

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, 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

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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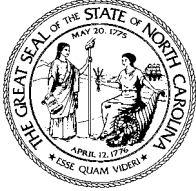
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Coastal Carolina 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 Coastal Carolina 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 Coastal Carolina 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 Coastal Carolina 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)

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.

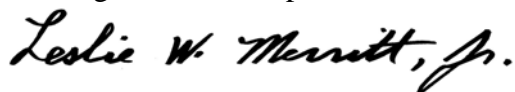
Results - The following significant deficiency in internal control over financial reporting was noted as a result of our audit:

Finding

Internal Control – Segregation of Duties

This matter is described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Finding and Recommendation section of this report.

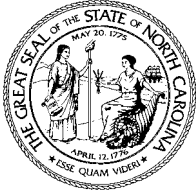
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	30
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
AUDIT FINDING AND RECOMMENDATION	33
DISTRIBUTION OF AUDIT REPORT	35



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the accompanying basic financial statements of Coastal Carolina 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., which represent 12 percent, 12 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Coastal Carolina Community College Foundation, Inc., is based 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 *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. The financial statements of Coastal Carolina Community College Foundation, Inc., were audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

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 Coastal Carolina 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 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 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Coastal Carolina Community College's Financial Statement Audit 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 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 accompanying financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

I. Using This Annual Financial Report

This annual financial report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various college services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are indicators of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of facilities.

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 statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

II. Financial Highlights

The HVAC Geothermal project is in the third year of design and construction. Originally, the plan consisted of replacing boilers and chillers in seven buildings on our campus: Classroom A Building, Classroom B Building, Henderson Administration Building, Health and Occupational Science Building, Student Services Building, Louis Shields Learning Resource Center and the Fine Arts Building. During fiscal year 2003-2004, the Lloyd Respass Trades Building was added, bringing the total budget for this project to \$4,964,771, which consists of State and local funds. This project was the first of several approved by Senate Bill 912 of the 1999-2000 Session of the General Assembly of North Carolina.

The Allied Health Science Technology Building was the second project approved in the bond issuance. This will be a new building for our campus and is in the second year of design and construction. The total budget for this project is \$7,286,259, consisting of State and local funds.

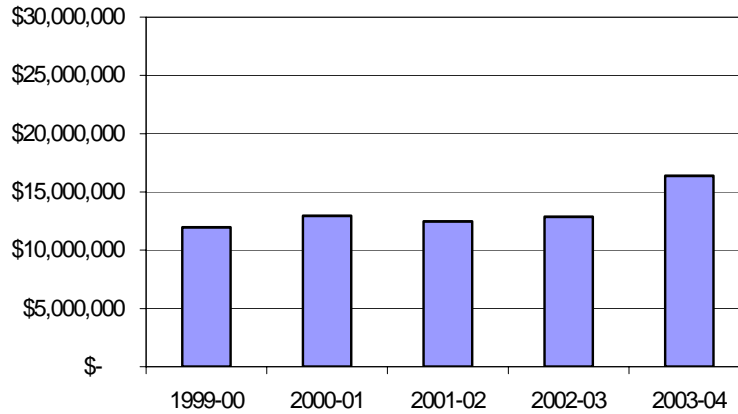
Tuition increased 3.65% per credit hour for in-State rates and 3.28% per credit hour for out-of-State rates.

The Coastal Carolina Community College Foundation, Inc., received \$25,000 from the State of North Carolina pursuant to Section 8.14 of Session Laws 2003-284. This nonrecurring trust fund scholarship was financed based on a \$1 award for every \$2 of new money the Foundation raised.

