

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**CRAVEN COMMUNITY COLLEGE**

**NEW BERN, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**CRAVEN COMMUNITY COLLEGE**

**NEW BERN, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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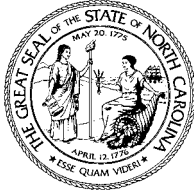
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Craven Community College

This report presents the results of our financial statement audit of Craven Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures, as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Craven Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Craven Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Craven Community College.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

**Results** - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

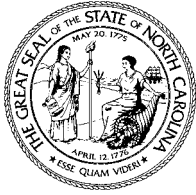
*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Craven Community College  
New Bern, North Carolina

We have audited the accompanying basic financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craven Community College as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2005, 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 this 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2005, 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 this 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 17, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Craven Community College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2004, and June 30, 2003. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements and the notes. Responsibility for the completeness and fairness of this information rests with the College.

### Using This Annual Report

The new financial statement (implemented in the fiscal year ended June 30, 2002) focuses on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement, for the first time, combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by State, local, federal and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public.

### Financial Analysis of the College as a Whole

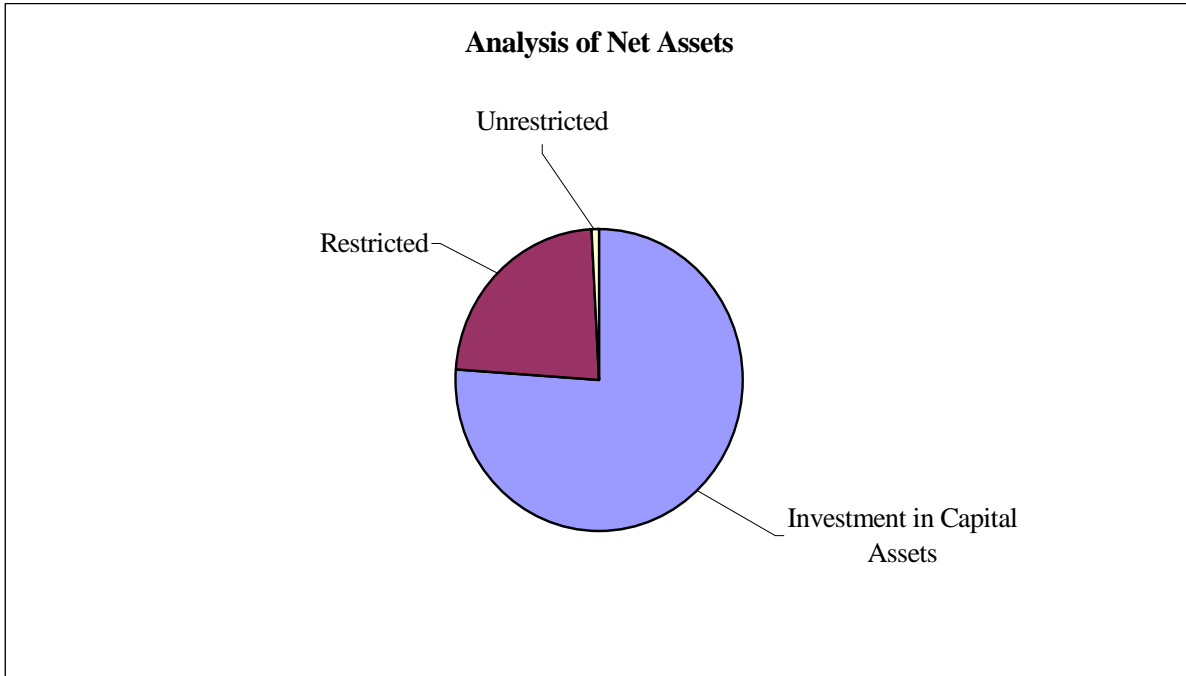
	Analysis of Net Assets June 30, (in millions)			
	2004	2003	Increase (Decrease)	Percent Change
Net Assets:				
Investment in Capital Assets	\$ 21.24	\$ 17.10	\$ 4.14	21.24%
Restricted	6.39	5.91	0.48	8.12%
Unrestricted	0.25	0.84	(0.59)	-70.24%
Total	<u>\$ 27.88</u>	<u>\$ 23.85</u>	<u>\$ 4.03</u>	



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The following is a graphic illustration of net assets:



