STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

CARTERET COMMUNITY COLLEGE

MOREHEAD CITY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Carteret Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the finding.

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

May 23, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Carteret Community College
Morehead City, North Carolina

We have audited the accompanying financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carteret Community 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 the Carteret Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. 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 this entity, 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 the Carteret Community College Foundation, Inc. were not 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 the 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 provides 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 respective financial position of Carteret Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Leslie W. Merritt, Jr.

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

March 16, 2006

This section of Carteret 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, 2005 and June 30, 2004. 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 College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

This annual 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 and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. 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.

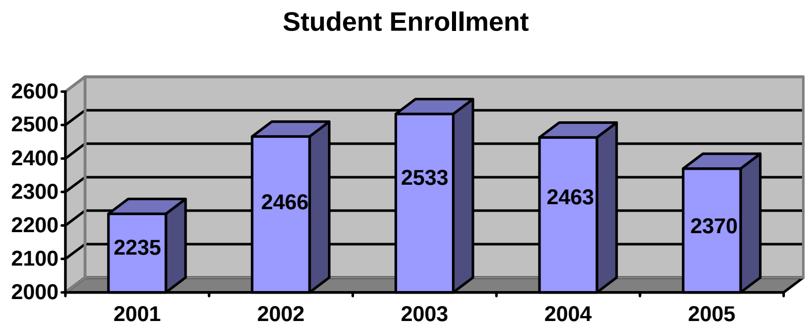
The Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator 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.

Financial Highlights

The College has recognized a considerable amount of growth over the past five years due to an increase in enrollment and the addition of new buildings on campus. However, net assets for fiscal year 2005 remained relatively flat with an increase of $93,979.13 or .41%. This is due to a small decline in enrollment and the completion of a large construction project involving the construction of two new buildings and the renovation of a third building. The new Wayne West Building was completed and put into service in August 2004 and Marine Technologies Building (MARTEC) was completed and put into service in October 2004. Both the State of North Carolina and Carteret County are funding these projects through bond funds of $5,645,724 and $7,500,000 respectively. There is also a federal grant in the amount of $1,500,000 as well. Despite constant increased growth since 2000-2001, student enrollment decreased from 2463 students in 2004 to 2370 students in 2005, or 3.78%.



Another notable fact is the required budget reversion for 2005 and 2004. The College reverted 1.34% of its original annual budget of $8,520,661 to the North Carolina Community College System in 2005 and 3% in 2004.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2005, the College's net assets have increased by $93,979.13 from $22,740,515.86 in 2004 to $22,834,494.99 in 2005. Total assets of $24.4 million are made up of 89.14% capital assets; 3.73% cash and investments, 6.76% receivables, and .37% inventories. Total liabilities of $1.6 million consist of 30.69% accounts payable, 40.70% notes payable, and 28.61% accrued vacation and bonus leave.

Current assets and current liabilities decreased due to the completion of construction projects resulting in a decline in receivables and payables at year end. Previous years have been marked by significant College receivables and payables for the construction projects. Capital assets increased at a slower pace in 2005 as well due to the completion of the two new campus buildings. There was, however, an increase of $728,023.19 in capital assets as the buildings were completed, put in service, and equipped. Noncurrent liabilities increased during 2005 due to the College's entrance into a performance contract with Progress Energy Carolinas, Inc. As part of this contract the College has installed new infrastructure as recommended by Progress Energy Carolinas, Inc. to more efficiently manage and conserve energy costs.

	2005	2004	*(in thousands)* Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 1,530.84	$ 1,739.43	$ (208.59)	(11.99) %
Noncurrent Assets				
Capital Assets, Net of Depreciation	21,813.36	21,085.33	728.03	3.45 %
Other	1,126.53	1,712.35	(585.82)	(34.21) %
Total Assets	24,470.73	24,537.11	(66.38)	
Liabilities				
Current Liabilities	623.45	1,260.14	(636.69)	(50.53) %
Noncurrent Liabilities	1,012.78	536.45	476.33	88.79 %
Total Liabilities	1,636.23	1,796.59	(160.36)	
Net Assets				
Investment in Capital Assets	21,813.36	21,085.34	728.02	3.45 %
Unrestricted	438.05	515.18	(77.13)	(14.97) %
Restricted	583.09	1,140.00	(556.91)	(48.85) %
Total Net Assets	$ 22,834.50	$ 22,740.52	$ 93.98	

Analysis of Net Capital Assets

The categories of the College's capital assets are shown in this schedule. It is prepared on an accrual basis of accounting whereby assets are capitalized and depreciated. Construction in progress has decreased and buildings has increased as the construction projects have been completed and the buildings have been put into service. The increase in equipment and general infrastructure are due to the costs associated with equipping the new buildings for use on campus. Both fiscal years 2005 and 2004 are presented according to GASB Statement No. 34 thus including accumulated depreciation.