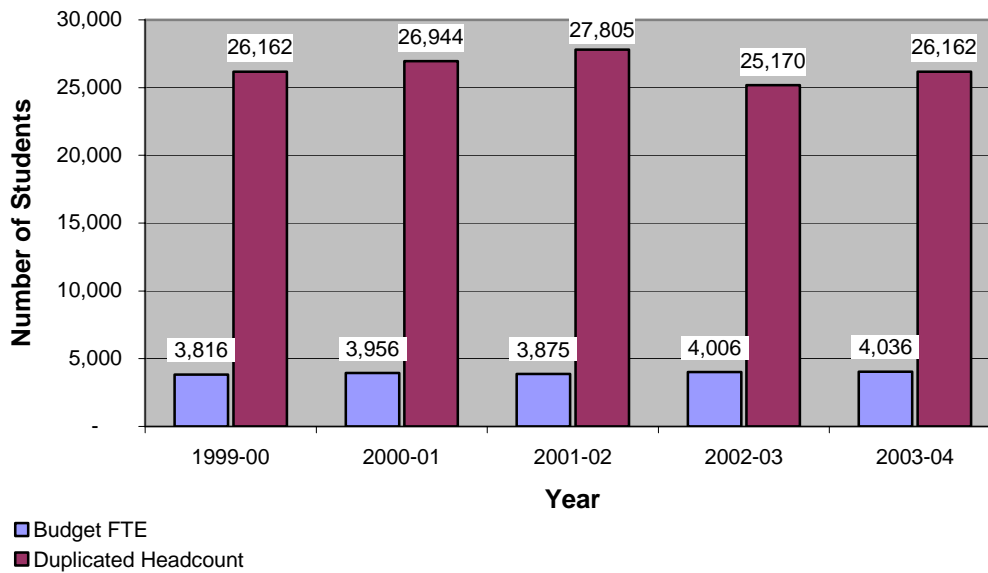
The College continues to grow by budget increases, campus expansion, and student enrollment. The budget FTE (full-time equivalency) for curriculum increased by 4.85% from 2002-03. Although the College's budget FTE increased, the value of the FTE decreased, thereby decreasing the overall State formula allocation for this fiscal year. In addition to the reduced State budget, Coastal Carolina Community College had to revert 3% of its funding during the fiscal year. The College's share was \$419,915.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State Appropriations



Enrollment



In addition to the funding we receive from the State based on FTE's, we receive funding from the county for the maintenance of buildings and infrastructure.

The College Information System (CIS) project is a community college-wide information technology system being implemented across the State. This new hardware and software system consists of applications being put into operation in phases. Coastal Carolina Community College is considered a Phase 2C school and we will "go live" with Financials in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

July 2004, and Human Resources in January 2005. The Student portion is scheduled to start in July 2007.

III. Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2004, the College's current assets have had an increase of over \$385,307 due to gains in the Foundation's short-term investment area. The noncurrent assets have increased largely due to reporting proceeds obligated by the North Carolina Community College System Office Bond Cash Flow Model as a receivable, due from primary government (\$4.9 million), shown as "other" in the table below. Net assets expendable for capital projects increased primarily because of the two projects under construction.

Condensed Statement of Net Assets

	2004	2003	Increase (Decrease)	Total Percentage Change
Current Assets	\$ 4,167,140.10	\$ 3,781,832.76	\$ 385,307.34	10.19%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	14,604,234.49	11,926,279.20	2,677,955.29	22.45%
Other	6,727,428.36	2,990,814.57	3,736,613.79	124.94%
Total Assets	25,498,802.95	18,698,926.53	6,799,876.42	
Current Liabilities	799,051.65	627,492.29	171,559.36	27.34%
Noncurrent Liabilities	664,029.18	698,455.03	(34,425.85)	-4.93%
Total Liabilities	1,463,080.83	1,325,947.32	(137,133.51)	
Net Assets:				
Invested in Capital Assets, Net of Related Debt	14,447,274.58	11,655,663.00	2,791,611.58	23.95%
Restricted for:				
Nonexpendable:				
Scholarship and Fellowships	1,711,979.16	1,594,721.00	117,258.16	7.35%
Other		6,095.49	(6,095.49)	-100.00%
Expendable:				
Capital Projects	4,717,183.05	1,524,565.62	3,192,617.43	209.41%
Scholarships and Fellowships	26,796.75		26,796.75	
Other	32,423.18	19,319.00	13,104.18	67.83%
Unrestricted	3,100,065.40	2,572,615.10	527,450.30	20.50%
Total Net Assets	\$ 24,035,722.12	\$ 17,372,979.21	\$ 6,662,742.91	

Analysis of Net Capital Assets

This schedule defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. As noted below, the College's total capital assets increased specifically due to the construction in progress.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Capital Assets				
Land	\$ 823,349.75	\$ 823,349.75	\$ 0.00	
Buildings	18,052,678.39	18,052,678.39		
Machinery and Equipment	2,068,361.06	2,000,162.23	68,198.83	3.41%
Infrastructure	1,690,148.20	1,690,148.20		
Construction in Progress	3,591,448.69	489,486.92	3,101,961.77	633.72%
Total	<u>26,225,986.09</u>	<u>23,055,825.49</u>	<u>3,170,160.60</u>	
Less: Accumulated Depreciation	<u>11,621,751.60</u>	<u>11,129,546.29</u>	<u>492,205.31</u>	
Net Capital Assets	<u>\$ 14,604,234.49</u>	<u>\$ 11,926,279.20</u>	<u>\$ 2,677,955.29</u>	