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

**June 30,**  
**(in millions)**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 2.43	\$ 2.77	\$ (0.34)	-12.27%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	21.24	17.20	4.04	23.49%
Other	<u>5.59</u>	<u>5.56</u>	<u>0.03</u>	0.54%
Total Assets	<u>29.26</u>	<u>25.53</u>	<u>3.73</u>	
Current Liabilities	0.93	1.25	(0.32)	-25.60%
Noncurrent Liabilities	<u>0.45</u>	<u>0.43</u>	<u>0.02</u>	4.65%
Total Liabilities	<u>1.38</u>	<u>1.68</u>	<u>(0.30)</u>	
Net Assets:				
Investment in Capital Assets	21.24	17.10	4.14	24.21%
Restricted	6.39	5.91	0.48	8.12%
Unrestricted	<u>0.25</u>	<u>0.84</u>	<u>(0.59)</u>	-70.24%
Total Net Assets	<u>\$ 27.88</u>	<u>\$ 23.85</u>	<u>\$ 4.03</u>	

These schedules were prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Depreciation expense was recorded due to implementation of GASB 34 and 35.

As of June 30, 2004, the College's net assets have increased to \$27.88 million from \$23.85 million at June 30, 2003. The increase is due in part to the completion of the Havelock Building Construction Project and donations of \$2.94 million in capital assets of which approximately \$2 million was a result of receiving two jet engines and a helicopter from the federal government, which will be used in the newly started Aviation System Technology program at the Havelock Campus.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, (in millions)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Tuition and Fees	\$ 2.46	\$ 2.28	\$ 0.18	7.89%
Federal Grants and Contracts	2.93	2.86	0.07	2.45%
State Grants and Contracts	0.29	0.12	0.17	141.67%
Auxiliary	1.40	1.17	0.23	19.66%
	<u>7.08</u>	<u>6.43</u>	<u>0.65</u>	
Total				
Less Operating Expenses	<u>21.05</u>	<u>18.16</u>	<u>2.89</u>	15.91%
Net Operating Loss	(13.97)	(11.73)	(2.24)	19.10%
Nonoperating & Capital Revenues:				
State Aid	10.25	8.91	1.34	15.04%
County Appropriations	2.92	2.78	0.14	5.04%
Investment Income	0.24	0.18	0.06	33.33%
Other	4.59	2.30	2.29	99.57%
	<u>18.00</u>	<u>14.17</u>	<u>3.83</u>	
Total				
Increase in Net Assets	4.03	2.44	1.59	65.16%
Net Assets, July 1, as Restated	<u>23.85</u>	<u>21.41</u>	<u>2.44</u>	11.40%
Net Assets, End of Year	<u>\$ 27.88</u>	<u>\$ 23.85</u>	<u>\$ 4.03</u>	16.90%
Total Revenues	<u>\$ 25.08</u>	<u>\$ 20.60</u>	<u>\$ 4.48</u>	

### Operating Expenses For the Years Ended June 30, (in millions)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Expense:				
Salaries and Benefits	\$ 11.79	\$ 10.73	\$ 1.06	9.88%
Supplies and Materials	2.79	2.05	0.74	36.10%
Services	2.50	1.98	0.52	26.26%
Scholarships/Fellowships	2.38	2.39	(0.01)	-0.42%
Utilities	0.55	0.48	0.07	14.58%
Depreciation	1.04	0.53	0.51	96.23%
	<u>\$ 21.05</u>	<u>\$ 18.16</u>	<u>\$ 2.89</u>	
Total				

These schedules were prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets.

