CATAWBA VALLEY COMMUNITY COLLEGE

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

We have audited the accompanying financial statements of Catawba Valley Community College (the "College"), a component unit of the State of North Carolina, and the discretely presented component unit, Catawba Valley Community College Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2017 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 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, 2017, 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.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 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
October 16, 2017

This section of Catawba Valley Community College's (the "College" or "CVCC") annual financial report presents management's discussion and analysis of the College's financial activity during the fiscal year ended June 30, 2017, with comparative data for fiscal year ended June 30, 2016. 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 College held a groundbreaking ceremony for our new Workforce Solutions Complex. A culmination of many years of planning and collaboration, the $25 million project is being funded by Catawba County and will create state-of-the art classrooms and laboratory spaces to teach advanced manufacturing skills and other technical skills. With construction well under way, there was approximately $8 million in construction in progress related to this project at the end of the year. The Workforce Solutions Complex also contributed to the increase in County Capital Appropriations.

- Renovations on the Alexander County Applied Technologies Building were completed and the College received the certificate of occupancy in February. Final building cost was $745,028.00.

- The College's initial state budget allocation was $27,806,850.00. This initial allocation was immediately reduced by $879,390.00 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.

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.

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 in 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 ended June 30, 2017, total assets of the College have increased $7,025,894.87 or 11.9% from the previous year. The decrease in current assets of $929,738.44 was primarily associated with outstanding Golden Leaf Grants from the prior year being spent. Capital assets increased $8,128,315.83 because of the construction in progress in regards to the Workforce Solutions Complex.

The change in total liabilities essentially doubled from the previous year by $7,848,017.94. Total liabilities at fiscal year ended June 30, 2017 were $15,660,494.62. Long-term liabilities totaled $12,790,507.26 or 81.7% of the total liabilities at year-end. Government Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68") continues to have an extreme impact on our financial statements. The objective of this statement was to improve accounting and financial reporting by state and local governments for pensions. Our retirement system is an employer cost-sharing plan (a pooled pension plan) and each member employer must report its' pro rata share of the pension plan's net pension liability. Our proportionate share of the collective net pension liability was $10,723,178.00 in comparison to $4,290,308.00 in the previous year. This liability accounted for the increase in total liabilities. Other liabilities, consisting mainly of accounts payable, accrued payroll and unearned revenues totaled approximately $2,869,987.36 or 18.3% 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 and was $7,324,824.00. Deferred inflows for pensions were $636,588.00.

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 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 standards change the way pension plans report financial information for accounting purposes, but do not force pension plans to change their funding policies, which are typically defined by statute. Under GASB 68, the College must report a proportionate share of the net pension liability and the pension expense on our financial statements, along with related deferred outflows of resources and deferred inflows of resources. Previously, the College only reported the annual contributions we made to the retirement system.

The net pension liability will change from year to year due to changes in two components: total pension liability and the fair value of the pension plan net position available to pay pension benefits. Thus, the financial statements are going to look more volatile from year to year as pension liability bounces with market fluctuations and changes in actuarial assumptions.

The College's net position totaled $56,987,067.07 at June 30, 2017, an increase of $5,351,746.93 from the previous year. The total net position consisted of $56,441,915.05 invested in capital assets and $851,134.90 expendable net position. Unrestricted net position was ($305,982.88). Increases are due to an increase activity in capital assets.

Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Increase (Decrease)
Assets:			
Current Assets	$ 8,481,125.58	$ 9,410,864.02	$ (929,738.44)
Noncurrent Assets	1,036,285.06	1,208,967.58	(172,682.52)
Capital Assets	56,441,915.05	48,313,599.22	8,128,315.83
Total Assets	65,959,325.69	58,933,430.82	7,025,894.87
Deferred Outflows:			
Deferred Outflows for Pensions	7,324,824.00	1,646,518.00	5,678,306.00
Liabilities:			
Current Liabilities	2,996,636.82	1,755,747.42	1,240,889.40
Long-Term Liabilities	12,663,857.80	6,056,729.26	6,607,128.54
Total Liabilities	15,660,494.62	7,812,476.68	7,848,017.94
Deferred Inflows:			
Deferred Inflows for Pensions	636,588.00	1,132,152.00	(495,564.00)
Net Position:			
Investment in Capital Assets	56,441,915.05	48,313,599.22	8,128,315.83
Restricted			
Expendable	851,134.90	3,252,808.41	(2,401,673.51)
Unrestricted	(305,982.88)	68,912.51	(374,895.39)
Total Net Position	$ 56,987,067.07	$ 51,635,320.14	$ 5,351,746.93

Statement of Revenues, Expenses, and Changes in Net Position

The change in net position of the College was $5,351,746.93. Total operating revenues increased by $181,824.69 mainly due to an increase in sales and services at our Manufacturing Solutions Center.