Analysis of Liabilities

The College had long-term debt of \$803,909.30 as of June 30, 2004. This balance consists of a note payable of \$156,959.91 in which \$115,943.00 is classified as current. Long-term debt also includes accrued vacation of \$646,949.39 of which \$23,937.12 is shown as current. The increase in liabilities is due mainly to the accounts payable current liability increase. Specifically, the College Store accounts payable liability doubled and invoices to vendors for the HVAC construction project at fiscal year end increased over \$160,000 from the prior year. The College participates in the IRS Section 125 Flexible Spending Plan for medical and dependent care and almost 70% of the balance in the funds held for others is for College employees participating in this program.

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current Liabilities	\$ 659,171.53	\$ 457,012.42	\$ 202,159.11	44.23%
Long-Term Liabilities - Current Portion	<u>139,880.12</u>	<u>170,479.87</u>	<u>(30,599.75)</u>	-17.95%
Total Current Liabilities	<u>799,051.65</u>	<u>627,492.29</u>	<u>171,559.36</u>	27.34%
Noncurrent Long-Term Liabilities	<u>664,029.18</u>	<u>698,455.03</u>	<u>(34,425.85)</u>	-4.93%
Total Liabilities	<u>\$ 1,463,080.83</u>	<u>\$ 1,325,947.32</u>	<u>\$ 137,133.51</u>	10.34%

Analysis of Revenues

The major increase in this category is due to the increase in student tuition and fees revenue. This is directly affected by the tuition rate increase mandated by the State of North Carolina, as well as an increase in our budgeted FTE. We had an increase in our North Carolina Community College Grant by over \$30,000. The College Store experienced a sales increase of over \$220,000 thereby increasing the revenue for sales and services. The State of North Carolina required both a budget reversion and cash management techniques during Fiscal

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Year 2004 reducing the State aid nonoperating revenue. State capital aid is a direct reflection of the revenues from the Bond proceeds of over \$4 million this fiscal year. Our total county appropriations were slightly higher than last year, but the distribution was more to support our operating expenses rather than capital improvements. The Foundation experienced an increase in nonoperating revenues of over \$250,000, principally from net realized/unrealized gains on investments. This increase can be partially explained as a result of the change in investment strategy to include the shifting of funds from the long-term bonds to short-term bonds in the portfolio.

	2004	2003	Increase (Decrease)	Percentage Change
Operating Revenues:				
Student Tuition and Fees	\$ 4,601,985.71	\$ 3,885,703.19	\$ 716,282.52	18.43%
Federal Grants and Contracts	4,333,964.37	3,782,850.40	551,113.97	14.57%
State and Local Grants and Contracts	403,053.91	300,538.09	102,515.82	34.11%
Sales and Services	2,353,503.41	2,216,739.36	136,764.05	6.17%
Total Operating Revenues	<u>11,692,507.40</u>	<u>10,185,831.04</u>	<u>1,506,676.36</u>	14.79%
Less Operating Expenses	25,799,464.70	24,825,158.30	974,306.40	3.92%
Operating Loss	<u>(14,106,957.30)</u>	<u>(14,639,327.26)</u>	<u>532,369.96</u>	-3.64%
Nonoperating Revenues (Expenses):				
State Aid	10,958,832.59	11,142,022.50	(183,189.91)	-1.64%
County Appropriations	1,864,860.56	1,673,458.00	191,402.56	11.44%
Noncapital Gifts and Grants	491,069.50	487,686.56	3,382.94	0.69%
Investment Income	103,976.17	131,555.14	(27,578.97)	-20.96%
Interest and Fees on Capital Asset Debt	(9,255.71)	(14,448.98)	5,193.27	-35.94%
Other Nonoperating Revenues	426,074.73	156,974.03	269,100.70	171.43%
Net Nonoperating Revenues	13,835,557.84	13,577,247.25	258,310.59	1.90%
Other Revenues:				
State Capital Aid	6,770,984.93	1,717,686.96	5,053,297.97	294.19%
County Capital Appropriations	163,157.44	332,000.00	(168,842.56)	-50.86%
Total Nonoperating Revenues	<u>20,769,700.21</u>	<u>15,626,934.21</u>	<u>5,142,766.00</u>	32.91%
Increase in Net Assets	<u>\$ 6,662,742.91</u>	<u>\$ 987,606.95</u>	<u>\$ 5,675,135.96</u>	574.64%

