665,515.00
<b>Liabilities</b>			
Current Liabilities	1,873,704.22	1,858,774.06	14,930.16
Long-Term Liabilities	3,329,152.37	1,936,276.79	1,392,875.58
<b>Total Liabilities</b>	<b>5,202,856.59</b>	<b>3,795,050.85</b>	<b>1,407,805.74</b>
<b>Deferred Inflows</b>			
Deferred Inflows for Pensions	5,224,062.00	-	5,224,062.00
<b>Net Position</b>			
Investment in Capital Assets	46,592,098.43	46,546,204.99	45,893.44
Restricted			
Expendable	1,656,911.05	1,271,398.88	385,512.17
Unrestricted	(1,795,718.17)	3,180,439.09	(4,976,157.26)
<b>Total Net Position</b>	<b>\$ 46,453,291.31</b>	<b>\$ 50,998,042.96</b>	<b>\$ (4,544,751.65)</b>

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The change in net position of the College was \$1,443,077. The total operating revenues decreased by \$684,057 mainly due to a decrease in sales at our bookstore and a decrease in our rental income. Total operating expenses were \$2,759,455 or 6.3% less than the prior year primarily due to a decrease in salaries and benefits of \$2,283,156. Salaries and benefits decreased because of employee retirements and a reduction in force. Total nonoperating revenues increased by \$764,394 or 2.4% over the year ended June 30, 2014.

In addition to receiving funding from state sources, the College also receives funding from the county in the form of county appropriations and county capital aid. County appropriations increased by \$477,999 whereas our county capital aid decreased by \$1,573,945 with the completion of the sinkhole storm drain pipe repair.

Lastly, the College had total restatements of \$8,587,533 consisting of a \$5,987,829 decrease to the beginning balance of net position for the cumulative effects of implementing GASB 68 and 71, and a \$2,599,704.83 decrease relating to restatement of accumulated depreciation.

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a condensed statement of revenues, expenses, and changes in net position:

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

	6/30/2015	6/30/2014 As restated	Increase (Decrease)
<b>Operating Revenues:</b>			
Student Tuition and Fees, Net	\$ 4,157,074.34	\$ 4,377,151.41	\$ (220,077.07)
Sales and Services, Net	3,095,795.30	3,567,662.46	(471,867.16)
Other Operating Revenues	65,079.08	57,192.45	7,886.63
<b>Total Operating Revenues</b>	<b>7,317,948.72</b>	<b>8,002,006.32</b>	<b>(684,057.60)</b>
<b>Total Operating Expenses</b>	<b>40,946,698.84</b>	<b>43,706,154.57</b>	<b>(2,759,455.73)</b>
<b>Operating Loss</b>	<b>(33,628,750.12)</b>	<b>(35,704,148.25)</b>	<b>2,075,398.13</b>
<b>Nonoperating Revenues (Expenses)</b>			
State Aid	19,151,539.31	19,930,426.57	(778,887.26)
County Appropriations	4,328,000.00	3,850,000.04	477,999.96
Noncapital Grants and Grants	9,266,758.50	8,135,933.40	1,130,825.10
Investment Income	22,014.95	21,720.33	294.62
Other Nonoperating Expenses	(131,088.99)	(65,250.58)	(65,838.41)
<b>Total Nonoperating Revenues</b>	<b>32,637,223.77</b>	<b>31,872,829.76</b>	<b>764,394.01</b>
<b>Other Revenues:</b>			
State Capital Aid	317,548.55	653,841.29	(336,292.74)
County Capital Aid	1,425,943.94	2,999,888.98	(1,573,945.04)
Capital Grants and Gifts	691,111.21	24,708.96	666,402.25
<b>Increase (Decrease) in Net Position</b>	<b>1,443,077.35</b>	<b>(152,879.26)</b>	<b>1,595,956.61</b>
Net Position, Beg of Year	50,998,042.96	53,750,627.05	(2,752,584.09)
Restatement, Note 14	0.00	(2,599,704.83)	2,599,704.83
Cumulative effect of change in accounting principle, Note 14	(5,987,829.00)	0.00	(5,987,829.00)
Net Position, Beg of Year, as restated	45,010,213.96	51,150,922.22	(6,140,708.26)
<b>Net Position, End of Year</b>	<b>\$ 46,453,291.31</b>	<b>\$ 50,998,042.96</b>	<b>\$ (4,544,751.65)</b>