Total operating expenses were $2,603,994.44 or 6.5% higher than the prior year primarily due to an increase in salaries and benefits of $2,055,035.16 and an increase in supplies and materials of $605,065.85. Salaries and benefits increased because of an increase in our pension expense due to GASB 68 in addition to a 1.5% across the board salary increase and a non-recurring $1,000 bonus to all full-time employees. Supplies and materials increased due to paving projects for our West Wing, East Wing, and Student Services parking lots.

Total nonoperating revenues decreased by $2,093,072.69 or 6.1% over the year ended June 30, 2017 due to decreases in noncapital grants and gifts of $2,273,558.74. The decrease in noncapital grants and gifts was largely due to outstanding Golden Leaf Grants from the prior year being spent.

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 $117,211.00 while our county capital aid also increased by $5,594,117.31 because of the Workforce Solutions Complex.

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

	June 30, 2017	June 30, 2016	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	$ 4,183,065.24	$ 4,169,590.20	$ 13,475.04
Sales and Services, Net	3,153,080.85	2,985,007.18	168,073.67
Other Operating Revenues	88,344.62	88,068.64	275.98
Total Operating Revenues	7,424,490.71	7,242,666.02	181,824.69
Total Operating Expenses	42,601,443.82	39,997,449.38	2,603,994.44
Operating Loss	(35,176,953.11)	(32,754,783.36)	(2,422,169.75)
Nonoperating Revenues (Expenses):			
State Aid	20,565,246.62	20,084,402.81	480,843.81
County Appropriations	4,053,500.00	3,936,289.00	117,211.00
Noncapital Grants and Grants	8,061,953.42	10,335,512.16	(2,273,558.74)
Investment Income	47,186.05	34,266.08	12,919.97
Other Nonoperating Expenses	(377,611.94)	52,876.79	(430,488.73)
Total Nonoperating Revenues	32,350,274.15	34,443,346.84	(2,093,072.69)
Other Revenues:			
State Capital Aid	248,334.84	505,066.95	(256,732.11)
County Capital Aid	7,682,515.71	2,088,398.40	5,594,117.31
Capital Grants and Gifts	247,575.34	900,000.00	(652,424.66)
Increase (Decrease) in Net Position	5,351,746.93	5,182,028.83	169,718.10
Net Position, Beginning of Year	51,635,320.14	46,453,291.31	5,182,028.83
Net Position, End of Year	$ 56,987,067.07	$ 51,635,320.14	$ 5,351,746.93

Capital Assets

On June 30, 2017, the College's capital assets, net of accumulated depreciation of $19,691,123.44, totaled $56,441,915.05. This represents an increase of $8,128,315.83 from the prior year. Construction in progress consisted primarily of the Workforce Solutions Center of $8,066,598.18. Renovations on the Alexander County Applied Technologies Building were completed in February hence; part of the increase in machinery and equipment was due to the purchase of equipment to up fit the building.

Capital Assets

	June 30, 2017	June 30, 2016	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	$ 3,109,627.71	$ 3,109,627.71	$ -
Construction in Progress	10,024,403.70	2,698,670.67	7,325,733.03
Total Capital Assets, Nondepreciable	13,134,031.41	5,808,298.38	7,325,733.03
Capital Assets, Depreciable, Net			
Buildings and General Infrastructure	36,083,371.79	36,238,800.51	(155,428.72)
Machinery and Equipment	7,224,511.85	6,266,500.33	958,011.52
Total Capital Assets, Depreciable, Net	43,307,883.64	42,505,300.84	802,582.80
Total Capital Assets, Net	$ 56,441,915.05	$ 48,313,599.22	$ 8,128,315.83

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 2017, the College was required to utilize a management flexibility reduction of approximately 3.2% from the start. However, we have been able to manage our funding well in spite of these financial difficulties and the management flexibility reduction and we will continue to implement sound fiscal management and support new initiatives and priorities discussed below that will lead to a more productive future for CVCC.