	(in thousands) 2005	2004	Increase (Decrease)	Percent Change
Capital Assets				
Land	$ 3,004.60	$ 3,004.60	$ 0.00	0.00 %
Buildings	21,145.02	8,564.32	12,580.70	146.90 %
Construction in Progress	7.50	12,062.77	(12,055.27)	(99.94) %
Machinery & Equipment	2,542.10	2,324.95	217.15	9.34 %
General Infrastructure	1,542.74	739.72	803.02	108.56 %
Total	28,241.96	26,696.36	1,545.60	
Less: Accumulated Depreciation	6,428.60	5,611.03	817.57	14.57 %
Net Capital Assets	$ 21,813.36	$ 21,085.33	$ 728.03	

Analysis of Liabilities

Current Liabilities have decreased due to the decrease in construction accounts payable at year end resulting from the completion of construction projects. As of June 30, 2005, the College had long-term liabilities of $1,133,998.63. This debt consists of accrued vacation and notes payable. The current and long-term portions of the leave, $77,364.97 and $390,662.66 respectively, have been calculated using the last-in, first-out method to better estimate the portion of the liability that is current. The notes payable consists of a loan in the amount of $665,971.00 used to install new infrastructure to more efficiently manage energy costs. The College financed this infrastructure through Branch Banking and Trust with a note payable of $665,971.00 over 12 years at an interest rate of 4.09%. Progress Energy Carolinas, Inc. has guaranteed that the energy savings recognized will provide the necessary cash flow to repay the note payable. Any energy savings that do not cover the note payable will be paid by Progress Energy Carolinas, Inc.

	(in thousands) 2005	2004	Increase (Decrease)	Percent Change
Current Liabilities				
Accounts Payable	$ 502.23	$ 1,250.54	$ (748.31)	(59.84) %
Long-Term Liabilities - Current portion	121.22	9.60	111.62	1162.71 %
Total Current Liabilities	623.45	1,260.14	(636.69)	
Noncurrent Liabilities				
Long-Term Liabilities	1,012.78	536.45	476.33	88.79 %
Total Noncurrent Liabilities	1,012.78	536.45	476.33	
Total Liabilities	$ 1,636.23	$ 1,796.59	$ (160.36)	

Analysis of Revenues

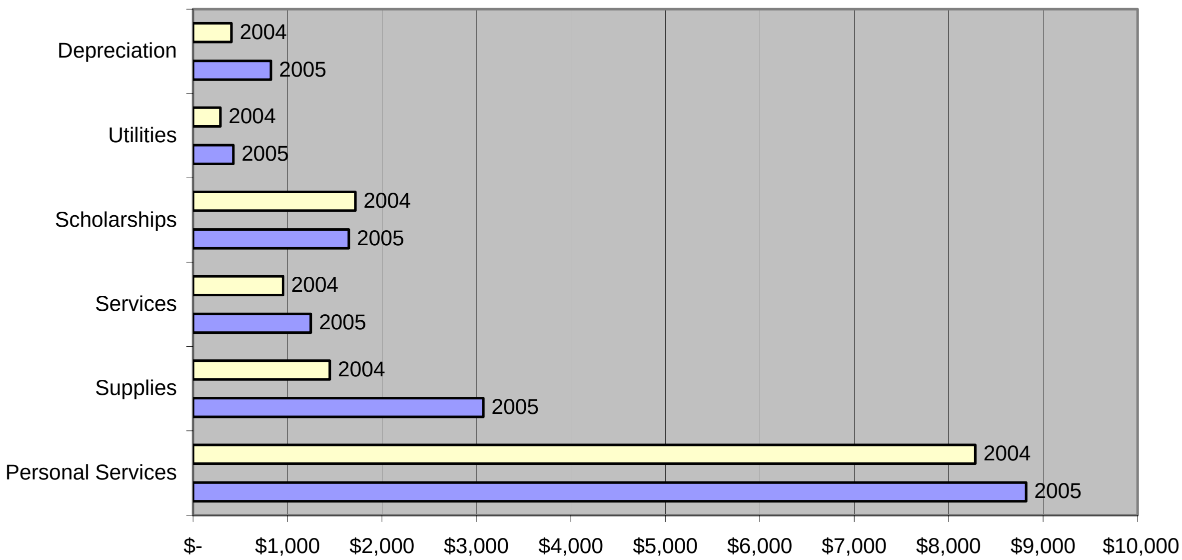
The 4% per credit hour increase in In-State tuition from $38.00 in 2004 to $39.50 per credit hour in 2005 resulted in a 10.9% increase in tuition revenue despite a 4% decrease in enrollment. The decrease of 73.16% in Capital Grants is due to the College's accruing revenue from the County in the prior year. This was offset by the receipt of grant funds from the Economic Development Association (EDA) to cover part of the cost of the Marine Technologies building put into service during 2005. State contracts also increased by $143,294.09. This increase can be attributed to the addition of several State grant contracts during 2005 earmarked for equipment purchases across several College curriculums including Marine Trades and Aquaculture. Total operating revenues increased by 5.70%. The overall decrease in net assets is due to the completion of construction projects resulting in a reduced need for State and county funding.