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Capital Assets**

On June 30, 2015, the College's capital assets, net of accumulated depreciation of \$17,570,689 totaled \$46,592,098. This represents a minimal increase of \$45,893 from the prior year. However, the June 30, 2014 balances contain a restatement of \$2,599,704 to accumulated depreciation to recognize depreciation expense on capital assets related to prior years. In regards to construction in progress, the storm pipe replacement due to the sinkhole and ADA improvements were completed this year leaving the Workforce Solutions Center as the major project currently in progress at the end of the year. Estimated completion date of the center is spring 2018.

	<b>Capital Assets</b>		
	6/30/2015	6/30/2014 As Restated	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 2,947,228.80	\$ 2,947,228.80	\$ -
Construction in Progress	1,222,040.19	2,357,572.62	(1,135,532.43)
<b>Total Capital Assets, Nondepreciable</b>	<b>4,169,268.99</b>	<b>5,304,801.42</b>	<b>(1,135,532.43)</b>
Capital Assets, Depreciable, Net			
Buildings & General Infrastructure	36,413,331.42	34,904,764.30	1,508,567.12
Machinery and Equipment	6,009,498.02	6,336,639.27	(327,141.25)
<b>Total Capital Assets, Depreciable, Net</b>	<b>42,422,829.44</b>	<b>41,241,403.57</b>	<b>1,181,425.87</b>
<b>Total Capital Assets, Net</b>	<b>\$ 46,592,098.43</b>	<b>\$ 46,546,204.99</b>	<b>\$ 45,893.44</b>

**Future Operations**

The economic position of the College is closely tied to that of the State and to a lesser degree, the county. The State of North Carolina continues to experience financial difficulties. For fiscal year 2015, the College was required to utilize a management flexibility reduction of approximately 4.17% of State Aid from the start as well as having to revert back 1% in February. However, we have been able to manage our funding well in spite of State cuts and we will continue to implement sound fiscal management.

Our 2015-16 budget FTE estimator is slightly higher than our 2014-15 budget FTE. This increase is a reflection of our work in recruitment, retention, and marketing. As a continuation of our efforts, this fall will mark the beginning of our collaboration with our public school systems in the region. Many of our faculty will be going into most of the high schools in our service area to deliver instruction and provide a great benefit for our future students through an expanded College Promise initiative.

**CATAWBA VALLEY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The new Workforce Solutions Center is also underway. This facility will allow us to provide new programming and upgrade existing programs that are relevant to business and industry throughout the region. Programs in engineering, welding, HVAC, metallurgy, mechatronics, automotive systems, machining, and logistics will have the potential to thrive in this new environment and allow us to strengthen our partnerships within our communities.

While the general economic forecast for fiscal year 2016 continues to cause concern, Catawba Valley Community College will continue to work toward our common purposes of student and college success and we anticipate the College will remain financially stable.