The Workforce Solutions Complex is expected to be completed by fall 2018. This 83,000 square foot facility will replace the original CVCC instruction building constructed in 1958. It will house our technology and engineering programs and will ensure a future pipeline of talent for high-tech jobs, making our area even more attractive to new and expanding industry.

The College held a ribbon cutting ceremony for the recently purchased 38,400 square foot Catawba Valley Furniture Academy facility. Furniture is still strong in Catawba County and the new building shows the expansion and need for workers in the area. The academy expanded from a 6,000 square foot simulated furniture manufacturing environment to the new facility. A collection of upholstered furniture that was hand crafted at this facility now furnishes the NC Community College System's central office lobby in Raleigh.

The College has created a new partnership with area school systems and recently signed a Memorandum of Understanding for a proposal called K-64. K-64 (kindergarten to age 64) is a partnership between all three local public school systems in the county along with CVCC, other higher education institutions, area industry and business leadership, county government, and economic development organizations. The objective is to use these resources in a concerted effort to provide all students with equal opportunities to be college and career ready with a focus on connecting student to technology. The connection between K-64 and the College is to make sure that no matter where students see themselves being successful, we help them get there.

Additionally, with the success of the Challenger Early College on the CVCC main campus, we launched a new early college in Alexander County this past fall with 57 new students becoming the first members. These students will be able to earn a high school diploma and an associate degree on the campus of CVCC Alexander Center for Education in Taylorsville by 2020. Our Challenger Early College High School is the largest early college in the state and the only one with conference sports and performing arts programs, and we expect our new early college in Alexander County to be just as successful.

Hence, while the general economic forecast for fiscal year 2018 continues to cause concern, CVCC 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, 2017 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 6,306,048.95
Restricted Cash and Cash Equivalents	402,861.95
Receivables, Net (Note 4)	476,958.21
Due from State of North Carolina Component Units	1,040,835.32
Inventories	254,421.15
Total Current Assets	8,481,125.58
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,036,285.06
Capital Assets - Nondepreciable (Note 5)	13,134,031.41
Capital Assets - Depreciable, Net (Note 5)	43,307,883.64
Total Noncurrent Assets	57,478,200.11
Total Assets	65,959,325.69
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	7,324,824.00
Total Deferred Outflows of Resources	7,324,824.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	2,489,067.71
Unearned Revenue	244,586.96
Funds Held for Others	136,332.69
Long-Term Liabilities - Current Portion (Note 7)	126,649.46
Total Current Liabilities	2,996,636.82
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	12,663,857.80
Total Noncurrent Liabilities	12,663,857.80
Total Liabilities	15,660,494.62
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	636,588.00
Total Deferred Inflows of Resources	636,588.00
NET POSITION	
Investment in Capital Assets	56,441,915.05
Restricted for:	
Expendable:	
Scholarships and Fellowships	121,063.61
Other	730,071.29
Unrestricted	(305,982.88)
Total Net Position	$ 56,987,067.07

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, 2017 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 4,183,065.24
Sales and Services, Net (Note 9)	3,153,080.85
Other Operating Revenues	88,344.62
Total Operating Revenues	7,424,490.71
EXPENSES	
Operating Expenses:	
Salaries and Benefits	28,215,400.11
Supplies and Materials	4,840,317.88
Services	4,456,466.12
Scholarships and Fellowships	2,783,312.52
Utilities	808,674.20
Depreciation	1,497,272.99
Total Operating Expenses	42,601,443.82
Operating Loss	(35,176,953.11)
NONOPERATING REVENUES (EXPENSES)	
State Aid	20,565,246.62
County Appropriations	4,053,500.00
Noncapital Grants - Student Financial Aid	7,403,521.17
Noncapital Grants	615,585.09
Noncapital Gifts	42,847.16
Investment Income	47,186.05
Other Nonoperating Expenses	(377,611.94)
Net Nonoperating Revenues	32,350,274.15
Loss Before Other Revenues, Expenses, Gains, and Losses	(2,826,678.96)
State Capital Aid	248,334.84
County Capital Aid	7,682,515.71
Capital Grants	80,390.64
Capital Gifts	167,184.70
Increase in Net Position	5,351,746.93
NET POSITION	
Net Position, July 1, 2016	51,635,320.14
Net Position, June 30, 2017	$ 56,987,067.07