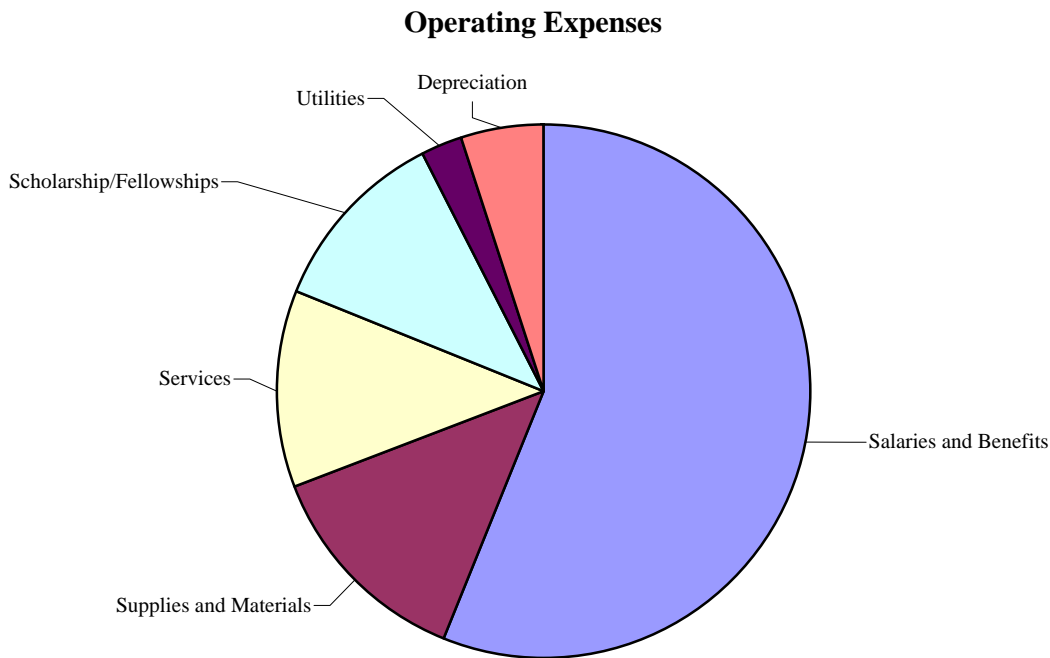
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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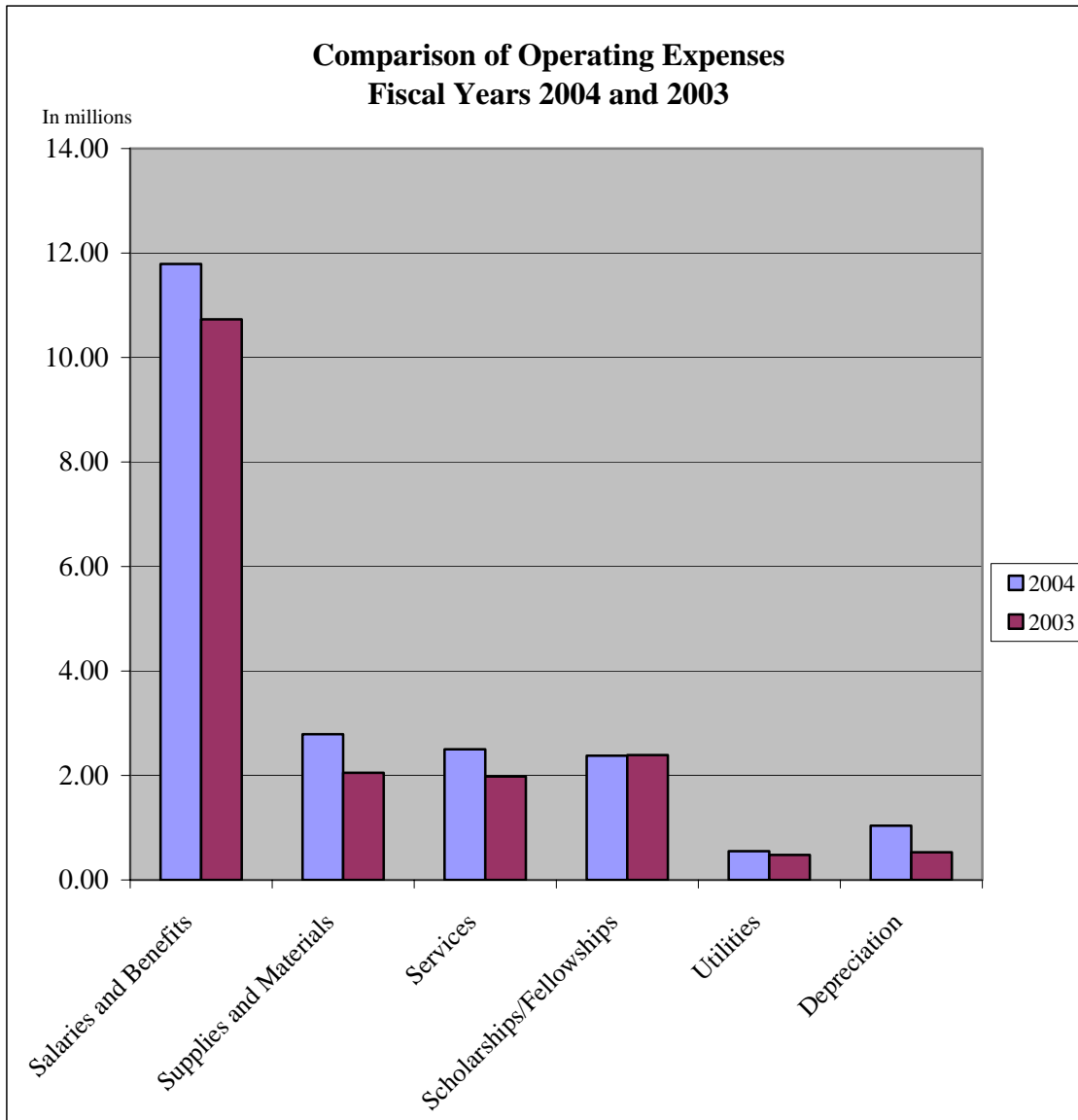
Operating expenses at June 30, 2004, increased over the same period in fiscal year 2003. This increase was caused primarily by an increase in salaries and benefits, supplies and materials, and current services. The College student enrollment grew in excess of 10% during this time period, which required additional instructors and supplies.