**Catawba Valley Community College**  
**Statement of Net Position**  
**June 30, 2015**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,877,072.22
Restricted Cash and Cash Equivalents	313,619.52
Receivables, Net (Note 3)	470,189.50
Inventories	423,810.14
	<hr/>
Total Current Assets	7,084,691.38

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,537,905.09
Capital Assets - Nondepreciable (Note 4)	4,169,268.99
Capital Assets - Depreciable, Net (Note 4)	42,422,829.44
	<hr/>
Total Noncurrent Assets	48,130,003.52

Total Assets	<hr/> <hr/> 55,214,694.90
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**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	<hr/> 1,665,515.00
Total Deferred Outflows of Resources	<hr/> <hr/> 1,665,515.00

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,118,915.48
Unearned Revenue	294,224.66
Funds Held for Others	142,103.40
Long-Term Liabilities - Current Portion (Note 6)	318,460.68
	<hr/>
Total Current Liabilities	1,873,704.22

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 3,329,152.37
Total Noncurrent Liabilities	<hr/> <hr/> 3,329,152.37
Total Liabilities	<hr/> <hr/> 5,202,856.59

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	<hr/> 5,224,062.00
Total Deferred Inflows of Resources	<hr/> <hr/> 5,224,062.00

**NET POSITION**

Net Investment in Capital Assets	46,592,098.43
Expendable:	
Scholarships and Fellowships	127,704.15
Capital Projects	1,399,511.61
Other	129,695.29
Unrestricted	<hr/> (1,795,718.17)
Total Net Position	<hr/> <hr/> <hr/> \$ 46,453,291.31

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

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

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 4,157,074.34
Sales and Services, Net (Note 8)	3,095,795.30
Other Operating Revenues	65,079.08
	<hr/>
Total Operating Revenues	7,317,948.72
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	26,743,889.39
Supplies and Materials	4,291,268.25
Services	4,360,637.38
Scholarships and Fellowships	3,316,819.98
Utilities	814,253.65
Depreciation	1,419,830.19
	<hr/>
Total Operating Expenses	40,946,698.84
	<hr/>
Operating Loss	(33,628,750.12)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	19,151,539.31
County Appropriations	4,328,000.00
Noncapital Grants - Student Financial Aid	8,458,382.75
Noncapital Grants	642,391.87
Noncapital Gifts	165,983.88
Investment Income	22,014.95
Other Nonoperating Expenses	(131,088.99)
	<hr/>
Net Nonoperating Revenues	32,637,223.77
	<hr/>
Loss Before Capital Contributions	(991,526.35)
	<hr/>
State Capital Aid	317,548.55
County Capital Aid	1,425,943.94
Capital Grants	642,676.37
Capital Gifts	48,434.84
	<hr/>
Increase in Net Position	1,443,077.35
	<hr/>

**NET POSITION**

Net Position, July 1, 2014 as Restated (Note 14)	<hr/> 45,010,213.96
Net Position, June 30, 2015	\$ <hr/> <hr/> 46,453,291.31

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

**Catawba Valley Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit A-3**  
**Page 1 of 2**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 7,513,327.73
Payments to Employees and Fringe Benefits	(27,632,696.67)
Payments to Vendors and Suppliers	(9,682,324.86)
Payments for Scholarships and Fellowships	(3,316,819.98)
Other Payments	(96,576.14)

Net Cash Used by Operating Activities (33,215,089.92)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	19,151,539.31
County Appropriations	4,328,000.00
Noncapital Grants - Student Financial Aid	8,458,382.75
Noncapital Grants	649,926.85
Noncapital Gifts and Endowments	165,983.88
William D. Ford Direct Lending Receipts	1,250,613.00
William D. Ford Direct Lending Disbursements	(1,250,613.00)

Net Cash Provided by Noncapital Financing Activities 32,753,832.79

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	317,548.55
County Capital Aid	1,425,943.94
Capital Grants	642,676.37
Acquisition and Construction of Capital Assets	(1,548,862.78)

Net Cash Provided by Capital and Related Financing Activities 837,306.08

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>22,014.95</u>
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Cash Provided by Investing Activities 22,014.95