Analysis of Expenditures

The College experienced an overall increase in expenditures from FY03, greatly due to the increase in scholarships and fellowships expenditures. As the grant revenues increase, so do the expenditures associated with the awarding of scholarships and fellowships. We received over \$600,000 more in Pell Grant revenue this fiscal year, the SEOG experienced \$40,000 more awards, as well as an increase in the NC Community College Grant. We awarded twice the amount of SSIG scholarships from last fiscal year.

In summary, this annual report is designed to provide our community, students, donors and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

Coastal Carolina Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,079,313.34
Short-Term Investments	891,415.00
Restricted Short-Term Investments	155,520.00
Receivables, Net (Note 4)	586,714.22
Inventories	409,179.69
Prepaid Items	43,583.85
Notes Receivable (Note 4)	1,414.00

Total Current Assets 4,167,140.10

Noncurrent Assets:

Restricted Cash and Cash Equivalents	44,766.99
Restricted Due from Primary Government	4,895,636.37
Endowment Investments	1,690,306.00
Other Long-Term Investments	51,800.00
Notes Receivable (Note 4)	44,919.00
Capital Assets - Nondepreciable (Note 5)	4,414,798.44
Capital Assets - Depreciable, Net (Note 5)	10,189,436.05

Total Noncurrent Assets 21,331,662.85

Total Assets 25,498,802.95

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	652,981.88
Deferred Revenue	14.99
Funds Held for Others	6,174.66
Long-Term Liabilities - Current Portion (Note 7)	139,880.12

Total Current Liabilities 799,051.65

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	664,029.18
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Total Liabilities 1,463,080.83

NET ASSETS

Invested in Capital Assets, Net of Related Debt 14,447,274.58

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	1,711,979.16

Expendable:	
Scholarships and Fellowships	26,796.75
Capital Projects	4,717,183.05
Other	32,423.18

Unrestricted 3,100,065.40

Total Net Assets \$ 24,035,722.12

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

Coastal Carolina Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	4,601,985.71
Federal Grants and Contracts		4,333,964.37
State and Local Grants and Contracts		403,053.91
Sales and Services, Net (Note 9)		2,353,503.41
Total Operating Revenues		11,692,507.40
EXPENSES		
Operating Expenses:		
Salaries and Benefits		15,315,392.32
Supplies and Materials		4,191,330.30
Services		1,668,255.53
Scholarships and Fellowships		3,692,251.20
Utilities		440,030.04
Depreciation		492,205.31
Total Operating Expenses		25,799,464.70
Operating Loss		(14,106,957.30)
NONOPERATING REVENUES (EXPENSES)		
State Aid		10,958,832.59
County Appropriations		1,864,860.56
Noncapital Grants		393,733.50
Noncapital Gifts		97,336.00
Investment Income		103,976.17
Interest and Fees on Debt		(9,255.71)
Other Nonoperating Revenues		426,074.73
Total Nonoperating Revenues		13,835,557.84
Loss Before Other Revenues		(271,399.46)
State Capital Aid		6,770,984.93
County Capital Appropriations		163,157.44
Increase in Net Assets		6,662,742.91
NET ASSETS		
Net Assets, July 1, 2003		17,372,979.21
Net Assets, June 30, 2004	\$	24,035,722.12
The accompanying notes to the financial statements are an integral part of this statement.		