Operating revenue increased by \$.65 million due to increased enrollment student tuition and fees as well as increased sales from the bookstore. The nonoperating revenue increased by \$3.83 million which resulted from a donation from the federal government of two jet engines and a helicopter to be used in the new Aviation Technology program.

The following is a graphic illustration of operating expenses:



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



### Capital Assets

As of June 30, 2004, the College had recorded \$28.24 million invested in capital assets, \$7.00 million in accumulated depreciation and \$21.24 million in net capital assets. Construction in progress consists of the Havelock project, roofing projects for Buildings B and G, Roadway and Maintenance Building, Kelso Hall addition, Barker Hall renovations and the Technology Building.

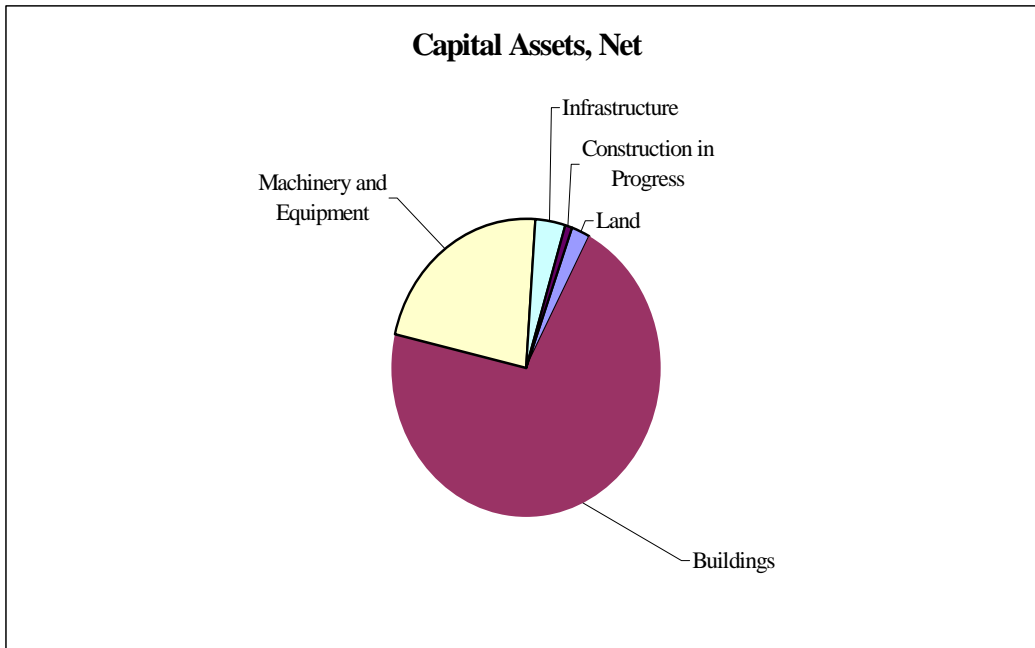
The College had long-term debt of \$.54 million as of June 30, 2004. Long-term debt includes accrued vacation of \$0.54 million of which \$.09 million is shown as current.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

These schedules are prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

**Capital Assets, Net  
For Years Ended June 30,  
(in millions)**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 0.60	\$ 0.60	\$ 0.00	
Buildings	20.07	11.94	8.13	68.09%
Machinery and Equipment	6.32	2.50	3.82	152.80%
Infrastructure	0.99	0.99		
Construction in Progress	<u>0.26</u>	<u>7.19</u>	<u>(6.93)</u>	-96.38%
Total	28.24	23.22	5.02	
Less: Accumulated Depreciation	<u>7.00</u>	<u>6.02</u>	<u>0.98</u>	16.28%
Net Capital Assets	<u>\$ 21.24</u>	<u>\$ 17.20</u>	<u>\$ 4.04</u>	



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Economic Forecast**

The New Bern Area Chamber of Commerce reports that the New Bern/Craven County area is experiencing steady growth in population, education, and economic development. The decade 1990-2000 saw a population growth of 12% for Craven County. By 2010 the area is projected to have more than 100,000 residents. The fastest growing segment of the population is the relocation/early retirement age group (55+). The mild climate, excellent health care and affordable lifestyle in the area make it an attractive destination for many retirees, who add immeasurably to the area's available experienced workforce. Because of the well-trained workforce, a growing population with increased buying power, affordable cost of living and doing business, available resources and technology, and an overall favorable environment, the New Bern/Craven County area is inviting to new businesses.