Net Increase in Cash and Cash Equivalents 398,063.90

Cash and Cash Equivalents, July 1, 2014 7,330,532.93

Cash and Cash Equivalents, June 30, 2015 \$ 7,728,596.83

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

**Catawba Valley Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

**Exhibit A-3**  
**Page 2 of 2**

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

Operating Loss	\$ (33,628,750.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,419,830.19
Pension Expense	632,399.00
Nonoperating Other Income	485.00
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	97,811.60
Inventories	(82,990.33)
Accounts Payable and Accrued Liabilities	(99,223.12)
Unearned Revenue	4,690.63
Funds Held for Others	(4,184.36)
Deferred Outflows - Contributions After the Measurement Date	(1,615,265.00)
Compensated Absences	60,106.59
	<u>60,106.59</u>
Net Cash Used by Operating Activities	<u><u>\$ (33,215,089.92)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 5,877,072.22
Restricted Cash and Cash Equivalents	313,619.52
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,537,905.09</u>
Total Cash and Cash Equivalents - June 30, 2015	<u><u>\$ 7,728,596.83</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$ 48,434.84
Loss on Disposal of Capital Assets	(131,573.99)

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

**Catawba Valley Community College Foundation, Inc**  
**Statement of Financial Position**  
**June 30, 2015**

**Exhibit B-1**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	624,536
Promises to Give		47,500
Other Receivable		225
Investments		775,726
Prepaid Expenses		2,355
		<hr/>
Total Current Assets		1,450,342
		<hr/>

**ENDOWMENT ASSETS**

Cash and Cash Equivalents		57,178
Investments		3,173,523
		<hr/>
Total Endowment Assets		3,230,701
		<hr/>

**OTHER ASSETS**

Promises to Give, less current portion		248,434
Investment in artwork, at fair value		37,500
Investment in land, at fair value		627,625
		<hr/>
Total Other Assets		913,559
		<hr/>
Total Assets	\$	5,594,602
		<hr/>

**CURRENT LIABILITIES**

Line of Credit	\$	55,000
Accounts payable		3,780
		<hr/>
Total Current Liabilities		58,780
		<hr/>

**NET ASSETS**

Unrestricted		1,367,806
Temporarily Restricted		937,315
Permanently Restricted		3,230,701
		<hr/>
Total Net Assets		5,535,822
		<hr/>
Total Liabilities and Net Assets	\$	5,594,602
		<hr/>

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

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

**Exhibit B-2**

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and gains (losses):	
Contributions	\$ 348,476
Investment return	2,151
Investment fees	<u>(1,842)</u>
Total unrestricted revenues and losses	348,785
Net assets released from restrictions:	
Satisfaction of program restrictions	<u>505,148</u>
Total unrestricted revenues, gains, and other support	<u>853,933</u>
Expenses	
Scholarships and grants	580,996
Administration	<u>27,127</u>
Total expenses	<u>608,123</u>
Increase in unrestricted net assets	<u>\$ 245,810</u>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	\$ 824,330
Investment return	29,864
Investment fees	<u>(14,377)</u>
Total temporarily restricted revenues and gains	<u>\$ 839,817</u>
Net assets released from restrictions:	
Satisfaction of program restrictions	(505,148)
Increase in temporarily restricted net assets	<u>334,669</u>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Donor restricted net assets:	
Contributions	\$ 330,944
Investment return	<u>28,703</u>
Increase in permanently restricted net assets	<u>\$ 359,647</u>
Increase in net assets	940,126
Net Assets - Beginning of Year	<u>4,595,696</u>
Net Assets - End of Year	<u><u>\$ 5,535,822</u></u>

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

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation bylaws state that the number of directors shall be no less than seven (7) nor no more than twenty-five (25). As of June 30, 2015, there were 16 directors. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2015, the Foundation distributed \$437,283.13 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Catawba Valley Community College Foundation's office.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, merchandise for resale, and fuel oil held for consumption are valued at the lower of cost or market using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences that will not be paid within the next fiscal year.

**Net Pension Liability** - The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

- K. 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.

- L. 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*.

## NOTES TO THE FINANCIAL STATEMENTS

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.