Coastal Carolina Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2004		Exhibit A-3
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 12,574,931.95
Payments to Employees and Fringe Benefits		(15,237,492.80)
Payments to Vendors and Suppliers		(6,144,975.92)
Payments for Scholarships and Fellowships		(4,536,538.67)
Collection of Loans to Students		1,218.00
Other Receipts		428,787.16
Net Cash Used by Operating Activities		(12,914,070.28)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		10,958,832.59
County Appropriations		1,864,860.56
Noncapital Grants Received		393,733.50
Noncapital Gifts Received		97,336.00
Cash Provided by Noncapital Financing Activities		13,314,762.65
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		3,115,248.87
County Capital Appropriations		163,157.44
Acquisition and Construction of Capital Assets		(3,170,160.60)
Principal Paid on Capital Debt and Leases		(113,656.29)
Interest Paid on Capital Debt and Leases		(9,255.71)
Net Cash Used by Capital and Related Financing Activities		(14,666.29)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		103,976.17
Purchase of Investments and Related Fees		(532,493.00)
Net Cash Used by Investing Activities		(428,516.83)
Net Decrease in Cash and Cash Equivalents		(42,490.75)
Cash and Cash Equivalents, July 1, 2003		2,166,571.08
Cash and Cash Equivalents, June 30, 2004		\$ 2,124,080.33
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (14,106,957.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		492,205.31
Miscellaneous Nonoperating Income		426,074.73
Changes in Assets and Liabilities:		
Receivables, Net		38,122.09
Inventories		(40,649.50)
Prepaid Items		25,126.59
Notes Receivable		1,218.00
Accounts Payable and Accrued Liabilities		199,431.69
Deferred Revenue		14.99
Funds Held for Others		2,712.43
Compensated Absences		48,630.69
Net Cash Used by Operating Activities		\$ (12,914,070.28)

Coastal Carolina Community College		
Statement of Cash Flows		Exhibit A-3
For the Fiscal Year Ended June 30, 2004		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 2,079,313.34
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	44,766.99
	Total Cash and Cash Equivalents - June 30, 2004	\$ 2,124,080.33
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Increase in Receivables Related to Nonoperating Income	\$ 3,655,736.06
The accompanying notes to the financial statements are an integral part of this statement.		

COASTAL CAROLINA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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. Coastal Carolina 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 the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit – Although a legally separate, tax-exempt component unit, Coastal Carolina Community College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a 27-member board consisting of two ex officio directors and 25 appointed directors. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation'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. Because the elected directors of the Foundation are appointed by the members of the Coastal Carolina Community College Board of Trustees and the Foundation's sole purpose is to benefit Coastal Carolina Community College, its financial statements have been blended with those of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 444 Western Boulevard, Jacksonville, NC 28546, or by calling (910) 938-6138. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

During the year ended June 30, 2004, the Foundation distributed \$93,871.34 to the College for both restricted and unrestricted purposes.

- 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, savings 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Investments** - This classification includes equity investments, mutual funds, and real estate. Except for real estate not held by a governmental external investment pool, 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 in the fair value of investments is recognized as a component of investment income.

Real estate not held by a governmental external investment pool is reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges 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 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 and merchandise for resale, are valued at cost using either the first-in, first-out 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 method over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include notes payable and 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 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, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. 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 Store and Coastal Café. In addition, the College has other miscellaneous sales and service units that operate either on a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

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 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 \$7,135.00. The carrying amount of cash on deposit was \$2,116,945.33 and the bank balance was \$3,053,227.30.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,757,370.54	\$ 2,327,159.54
Cash on Deposit with Private Financial Institutions	359,574.79	726,067.76
	\$ 2,116,945.33	\$ 3,053,227.30

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.

Of the cash on deposit with private financial institutions at June 30, 2004, \$166,924.22 of the bank balance was covered by federal depository insurance, and \$559,143.54 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – In addition to donated securities and real estate held by the College, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 unit, the 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.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department of agent, but not in the College's name. Investments in the mutual funds and domestic bond funds listed below are exempt from risk categorization because Coastal Carolina Community College Foundation, Inc., does not own any identifiable securities, but are shareholders of a percentage of the fund.

A summary of the College's investments at June 30, 2004 is presented below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments Not Categorized:	
Mutual Funds	\$ 1,677,933.00
Domestic Bond Funds	1,059,308.00
Real Estate	<u>51,800.00</u>
Total Investments Not Categorized	<u><u>\$ 2,789,041.00</u></u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested. 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 allows up to 100% of the endowment income each year for the sole purpose of funding student scholarships.