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,453,088.23
Payments to Employees and Fringe Benefits	(27,819,911.61)
Payments to Vendors and Suppliers	(10,064,403.86)
Payments for Scholarships and Fellowships	(2,783,312.52)
Other Payments	(2,322.25)
Net Cash Used by Operating Activities	(33,216,862.01)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	20,565,246.62
County Appropriations	4,053,500.00
Noncapital Grants - Student Financial Aid	7,403,521.17
Noncapital Grants	1,161,740.97
Noncapital Gifts	42,847.16
William D. Ford Direct Lending Receipts	1,909,417.00
William D. Ford Direct Lending Disbursements	(1,909,417.00)
Net Cash Provided by Noncapital Financing Activities	33,226,855.92
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	248,334.84
County Capital Aid	7,682,515.71
Capital Grants	440,549.64
Proceeds from Sale of Capital Assets	17,603.97
Acquisition and Construction of Capital Assets	(8,561,624.66)
Net Cash Used by Capital and Related Financing Activities	(172,620.50)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	47,186.05
Net Cash Provided by Investing Activities	47,186.05
Net Decrease in Cash and Cash Equivalents	(115,440.54)
Cash and Cash Equivalents, July 1, 2016	7,860,636.50
Cash and Cash Equivalents, June 30, 2017	$ 7,745,195.96

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, 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(35,176,953.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,497,272.99
Nonoperating Other Expenses		(2,468.00)
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		(18,497.30)
Inventories		99,162.84
Deferred Outflows for Pensions		(5,678,306.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		36,088.46
Unearned Revenue		47,094.82
Net Pension Liability		6,432,870.00
Funds Held for Others		145.75
Deferred Inflows for Pensions		(495,564.00)
Compensated Absences		42,291.54
Net Cash Used by Operating Activities	$	(33,216,862.01)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	6,306,048.95
Restricted Cash and Cash Equivalents		402,861.95
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,036,285.06
Total Cash and Cash Equivalents, June 30, 2017	$	7,745,195.96

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	1,434,424.86
Assets Acquired through a Gift		167,184.70
Loss on Disposal of Capital Assets		(375,143.94)

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, 2017 — *Exhibit B-1*

CURRENT ASSETS		
Cash and Cash Equivalents	$	391,494.00
Promises to Give		110,500.00
Other Receivable		30,000.00
Investments		1,055,907.00
Prepaid Expenses		2,303.00
Total Current Assets		1,590,204.00
ENDOWMENT ASSETS		
Cash and Cash Equivalents		103,889.00
Investments		3,377,840.00
Total Endowment Assets		3,481,729.00
OTHER ASSETS		
Promises to Give, Less Current Portion		378,223.00
Investment in Artwork, at Fair Value		37,500.00
Investment in Land, at Fair Value		594,107.00
Total Other Assets		1,009,830.00
Total Assets	$	6,081,763.00
CURRENT LIABILITIES		
Accounts Payable	$	37,000.00
Amounts Payable Under Fiscal Agent Responsibilities		316,947.00
Line of Credit		296,211.00
Total Current Liabilities		650,158.00
NET ASSETS		
Unrestricted		1,129,458.00
Temporarily Restricted		820,417.00
Permanently Restricted		3,481,730.00
Total Net Assets		5,431,605.00
Total Liabilities and Net Assets	$	6,081,763.00