- M. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use as approved by the county commissioners.
- O. New Accounting Pronouncements** - The GASB has issued several statements not yet implemented by the College. Those statements which may have future impact on the College include:

Statement No. 72, *Fair Value Measurement and Application* will be effective for the College beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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 provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* will be effective for the College beginning after June 15, 2015. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to

## NOTES TO THE FINANCIAL STATEMENTS

two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

### NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$3,550.00, and deposits in private financial institutions with a carrying value of \$3,012,272.39 and a bank balance of \$3,174,560.12.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2015, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of

## NOTES TO THE FINANCIAL STATEMENTS

ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$4,712,774.44 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

The following is an analysis of investments by type:

Marketable Securities	\$	3,949,249
Real Estate		627,625
Artwork		37,500
 Total Investments	 \$	 <u><u>4,614,374</u></u>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 218,610.87	\$ 126,458.64	\$ 92,152.23
Student Sponsors	47,987.77	-	47,987.77
Accounts	198,263.70	-	198,263.70
Intergovernmental	38,909.02	-	38,909.02
Other	92,876.78	-	92,876.78
 <b>Total Current Receivables</b>	 \$ 596,648.14	 \$ 126,458.64	 \$ 470,189.50

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	\$ 2,947,228.80	\$ -	\$ -	\$ 2,947,228.80
Construction in Progress	2,357,572.62	1,410,459.75	2,545,992.18	1,222,040.19
<b>Total Capital Assets, Nondepreciable</b>	<b>5,304,801.42</b>	<b>1,410,459.75</b>	<b>2,545,992.18</b>	<b>4,169,268.99</b>
Capital Assets, Depreciable:				
Buildings	46,603,141.32	199,062.55	-	46,802,203.87
Machinery and Equipment	9,668,916.36	312,513.59	310,404.73	9,671,025.22
General Infrastructure	1,299,036.17	2,221,253.91	-	3,520,290.08
<b>Total Capital Assets, Depreciable</b>	<b>57,571,093.85</b>	<b>2,732,830.05</b>	<b>310,404.73</b>	<b>59,993,519.17</b>
Less Accumulated Depreciation for:				
Buildings	12,271,979.35	855,151.14	-	13,127,130.49
Machinery and Equipment	3,332,277.09	508,080.85	178,830.74	3,661,527.20
General Infrastructure	725,433.84	56,598.20	-	782,032.04
<b>Total Accumulated Depreciation</b>	<b>16,329,690.28</b>	<b>1,419,830.19</b>	<b>178,830.74</b>	<b>17,570,689.73</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>41,241,403.57</b>	<b>1,312,999.86</b>	<b>131,573.99</b>	<b>42,422,829.44</b>
<b>Capital Assets, Net</b>	<b>\$ 46,546,204.99</b>	<b>\$ 2,723,459.61</b>	<b>\$ 2,677,566.17</b>	<b>\$ 46,592,098.43</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

Accounts Payable	\$ 203,237.29
Accrued Payroll	883,817.23
Contracts Payable	<u>31,860.96</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,118,915.48</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	\$ 7,594,845.00	\$ -	\$ 6,148,429.00	\$ 1,446,416.00	\$ -
Compensated Absences	2,141,090.46	1,360,806.33	1,300,699.74	2,201,197.05	318,460.68
<b>Total Long-Term Liabilities</b>	<b>\$ 9,735,935.46</b>	<b>\$ 1,360,806.33</b>	<b>\$ 7,449,128.74</b>	<b>\$ 3,647,613.05</b>	<b>\$ 318,460.68</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 7 - LEASE OBLIGATIONS

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

Fiscal Year	Amount
2016	\$ 77,669.16
2017	12,060.87
<b>Total Minimum Lease Payments</b>	<b>\$ 89,730.03</b>

Rental expense for all operating leases during the year was \$86,259.21.

### NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
Student Tuition and Fees	\$ 7,385,927.09	-	\$ 3,240,143.50	\$ (11,290.75)	\$ 4,157,074.34
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 2,862,327.87	\$ 20,862.25	\$ 1,634,497.70	\$ (10,308.54)	\$ 1,217,276.46
Other	376,191.05	46,592.30	-	-	329,598.75
Sales and Services of Education and Related Activities	1,317,730.04	-	-	-	1,317,730.04
Independent Operations	231,190.05	-	-	-	231,190.05
<b>Total Sales and Services</b>	<b>\$ 4,787,439.01</b>	<b>\$ 67,454.55</b>	<b>\$ 1,634,497.70</b>	<b>\$ (10,308.54)</b>	<b>\$ 3,095,795.30</b>

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 15,365,264.93	\$ 870,744.49	\$ 1,363,385.06	-	-	-	\$ 17,599,394.48
Academic Support	3,216,019.87	51,137.51	224,800.87	-	-	-	3,491,958.25
Student Services	2,092,423.67	76,513.55	349,099.03	-	-	-	2,518,036.25
Institutional Support	4,427,144.97	357,735.45	1,088,942.13	-	-	-	5,873,822.55
Operations & Maintenance of Plant	858,126.36	630,532.03	1,223,834.49	-	814,253.65	-	3,526,746.53
Student Financial Aid	-	-	35,912.96	3,316,819.98	-	-	3,352,732.94
Auxiliary Enterprises	152,510.59	2,304,605.22	74,662.84	-	-	-	2,531,778.65
Depreciation	-	-	-	-	-	1,419,830.19	1,419,830.19
Pension Expense	632,399.00	-	-	-	-	-	632,399.00
<b>Total Operating Expenses</b>	<b>\$ 26,743,889.39</b>	<b>\$ 4,291,268.25</b>	<b>\$ 4,360,637.38</b>	<b>\$ 3,316,819.98</b>	<b>\$ 814,253.65</b>	<b>\$ 1,419,830.19</b>	<b>\$ 40,946,698.84</b>

**NOTE 10 - PENSION PLAN****Defined Benefit Plan**

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

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

*Contributions:* Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were \$1,615,264.70, and employee contributions were \$1,059,190.07 for the year ended June 30, 2015.

## NOTES TO THE FINANCIAL STATEMENTS

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

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

*Net Pension Liability:* At June 30, 2015, the College reported a liability of \$1,446,416.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was .12337%, which was a decrease of 0.00173% from its proportion measured as of June 30, 2013.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

\* Salary increases include 3.5% inflation and productivity factor.

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

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

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

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

## NOTES TO THE FINANCIAL STATEMENTS

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
10,383,375.60	1,446,416.00	(6,099,544.81)

*The TSERS net pension liability/(asset) as reported in the 2014 NC CAFR, multiplied by our colleges proportionate share of % 0.12337.*

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the College recognized pension expense of \$632,399. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## NOTES TO THE FINANCIAL STATEMENTS

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 337,152.00
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments (see note below)	-	4,886,910.00
Change in proportion and differences between agency's contributions and proportionate share of contributions	50,250.00	-
Contributions subsequent to the measurement date	1,615,265.00	
Total	\$ 1,665,515.00	\$ 5,224,062.00

\$1,615,265.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ended June 30:	Amount
2016	\$ (1,297,427.00)
2017	(1,297,427.00)
2018	(1,297,427.00)
2019	(1,281,531.00)
2020	-
Total	\$ (5,173,812.00)

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

## NOTES TO THE FINANCIAL STATEMENTS

membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the College contributed 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$968,767.49, \$998,606.50, and \$999,800.30, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were

.44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$72,222.41, \$81,367.94, and \$83,002.29, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

**NOTE 12 - RISK MANAGEMENT**

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

**A. Employee Benefit Plans**

**1. State Health Plan**

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

**2. Death Benefit Plan of North Carolina**

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

**B. Other Risk Management and Insurance Activities**

**1. Automobile, Fire, and Other Property 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**

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected for losses from employee dishonesty for employees paid in whole or in part from county or institutional funds. This coverage is with a private insurance company with coverage of \$105,000 per employee with a \$750 deductible.