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>
Current Receivables:			
Students	\$ 367,625.54	\$ 5,201.01	\$ 362,424.53
Accounts	150,688.46		150,688.46
Intergovernmental	70,441.81		70,441.81
Other	<u>3,159.42</u>		<u>3,159.42</u>
Total Current Receivables	<u><u>\$ 591,915.23</u></u>	<u><u>\$ 5,201.01</u></u>	<u><u>\$ 586,714.22</u></u>
Notes Receivable:			
Notes Receivable - Current:			
Real Estate Loan	<u><u>\$ 1,414.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 1,414.00</u></u>
Notes Receivable - Noncurrent:			
Real Estate Loan	<u><u>\$ 44,919.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 44,919.00</u></u>

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	Increases	Balance June 30, 2004
Capital Assets, Nondepreciable:			
Land	\$ 823,349.75	\$ 0.00	\$ 823,349.75
Construction in Progress	489,486.92	3,101,961.77	3,591,448.69
Total Capital Assets, Nondepreciable	1,312,836.67	3,101,961.77	4,414,798.44
Capital Assets, Depreciable:			
Buildings	18,052,678.39		18,052,678.39
Machinery and Equipment	2,000,162.23	68,198.83	2,068,361.06
General Infrastructure	1,690,148.20		1,690,148.20
Total Capital Assets, Depreciable	21,742,988.82	68,198.83	21,811,187.65
Less Accumulated Depreciation:			
Buildings	8,326,090.38	359,309.88	8,685,400.26
Machinery and Equipment	1,345,353.83	103,363.11	1,448,716.94
General Infrastructure	1,458,102.08	29,532.32	1,487,634.40
Total Accumulated Depreciation	11,129,546.29	492,205.31	11,621,751.60
Total Capital Assets, Depreciable, Net	10,613,442.53	(424,006.48)	10,189,436.05
Capital Assets, Net	\$ 11,926,279.20	\$ 2,677,955.29	\$ 14,604,234.49

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 311,623.24
Accrued Payroll	341,358.64
Total Accounts Payable and Accrued Liabilities	\$ 652,981.88

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	\$ 270,616.20	\$ 0.00	\$ 113,656.29	\$ 156,959.91	\$ 115,943.00
Compensated Absences	598,318.70	314,195.52	265,564.83	646,949.39	23,937.12
Total Long-Term Liabilities	\$ 868,934.90	\$ 314,195.52	\$ 379,221.12	\$ 803,909.30	\$ 139,880.12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 June 30, 2004	Principal Outstanding June 30, 2004
Energy Project	First Citizens Bank	4.73%	6/27/2005	\$ 810,802.00	\$ 653,842.09	\$ 156,959.91

The annual requirements to pay principal and interest on the notes payable at June 30, 2004, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 115,943.00	\$ 6,969.00
2006	41,016.91	1,420.00
Total Requirements	\$ 156,959.91	\$ 8,389.00

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 203,431.59
2006	181,238.88
2007	45,309.72
Total Minimum Lease Payments	\$ 429,980.19

Rental expense for all operating leases during the year was \$327,835.87.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 5,238,610.66	\$ 0.00	\$ 631,423.94	\$ 5,201.01	\$ 4,601,985.71
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Cafeteria	\$ 163,379.15	\$ 3,245.04	\$ 0.00	\$ 0.00	\$ 160,134.11
Vending	66,553.10				66,553.10
Bookstore	2,085,243.41	10,716.51			2,074,526.90
Sales and Services of Education and Related Activities	52,157.00				52,157.00
Other	132.30				132.30
Total Sales and Services	\$ 2,367,464.96	\$ 13,961.55	\$ 0.00	\$ 0.00	\$ 2,353,503.41

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	\$ 9,722,972.75	\$ 879,108.04	\$ 334,167.32	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,936,248.11
Academic Support	1,662,777.36	57,984.38	137,159.46				1,857,921.20
Student Services	1,302,068.39	170,250.08	182,325.16				1,654,643.63
Institutional Support	1,824,795.74	210,806.94	722,427.87				2,758,030.55
Operations and Maintenance of Plant	641,494.94	1,107,753.87	270,039.04		437,900.53		2,457,188.38
Student Financial Aid				3,692,251.20			3,692,251.20
Auxiliary Enterprises	161,283.14	1,765,426.99	22,136.68		2,129.51		1,950,976.32
Depreciation						492,205.31	492,205.31
Total Operating Expenses	\$ 15,315,392.32	\$ 4,191,330.30	\$ 1,668,255.53	\$ 3,692,251.20	\$ 440,030.04	\$ 492,205.31	\$ 25,799,464.70

NOTE 11 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$13,054,479.96, of which \$10,295,289.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$617,717.38 and \$22,649.64, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$22,649.64, \$0.00, and \$207,702.21, respectively.