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, 2017 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains (losses):		
Contributions	$	44,247.00
Interest from Unrestricted Funds		402.00
Dividends from Unrestricted Funds		1,006.00
Realized Loss on Sale of Investments		(2,002.00)
Unrealized Gain on Investments		118.00
Investment Fees		(1,373.00)
Total Unrestricted Revenues and Gains (Losses)		42,398.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		225,973.00
Total Unrestricted Revenues, Gains, and Other Support		268,371.00
Expenses		
Scholarships and Grants		329,046.00
Administration		47,413.00
Total Expenses		376,459.00
Decrease in Unrestricted Net Assets		(108,088.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		284,049.00
Write-off of Uncollectible Pledges		(5,000.00)
Investment Fees		(3,454.00)
Dividends from Temporarily Restricted Funds		2,336.00
Unrealized Gain on Investments		319.00
Net Assets Released from Restrictions		(225,973.00)
Increase in Temporarily Restricted Net Assets		52,277.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Donor Restricted Net Assets:		
Contributions		18,303.00
Investment Fees		(15,755.00)
Interest from Endowment Funds		47.00
Dividends from Endowment Funds		70,299.00
Realized Gain on Sale of Investments		18,895.00
Unrealized Gain on Investments		241,615.00
Increase in Permanently Restricted Net Assets		333,404.00
Increase in Net Assets		277,593.00
Net Assets, Beginning of Year		5,154,012.00
Net Assets, End of Year	$	5,431,605.00

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

The accompanying financial statements present all funds of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. See below for further discussion of the College's component units. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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 fundraising 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, 2017, 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, which the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2017, the Foundation distributed $74,153.10 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation's office.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with GAAP as prescribed by the GASB.

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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

F. **Inventories** - Inventories, consisting of expendable supplies, merchandise for resale, and fuel held for consumption are valued at the lower of cost or market using either the first-in, first-out method.

G. **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.

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

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

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

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

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities 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 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

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

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

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

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.

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

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

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

O. **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.

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 as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. College - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling $3,850.00, and deposits in private financial institutions with a carrying value of $2,922,119.39 and a bank balance of $3,484,325.52.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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, a Securities and Exchange Commission ("SEC") registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,819,226.57, which represents the College's equity position in the State Treasurer's STIF. The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the SEC or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

B. **Component Unit** - Investments of the College's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" 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	$ 3,332,399.00
Federal Treasury Obligations	1,101,348.00
Real Estate	594,107.00
Artwork	37,500.00
Total Investments	$ 5,065,354.00

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

Cash on Hand	$ 3,850.00
Carrying Amount of Deposits with Private Financial Institutions	2,922,119.39
Investments in the Short-Term Investment Fund	4,819,226.57
Total Deposits and Investments	$ 7,745,195.96
Deposits	
Current	
Cash and Cash Equivalents	$ 6,306,048.95
Restricted Cash and Cash Equivalents	402,861.95
Noncurrent	
Restricted Cash and Cash Equivalents	1,036,285.06
Total Deposits and Investments	$ 7,745,195.96

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

Short Term Investment Fund - At year-end, all of the College's investments valued at $4,819,226.57 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Discretely Presented Component Unit - The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1). Level 3 inputs are unobservable and have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs are used for investments for which Level 1 inputs were not available. Level 3 inputs would only be used if Level 1 or Level 2 inputs were not available. There are no plan assets requiring the use of Level 3 inputs for the period presented.

Level 1 The fair value of mutual funds is based on quoted net asset values of the shares as reported by the fund. The mutual funds held by the Plan are open-end mutual funds registered with the SEC. The funds are required to publish their daily net asset value and transact at that price. The mutual funds held by the Foundation are considered to be actively traded.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

a. Quoted prices for similar assets or liabilities in active markets
b. Quoted prices for identical or similar assets or liabilities in inactive markets
c. Inputs other than quoted prices that are observable for the asset or liability
d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding the risk.

The table below segregates all financial assets and liabilities as of June 30, 2017, that are measured at fair value on the recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the lowest level of any input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Federal Treasury Obligations	$ 1,101,348.00	$ -	$ -	$ 1,101,348.00
Available for Sale Securities:				
Equity Securities -				
Common Stocks	1,654,278.00	-	-	1,654,278.00
Mutual Funds	1,678,121.00	-	-	1,678,121.00
Artwork	-	37,500.00	-	37,500.00
Land	-	594,107.00	-	594,107.00
Total Assets at Fair Value	$ 4,433,747.00	$ 631,607.00	$ -	$ 5,065,354.00

NOTE 4 - RECEIVABLES

College - The College's receivables at June 30, 2017 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 148,309.59	$ 141,135.17	$ 7,174.42
Student Sponsors	54,822.65	-	54,822.65
Accounts	392,101.63	-	392,101.63
Intergovernmental	22,859.51	-	22,859.51
Total Current Receivables	$ 618,093.38	$ 141,135.17	$ 476,958.21

Component Unit - The Foundation had unconditional promises to give that are expected to be realized in the following period as of June 30, 2017:

In one year or less	$ 110,500.00
Between one and five years	333,223.00
Five to ten years	45,000.00
	$ 488,723.00

Present value discounts for long-term promises to give, based on a current risk-free interest rate of 1%, are considered immaterial, consequently, no discounts have been recorded. Management has determined it is not necessary to record an allowance for doubtful promises to give as of June 30, 2017.