**4. Statewide Workers' Compensation Program**

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

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

**NOTE 13 - COMMITMENTS**

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,371,649.96 and on other purchases were \$94,029.56 at June 30, 2015.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 14 - NET POSITION RESTATEMENTS

The implementation of GASB Statement No. 68 and GASB Statement No. 71 requires a restatement of beginning net position. The College also corrected the opening balance of accumulated depreciation for depreciation expense relating to prior years based on the estimated useful life of the capital assets. As of July 1, 2014, net position as previously reported was restated as follows:

July 1, 2014 Net Position as Previously Reported	\$ 53,597,747.79
Restatements:	
Record the College's net pension liability and pension related deferred outflows of resources per GASB 68 requirements	(5,987,829.00)
Correction of accumulated depreciation recorded in prior years	<u>(2,599,704.83)</u>
July 1, 2014 Net Position as Restated	<u>\$ 45,010,213.96</u>

### NOTE 15 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 30, 2015, which is the date the financial statements were available to be issued.

As of September 21, 2015 the College is in the process of negotiating the purchase of a 38,400 square foot building on 7.5 acres for the furniture academy program. A tentative agreement has been reached at \$875,000.

### NOTE 16 - AUDIT HOURS AND COST

The audit required 330 audit hours at an approximate cost of \$32,000. The cost represents 0.06% of the College's total assets and 0.08% of total expenses subject to audit.

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

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	Measurement Date Ending June 30,	
	2014	2013
(1) Proportionate share percentage of collective net pension liability	0.12337%	0.12510%
(2) Proportionate Share of TSERS collective net pension liability	\$ 1,446,416.00	\$ 7,594,845.00
(3) Covered-employee payroll	\$ 18,492,712.93	\$ 18,864,156.61
(4) Net pension liability as a percentage of covered-employee payroll	7.82%	40.26%
(5) Plan fiduciary net position as a percentage of the total pension liability*	98.24%	90.60%

**Note:** Data is presented for years for which information is available.

\*This will be the same percentage for all participant employers in the TSERS plan.

**Catawba Valley Community College**  
**Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**

*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
(1) Contractually required contribution	\$ 1,615,265	\$ 1,607,017	\$ 1,571,384	\$ 1,432,942	\$ 911,060
(2) Contributions in relation to the contractually determined contribution	<u>1,615,265</u>	<u>1,607,017</u>	<u>1,571,384</u>	<u>1,432,942</u>	<u>911,060</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 17,653,166	\$ 18,492,713	\$ 18,864,157	\$ 19,259,973	\$ 18,479,914
(5) Contributions as a percentage of covered-employee payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
(1) Contractually required contribution	\$ 639,044	\$ 582,746	\$ 512,015	\$ 432,480	\$ 349,063
(2) Contributions in relation to the actuarially determined contribution	<u>639,044</u>	<u>582,746</u>	<u>512,015</u>	<u>432,480</u>	<u>349,063</u>
(3) Contribution deficiency (excess)	<u>\$ -</u>				
(4) Covered-employee payroll	\$ 17,900,398	\$ 17,343,616	\$ 16,787,390	\$ 16,258,645	\$ 14,917,222
(5) Contributions as a percentage of covered-employee payroll	3.57%	3.36%	3.05%	2.66%	2.34%

**Catawba Valley Community College**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**

*For the Fiscal Year Ended June 30, 2015*

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*Changes of Benefit Terms:*

**Cost of Living Increase**

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

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

**Independent Auditor’s Report 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  
Catawba Valley Community College  
Hickory, 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 Catawba Valley Community College (the “College”) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2015. Our report includes a reference to other auditors who audited the financial statements of Catawba Valley Community College Foundation, Inc. (the “Foundation”), as described in our report on the College’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this 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  
October 30, 2015