Major industries in the area include Naval Aviation Depot (NADEP) at Cherry Point, Moen, Inc., Hatteras Yachts, BSH Home Appliances, and Weyerhaeuser Company. Major employers enjoy the support and job training provided by the College's industry training and workforce continuing education programs. BSH has announced expansion plans that would add approximately 1,200 more jobs. With their expansion also comes the advantage of other businesses relocating to the area to meet their supply needs as in Carolina Technical Plastics and Prettl Systems. Hatteras Yachts is also planning an expansion that would add 75 more jobs.

Craven Community College monitors the changes in technology and economy and strives to meet the needs of our growing community. To meet industry needs, the College is in the process of expanding the machining technology program, which includes a new building to house the new technology necessary for the program. The College is pursuing funding for an Advanced Manufacturing Center. The new aviation systems technology program will provide a skilled workforce for NADEP. In an effort to meet the needs of the health care providers, the College is expanding its offerings with programs such as medical assisting in fall, 2005. We are also looking into starting new programs such as central sterile processing and surgical technology.

Overall, the economic forecast for the region and Craven Community College appears positive.

**Craven Community College**  
**Statement of Net Assets**  
**June 30, 2004**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 113,238.51
Restricted Cash and Cash Equivalents	1,191,335.74
Receivables, Net (Note 4)	715,160.01
Due from State of North Carolina Component Units	107,100.00
Inventories	296,517.60
Notes Receivable, Net (Note 4)	3,126.18

Total Current Assets 2,426,478.04

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,839,344.49
Receivables (Note 4)	96,262.14
Restricted Due from Primary Government	2,570,415.47
Endowment Investments	1,087,825.65
Capital Assets - Nondepreciable (Note 5)	853,328.37
Capital Assets - Depreciable, Net (Note 5)	20,386,429.48

Total Noncurrent Assets 26,833,605.60

Total Assets 29,260,083.64

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	711,768.15
Deferred Revenue	85,973.72
Funds Held for Others	41,229.47
Long-Term Liabilities - Current Portion (Note 7)	92,854.47

Total Current Liabilities 931,825.81

Long-Term Liabilities - Noncurrent Portion (Note 7) 449,544.78

Total Liabilities 1,381,370.59

**NET ASSETS**

Invested in Capital Assets 21,239,757.85

Restricted for:

Nonexpendable:

Scholarships and Fellowships	1,219,277.77
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Expendable:

Scholarships and Fellowships	56,433.98
Loans	11,890.40
Capital Projects	4,295,812.84
Other	801,539.80