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 3,109,627.71	$ -	$ -	$ 3,109,627.71
Construction in Progress	2,698,670.67	8,122,625.03	796,892.00	10,024,403.70
Total Capital Assets, Nondepreciable	5,808,298.38	8,122,625.03	796,892.00	13,134,031.41
Capital Assets, Depreciable:				
Buildings	47,549,421.50	745,028.00	-	48,294,449.50
Machinery and Equipment	10,045,131.42	1,895,711.70	808,439.62	11,132,403.50
General Infrastructure	3,520,290.08	51,864.00	-	3,572,154.08
Total Capital Assets, Depreciable	61,114,843.00	2,692,603.70	808,439.62	62,999,007.08
Less Accumulated Depreciation for:				
Buildings	13,984,876.67	887,526.03	-	14,872,402.70
Machinery and Equipment	3,778,631.09	544,952.27	415,691.71	3,907,891.65
General Infrastructure	846,034.40	64,794.69	-	910,829.09
Total Accumulated Depreciation	18,609,542.16	1,497,272.99	415,691.71	19,691,123.44
Total Capital Assets, Depreciable, Net	42,505,300.84	1,195,330.71	392,747.91	43,307,883.64
Capital Assets, Net	$ 48,313,599.22	$ 9,317,955.74	$ 1,189,639.91	$ 56,441,915.05

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 104,192.29
Accrued Payroll	946,890.69
Contract Retainage Payable	1,434,424.86
Other	3,559.87
Total Accounts Payable and Accrued Liabilities	$ 2,489,067.71

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2017 is presented as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 4,290,308.00	$ 6,432,870.00	$ -	$ 10,723,178.00	$ -
Compensated Absences	2,025,037.72	1,143,830.95	1,101,539.41	2,067,329.26	126,649.46
Total Long-Term Liabilities	$ 6,315,345.72	$ 7,576,700.95	$ 1,101,539.41	$ 12,790,507.26	$ 126,649.46

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

NOTE 8 - LEASE OBLIGATIONS

Operating Lease Obligations - The College entered into operating leases for parking lot spaces. Future minimum lease payments under cancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 4,800.00
2019	3,600.00
Total Minimum Lease Payments	$ 8,400.00

Rental expense for all operating leases during the year was $36,890.58.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 7,373,629.87	$ -	$ 3,191,740.85	$ (1,176.22)	$ 4,183,065.24
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 2,708,659.20	$ 20,290.99	$ 1,526,033.82	$ (1,267.32)	$ 1,163,601.71
Other	329,328.78	41,620.87	-	-	287,707.91
Sales and Services of Education and Related Activities	1,584,505.33	-	-	-	1,584,505.33
Independent Operations	117,265.90	-	-	-	117,265.90
Total Sales and Services	$ 4,739,759.21	$ 61,911.86	$ 1,526,033.82	$ (1,267.32)	$ 3,153,080.85

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 15,091,377.49	$ 956,379.25	$ 1,118,957.27	$ -	$ -	$ -	$ 17,166,714.01
Academic Support	3,241,277.14	56,695.60	393,566.89	-	-	-	3,691,539.63
Student Services	2,302,658.72	133,662.45	379,354.79	-	-	-	2,815,675.96
Institutional Support	4,420,754.98	518,860.76	919,952.48	-	-	-	5,859,568.22
Operations and Maintenance of Plant	953,009.95	1,201,214.14	1,585,216.83	-	808,674.20	-	4,548,115.12
Student Financial Aid	-	-	10,108.12	2,783,312.52	-	-	2,793,420.64
Auxiliary Enterprises	158,589.83	1,973,505.68	49,309.74	-	-	-	2,181,405.25
Depreciation	-	-	-	-	-	1,497,272.99	1,497,272.99
Pension Expense	2,047,732.00	-	-	-	-	-	2,047,732.00
Total Operating Expenses	$ 28,215,400.11	$ 4,840,317.88	$ 4,456,466.12	$ 2,783,312.52	$ 808,674.20	$ 1,497,272.99	$ 42,601,443.82

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 NCGA.