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. Supplemental Retirement Income Plans - 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. The voluntary contributions by employees amounted to \$125,221.91 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 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 \$79,731.86 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - 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 \$329,449.27. 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 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. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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. The College purchases coverage for losses from employee dishonesty of county and institutional fund paid employees under an employee dishonesty bond.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Other insurance purchased by the College includes firearms training general liability insurance with coverage of \$2,000,000 for bodily injury and property damage and boiler, machinery, and equipment insurance with coverage based on the buildings and contents value of \$40,252,708.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,513,990.69 and on other purchases were \$25,288.38 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 \$600,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$11,562,405 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.

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

Schedule 1

Capital Improvement Projects	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
<i>Projects Approved by the State Board</i>									
HVAC Replacement - #1167	Sep 2001	Sep 2001	\$ 4,949,371.00	\$ 15,400.00	\$ 4,964,771.00	\$ 2,832,344.91	57.05%	Sep 2002	Apr 2005
Allied Health Science Technology Building - #1263	Sep 2001	Sep 2002	6,809,588.00	476,671.00	7,286,259.00	341,438.37	4.69%	Mar 2004	Jan 2006
<i>Projects Not Started - To Be Funded in Future Years</i>									
Continuing Education Building	Sep 2004	Sep 2004	4,681,453.00		4,681,453.00			Jun 2006	Jun 2006
Fine Arts Building Addition	Mar 2005	Mar 2005	3,038,681.00		3,038,681.00			Oct 2006	Oct 2006
Total All Projects			\$ 19,479,093.00	\$ 492,071.00	\$ 19,971,164.00	\$ 3,173,783.28			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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.



Leslie W. Merritt, Jr., CPA, CFP
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**

Board of Trustees
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina, and its blended component unit, as of and for the year ended June 30, 2004, which collectively comprise Coastal Carolina Community College's basic financial statements, and have issued our report thereon dated March 14, 2005. We did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., which represent 12 percent, 12 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Coastal Carolina Community College Foundation, Inc., is based 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 *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Coastal Carolina Community College Foundation, Inc., were audited in accordance with *Government Auditing Standards*, and accordingly, this report does extend to Coastal Carolina Community College Foundation, Inc.

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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit is described in the Audit Finding and Recommendation section of this report.

Finding

Internal Control - Segregation of Duties

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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 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., CPA, CFE
State Auditor

March 14, 2005

AUDIT FINDING AND RECOMMENDATION

Matter Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control in the Coastal Carolina Community College Foundation, Inc.

INTERNAL CONTROL – SEGREGATION OF DUTIES

There are internal control problems inherent in all situations in which one or two persons are assigned permanent financial duties. With one or two persons, it is technically impossible to delegate duties and responsibilities in such a manner to achieve a working set of checks and balances on each employee. The purpose behind the need for checks and balances is the prevention of inadvertent human error from entering into the recording of transactions with its subsequent incorrect reporting of transactions. It is incumbent on the Board of Directors, in this situation, to realize the inherent weakness of internal control and to exercise such additional watchfulness over its affairs as it deems warranted by the circumstances. Since the Foundation's staff is by its very nature limited to two or three persons, a comprehensive set of checks and balances cannot be maintained through out the year. However, we believe the Foundation has implemented a division of duties among its financial personnel, to the extent possible, to minimize the possibility of error entering into the accounting records.

Recommendation: We recommend the Foundation ensure strong internal controls to minimize the possibility of error entering into the accounting records.

Coastal Carolina Community College Foundation's Response: It is the opinion of the Board of Directors that current management of the College Foundation has initiated all precautions possible to reduce the level of risk in the internal control and its ability to record, process, summarize and report financial data. Due to the small number of staff in the College Foundation office, College accounting personnel have been utilized to process funds received by the College Foundation staff. Over 90% of all funds are received by mail to management, receipts processed in the College Foundation staff, and again receipted by College accounting personnel. Funds are received by one accounting department staff member, recorded by a second accounting department staff member, and deposited by a third accounting department staff member. Deposits are made by College security, and dated deposit slips are provided to the College Foundation staff.

All general ledger accounting is performed by an unaffiliated individual through contractual services for the College Foundation, to include all financial reporting for deposits, disbursements, and investments. No staff member in the College Foundation office has signatory rights on checks, further minimizing potential mismanagement. The College President and College Executive Vice President, who serve as College Foundation Secretary and College Foundation Treasurer, respectively, approve all disbursements.

It is the opinion of management for the College Foundation that all precautions possible are in place to protect the integrity of its financial processes.

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May 9, 2005

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