Unrestricted 254,000.41

Total Net Assets \$ 27,878,713.05

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



<b>Craven Community College</b>		
<b>Statement of Revenues, Expenses, and</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-2</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,465,331.59
Federal Grants and Contracts		2,926,685.30
State and Local Grants and Contracts		289,136.03
Sales and Services, Net (Note 8)		1,400,863.46
Total Operating Revenues		7,082,016.38
<b>EXPENSES</b>		
Operating Expenses:		
Salaries and Benefits		11,794,132.01
Supplies and Materials		2,789,704.73
Services		2,504,044.58
Scholarships and Fellowships		2,375,815.53
Utilities		554,944.68
Depreciation		1,035,943.52
Total Operating Expenses		21,054,585.05
Operating Loss		(13,972,568.67)
<b>NONOPERATING REVENUES</b>		
State Aid		7,556,637.69
County Appropriations		2,367,588.00
Noncapital Grants		974,652.13
Noncapital Gifts		639,633.96
Investment Income, Net		237,593.67
Other Nonoperating Revenues		46,247.89
Net Nonoperating Revenues		11,822,353.34
Loss Before Other Revenues		(2,150,215.33)
State Capital Aid		2,690,736.59
County Capital Appropriations		550,000.00
Capital Gifts		2,938,602.00
Increase in Net Assets		4,029,123.26
<b>NET ASSETS</b>		
Net Assets, July 1, 2003 as Restated (Note 14)		23,849,589.79
Net Assets, June 30, 2004	\$	27,878,713.05
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Craven Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-3</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 7,402,694.13
Payments to Employees and Fringe Benefits		(11,684,801.57)
Payments to Vendors and Suppliers		(5,707,591.07)
Payments for Scholarships and Fellowships		(2,433,945.00)
Loans Issued to Students		(14,900.00)
Collection of Loans to Students		15,365.59
Other Payments		(31,673.64)
Net Cash Used by Operating Activities		(12,454,851.56)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		7,556,637.69
County Appropriations		2,367,588.00
Noncapital Grants Received		967,452.17
Noncapital Gifts and Endowments Received		616,437.59
Cash Provided by Noncapital Financing Activities		11,508,115.45
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		894,914.17
County Capital Appropriations		550,000.00
Capital Grants Received		692,900.00
Acquisition and Construction of Capital Assets		(2,436,728.38)
Principal Paid on Capital Debt and Leases		(100,000.00)
Net Cash Used by Capital and Related Financing Activities		(398,914.21)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		27,159.96
Investment Income		113,422.56
Purchase of Investments and Related Fees		87,695.95
Total Net Cash Provided by Investing Activities		228,278.47
Net Decrease in Cash and Cash Equivalents		(1,117,371.85)
Cash and Cash Equivalents, July 1, 2003		4,261,290.59
Cash and Cash Equivalents, June 30, 2004		\$ 3,143,918.74
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (13,972,568.67)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,035,943.52
Provision for Uncollectible Loans and Write-Offs		274.14
Miscellaneous Nonoperating Income		46,247.89
Changes in Assets and Liabilities:		
Receivables, Net		179,762.49
Inventories		144,174.04
Notes Receivable, Net		465.59
Accounts Payable and Accrued Liabilities		(2,343.26)
Funds Held for Others		4,864.26
Compensated Absences		108,328.44
Net Cash Used by Operating Activities		\$ (12,454,851.56)

<b><i>Craven Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit A-3</i></b>
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
	Cash and Cash Equivalents	\$ 113,238.51
	Restricted Cash and Cash Equivalents	1,191,335.74
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	1,839,344.49
	Total Cash and Cash Equivalents - June 30, 2004	\$ 3,143,918.74
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
	Assets Acquired through a Gift	\$ 2,938,602.00
	Change in Fair Value of Investments	101,781.82
	Increase in Receivables Related to Nonoperating Income	1,819,018.79
The accompanying notes to the financial statements are an integral part of this statement.		

**CRAVEN COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**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, 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. Craven 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 component units for which the College's Board of Trustees is financially accountable. The College's component units are blended in the financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College.

**Blended Component Units** - Although legally separate, Craven Community College Foundation, Inc., and Public Radio East Foundation are reported as if they were part of the College. The Craven Community College Foundation, Inc., is governed by a 26-member board consisting of two ex officio directors and 24 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Public Radio East Foundation is governed by a 21-member board consisting of all elected directors. The Foundation's purpose is to perform the functions of and to carry out the purposes of Public Radio East, a public radio station that is operated as part of Craven Community College. Because the elected directors of both Foundations are appointed by the members of the Craven Community College Board of Trustees and the Foundations' sole purpose is to benefit Craven Community College, their financial statements have been blended with those of the College.

Separate financial statements for the Foundations may be obtained from the College Controller's Office, 800 College Court, New Bern, NC 28562, or by calling (252) 638-7304.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 Governmental Accounting Standards Board (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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- 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 portfolio. The short-term investment portfolio 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. Investments** - This classification includes mutual funds held by the College. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market value using the last invoice method. Merchandise for resale is valued using the moving weighted average cost method.
- H. 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 College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

The College does not capitalize the Godwin Library collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- I. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

**L. Net Assets** - The College's net assets are classified as follows:

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

**Restricted Net Assets – Nonexpendable** - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

**Unrestricted Net Assets** - Unrestricted net assets include 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.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Changes in Net Assets. 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. 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 Assets. 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 and State aid 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. 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 appropriation and county capital appropriation do not revert and are available for future use by the College.

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$3,175.00. The carrying amount of cash on deposit was \$3,140,743.74 and the bank balance was \$4,235,681.67.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 3,109,264.31	\$ 3,105,870.43
Cash on Deposit with Private Financial Institutions	31,479.43	1,129,811.24
	\$ 3,140,743.74	\$ 4,235,681.67

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool 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.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Of the cash on deposit with private financial institutions at June 30, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance and \$929,811.24 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 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 the form of investments pursuant to General Statute 159-30(c), as follows: 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 and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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

Investments of the College's component units, Craven Community College Foundation, Inc. and Public Radio East Foundation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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At June 30, 2004, the College held mutual funds in the amount of \$1,087,825.65, which are not subject to categorization of custodial credit risk.