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 NCGA. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the NCGA in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $1,077,036.11, and the College's contributions were $1,791,470.14 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

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

Net Pension Liability - At June 30, 2017, the College reported a liability of $10,723,178.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the College's proportion was .11667%, which was an increase of .00025% from its proportion measured as of June 30, 2015.

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

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

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

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

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	**Current Discount Rate**	**1% Increase (8.25%)**
$ 20,168,226.00	$ 10,723,178.00	$ 2,781,188.00

The TSERS net pension liability/(asset) as reported in the 2016 NC CAFR, multiplied by our colleges proportionate share of 0.11667%

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2017, the College recognized pension expense of $2,047,732.00. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ -	$ 506,792.00
Changes of Assumptions	1,581,408.00	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	3,824,229.00	-
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	127,717.00	129,796.00
Contributions Subsequent to the Measurement Date	1,791,470.00	-
Total	$ 7,324,824.00	$ 636,588.00

The amount of $1,791,470.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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

Year ending June 30:	Amount
2018	$ 808,394.00
2019	823,279.00
2020	2,081,492.00
2021	1,183,601.00
2022	-
Total	$ 4,896,766.00

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the current fiscal year the College contributed 5.81% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $1,044,641.16, $980,756.45, and $968,767.49, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $68,062.79, $72,120.79, and $72,222.41, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

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

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Losses

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

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

2. **Public Officers' and Employees' Liability Insurance**

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

3. **Employee Dishonesty and Computer Fraud**

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible. 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. The College also has a cyber-risk and crime policy of $2,000,000 with a $5,000 and $20,000 deductible, respectively.

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

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 $15,414,581.94, on service contracts were $150,000.00, and on other purchases were $159,441.72 at June 30, 2017.

NOTE 15 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through October 16, 2017, which is the date the financial statements were available to be issued.

NOTE 16 - AUDIT HOURS AND COST

The audit required 280 audit hours at an approximate cost of $35,000. The cost represents 0.05% 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 Four Fiscal Years

Exhibit C-1

		2016	2015	2014	2013
(1)	Proportionate Share Percentage of Collective Net Pension Liability	0.11667%	0.11642%	0.12337%	0.12510%
(2)	Proportionate Share of TSERS Collective Net Pension Liability	$ 10,723,178.00	$ 4,290,308.00	$ 1,446,416.00	$ 7,594,845.00
(3)	Covered Payroll	$ 17,950,602.58	$ 17,590,449.96	$ 18,492,712.93	$ 18,864,156.61
(4)	Net Pension Liability as a Percentage of Covered Payroll	59.74%	24.39%	7.82%	40.26%
(5)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

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

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

Exhibit C-2

		2017	2016	2015	2014	2013
(1)	Contractually Required Contribution	$ 1,791,470.00	$ 1,609,526.00	$ 1,615,265.00	$ 1,607,017.00	$ 1,571,384.00
(2)	Contributions in Relation to the Contractually Determined Contribution	1,791,470.00	1,609,526.00	1,615,265.00	1,607,017.00	1,571,384.00
(3)	Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4)	Covered Payroll	$ 17,950,603.00	$ 17,590,450.00	$ 17,653,166.00	$ 18,492,713.00	$ 18,864,157.00
(5)	Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

		2012	2011	2010	2009	2008
(1)	Contractually Required Contribution	$ 1,432,942.00	$ 911,060.00	$ 639,044.00	$ 582,746.00	$ 512,015.00
(2)	Contributions in Relation to the Contractually Determined Contribution	1,432,942.00	911,060.00	639,044.00	582,746.00	512,015.00
(3)	Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
(4)	Covered Payroll	$ 19,259,973.00	$ 18,479,914.00	$ 17,900,398.00	$ 17,343,616.00	$ 16,787,390.00
(5)	Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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"), a component unit of the State of North Carolina, and the discretely presented component unit, CVCC Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2017. 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 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 16, 2017