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are both separately invested and pooled. The College has endowment assets that are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. The remainder of the endowment funds are separately invested with Wachovia Investments. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 6% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the income for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2004, net appreciation of \$149,245.33 was available to be spent, of which \$34,613.14 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 159,579.19	\$ 6,775.40	\$ 152,803.79
Accounts	122,354.29		122,354.29
Intergovernmental	349,447.93		349,447.93
Pledges	73,719.61	4,423.18	69,296.43
Investment Earnings	2,423.76		2,423.76
Other	18,833.81		18,833.81
<b>Total Current Receivables</b>	<u>\$ 726,358.59</u>	<u>\$ 11,198.58</u>	<u>\$ 715,160.01</u>
<b>Noncurrent Receivables:</b>			
Intergovernmental	\$ 21,387.00	\$ 0.00	\$ 21,387.00
Investment Earnings	4,607.26		4,607.26
Other	70,267.88		70,267.88
<b>Total Noncurrent Receivables</b>	<u>\$ 96,262.14</u>	<u>\$ 0.00</u>	<u>\$ 96,262.14</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 3,499.82	\$ 373.64	\$ 3,126.18

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Construction in Progress	7,187,540.84	(8,064,716.43)	1,134,003.96		256,828.37
<b>Total Capital Assets, Nondepreciable</b>	<b>7,784,040.84</b>	<b>(8,064,716.43)</b>	<b>1,134,003.96</b>		<b>853,328.37</b>
Capital Assets, Depreciable:					
Buildings	11,937,943.98	8,064,716.43	65,733.68		20,068,394.09
Machinery and Equipment	2,497,404.72		3,877,980.05	54,352.56	6,321,032.21
General Infrastructure	998,924.12				998,924.12
<b>Total Capital Assets, Depreciable</b>	<b>15,434,272.82</b>	<b>8,064,716.43</b>	<b>3,943,713.73</b>	<b>54,352.56</b>	<b>27,388,350.42</b>
Less Accumulated Depreciation:					
Buildings	4,245,036.97		728,111.31		4,973,148.28
Machinery and Equipment	1,243,135.90		239,731.44	54,352.56	1,428,514.78
General Infrastructure	532,157.11		68,100.77		600,257.88
<b>Total Accumulated Depreciation</b>	<b>6,020,329.98</b>		<b>1,035,943.52</b>	<b>54,352.56</b>	<b>7,001,920.94</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>9,413,942.84</b>	<b>8,064,716.43</b>	<b>2,907,770.21</b>		<b>20,386,429.48</b>
<b>Capital Assets, Net</b>	<b>\$ 17,197,983.68</b>	<b>\$ 0.00</b>	<b>\$ 4,041,774.17</b>	<b>\$ 0.00</b>	<b>\$ 21,239,757.85</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 152,496.04
Accrued Payroll	264,403.15
Contract Retainage	294,868.96
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 711,768.15</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 100,000.00	\$ 0.00	\$ 100,000.00	\$ 0.00	\$ 0.00
Compensated Absences	434,070.81	552,968.53	444,640.09	542,399.25	92,854.47
<b>Total Long-Term Liabilities</b>	<b>\$ 534,070.81</b>	<b>\$ 552,968.53</b>	<b>\$ 544,640.09</b>	<b>\$ 542,399.25</b>	<b>\$ 92,854.47</b>

**B. Notes Payable** - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2004
Purchase of Building G, Mary Dale Bender Cont. Ed. Building	Craven Regional Medical Authority	0%	12/21/2003	<u>\$ 400,000.00</u>	<u>\$ 400,000.00</u>

### NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 3,144,065.66</u>	<u>\$ 674,034.08</u>	<u>\$ 4,699.99</u>	<u>\$ 2,465,331.59</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Food Services	\$ 94,702.77	\$ 0.00	\$ 0.00	\$ 94,702.77
Bookstore	1,282,221.84	4,888.24	2,035.41	1,275,298.19
Other	26,542.50			26,542.50
Independent Operations	<u>4,320.00</u>			<u>4,320.00</u>
<b>Total Sales and Services</b>	<b>\$ 1,407,787.11</b>	<b>\$ 4,888.24</b>	<b>\$ 2,035.41</b>	<b>\$ 1,400,863.46</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 5,902,185.11	\$ 433,691.04	\$ 804,332.96	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,140,209.11
Public Service	620,233.57	31,806.99	485,409.18		39,416.67		1,176,866.41
Academic Support	2,065,600.17	205,611.50	65,771.40				2,336,983.07
Student Services	694,630.77	21,502.22	41,870.92				758,003.91
Institutional Support	1,434,176.62	659,069.26	709,552.34				2,802,798.22
Operations and Maintenance of Plant	813,822.96	348,585.47	240,816.48		515,528.01		1,918,752.92
Student Financial Aid	110,297.96		48,296.39	2,375,815.53			2,534,409.88
Auxiliary Enterprises	153,184.85	1,089,438.25	107,994.91				1,350,618.01
Depreciation						1,035,943.52	1,035,943.52
<b>Total Operating Expenses</b>	<b>\$ 11,794,132.01</b>	<b>\$ 2,789,704.73</b>	<b>\$ 2,504,044.58</b>	<b>\$ 2,375,815.53</b>	<b>\$ 554,944.68</b>	<b>\$ 1,035,943.52</b>	<b>\$ 21,054,585.05</b>

### NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$10,146,958.64, of which \$7,632,962.02 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$458,100.86 and \$16,792.52, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$16,792.52, \$0.00, and \$139,087.82, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Teachers' and State Employees' Retirement System's financial information is 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$67,677.96 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2004 were \$4,064.80. The voluntary contributions by employees amounted to \$139,443.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$40,768.00 for the year ended June 30, 2004.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs, which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$244,254.78. 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*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses for employees paid from county and institutional funds are covered under a private insurance policy.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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 AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$804,465.80 and on other purchases were \$1,028.05 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$3,256,386.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 14 - NET ASSET RESTATEMENTS

As of July 1, 2003, net assets as previously reported was restated as follows:

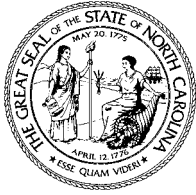
	<u>Amount</u>
July 1, 2003 Net Assets as Previously Reported	\$ 23,852,343.57
Restatements :	
Error in prior year reporting of endowment income and scholarships	(11,928.47)
Error in prior year reporting of endowment income and interest	<u>9,174.69</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 23,849,589.79</u></u>

**Craven Community College**  
**Schedule of General Obligation Bond Project Authorizations,**  
**Budgets, and Expenditures**  
**For Project-to-Date as of June 30, 2004**

**Schedule 1**

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b>Capital Improvement Projects</b>									
<i>Projects Approved by the State Board</i>									
907B - Havelock Campus Classroom/Library Bldg.	Nov 2000	Nov 2000	\$ 1,900,000.00	\$ 1,900,000.00	\$ 3,800,000.00	\$ 3,653,188.78	96.14%	Jul 2003	Mar 2005
1076 - Maintenance Building/Roadway and Parking	May 2003	May 2003	1,375,022.00		1,375,022.00	55,934.20	4.07%	Mar 2004	Jul 2005
1336 - Addition to Kelso Hall	Jul 2003	Apr 2004	100,000.00	300,000.00	400,000.00	26,515.00	6.63%	Sep 2004	Jul 2005
1268 - Technology Building	Nov 2004	Mar 2003	2,925,711.00	2,000,000.00	4,925,711.00	51,247.18	1.04%	Jan 2006	Jan 2007
1243 - Reroof Building B	Dec 2003	Apr 2004	250,000.00		250,000.00	62,486.00	24.99%	Oct 2004	Oct 2004
1244 - Reroof Building G	Nov 2003	Apr 2004	250,000.00		250,000.00	16,682.79	6.67%	Oct 2004	Apr 2005
1246 - Renovate Barker Hall	Jul 2004	May 2004	264,000.00		264,000.00	45,245.99	17.14%	Dec 2004	May 2005
<i>Projects Pending Approval by the State Board</i>									
Replace Chillers, Air Handlers, Small Renovation (Bundled)	Sep 2002	Mar 2005	384,175.00		384,175.00			Jan 2004	Jan 2006
<b>Total All Projects</b>			<b>\$ 7,448,908.00</b>	<b>\$ 4,200,000.00</b>	<b>\$ 11,648,908.00</b>	<b>\$ 3,911,299.94</b>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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**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**

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Board of Trustees  
Craven Community College  
New Bern, North Carolina

We have audited the financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 17, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

**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 (CONCLUDED)**

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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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 17, 2005

## **DISTRIBUTION OF AUDIT REPORT**

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Mr. H. Martin Lancaster  
Dr. Scott Ralls  
Mr. Johnny L. Peterson  
  
Ms. Earline Williams

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
President, Craven Community College  
Vice President for Financial and Administrative Services,  
Craven Community College  
Chairman, Board of Trustees,  
Craven Community College

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Mr. James D. Johnson

Director, Fiscal Research Division

May 25, 2005



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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