	2005	2004	*(in thousands)* Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	$ 1,164.39	$ 1,050.33	$ 114.06	10.86 %
Federal Grants and Contracts	2,239.84	2,307.67	(67.83)	(2.94) %
State and Local Grants and Contracts	487.55	344.26	143.29	41.62 %
Sales and Services	863.83	799.38	64.45	8.06 %
Other Revenues	28.03	24.09	3.94	16.36 %
Total Operating Revenues	4,783.64	4,525.73	257.91	5.70 %
Less Operating Expenses	16,042.13	13,096.27	2,945.86	
Operating Loss	(11,258.49)	(8,570.54)	(2,687.95)	
Nonoperating Revenues:				
State Aid	6,703.15	6,218.50	484.65	7.79 %
County Appropriations	1,658.89	1,220.00	438.89	35.97 %
Noncapital Grants	162.68	214.93	(52.25)	(24.31) %
Noncapital Gifts	238.91	140.15	98.76	70.47 %
Investment Income	15.28	4.91	10.37	211.20 %
Other Nonoperating Revenues	1.30	4.53	(3.23)	(71.30) %
Total Nonoperating Revenues	8,780.21	7,803.02	977.19	
State Capital Aid	951.00	4,376.88	(3,425.88)	(78.27) %
County Capital Aid	72.52	5,951.76	(5,879.24)	(98.78) %
Capital Grants	1,548.74	19.48	1,529.26	7,850.41 %
Increase (Decrease) in Net Assets	$ 93.98	$ 9,580.60	$ (9,486.62)	

Analysis of Expenditures

The College's increase in expenditures from fiscal year 2004 to 2005 can be tied directly to the increase in revenues. Personal services increased due to the addition of new faculty and staff as well as the 4.5% pay increase awarded to all permanent employees at July 1, 2004. Supplies, services, and utilities increased during the fiscal year due to the start up of the new buildings opened during the year. Depreciation expense increased by 102% when the new buildings were put into service and removed from the nondepreciable construction in progress designation on the Capital Assets schedule.

Expenditure Comparison
2004-2005
(in thousands)



	2005	2004	*(in thousands)* Increase (Decrease)	Percent Change
Personal Services	$ 8,820.35	$ 8,280.67	$ 539.68	6.52 %
Supplies and Materials	3,073.39	1,447.31	1,626.08	112.35 %
Services	1,247.00	952.46	294.54	30.92 %
Scholarships and Fellowships	1,649.15	1,718.48	(69.33)	(4.03) %
Utilities	428.22	289.93	138.29	47.70 %
Depreciation	824.02	407.42	416.60	102.25 %
Total Expenses	$ 16,042.13	$ 13,096.27	$ 2,945.86	

Carteret Community College is constantly monitoring the needs of the community in an effort to ensure that the programs offered are relevant. The addition of the Culinary program, Marine Trades program, and Associate Degree Nursing (beginning Fall 2005) will prove valuable to our community whose economy relies on tourism to grow. The College maintains an "Education for Life" environment where the mission is to be an excellent learning college, an excellent steward of the public trust, an excellent resource for workforce development, and an excellent place to work. Our values include learning for all, service to the community, quality in everything that we do, creativity, integrity, diversity, teamwork, honesty, and commitment.

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.

Carteret Community College
Statement of Net Assets
June 30, 2005 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	21,877.96
Restricted Cash and Cash Equivalents		344,388.65
Short-Term Investments		528,289.64
Restricted Short-Term Investments		13,726.37
Receivables (Note 3)		468,506.96
Due from State of North Carolina Component Units		50,000.00
Inventories		89,482.38
Prepaid Items		12,379.94
Notes Receivable, Net (Note 3)		2,184.59
Total Current Assets		1,530,836.49
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		4,230.16
Receivables (Note 3)		600,886.00
Restricted Due from Primary Government		521,418.76
Capital Assets - Nondepreciable (Note 4)		3,012,090.91
Capital Assets - Depreciable, Net (Note 4)		18,801,265.43
Total Noncurrent Assets		22,939,891.26
Total Assets		24,470,727.75
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		483,832.94
Deferred Revenue		17,709.49
Funds Held for Others		691.70
Long-Term Liabilities - Current Portion (Note 6)		121,219.88
Total Current Liabilities		623,454.01
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,012,778.75
Total Liabilities		1,636,232.76
NET ASSETS		
Invested in Capital Assets		21,813,356.34
Restricted for:		
Expendable:		
Scholarships and Fellowships		5,912.05
Loans		132,573.78
Capital Projects		314,932.33
Other		129,672.24
Unrestricted		438,048.25
Total Net Assets	$	22,834,494.99

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

Carteret Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 1,164,386.58
Federal Grants and Contracts	2,239,841.87
State and Local Grants and Contracts	487,549.68
Sales and Services	863,835.36
Other Operating Revenues	28,033.10
Total Operating Revenues	4,783,646.59
EXPENSES	
Operating Expenses:	
Personal Services	8,820,349.29
Supplies and Materials	3,073,388.89
Services	1,246,999.38
Scholarships and Fellowships	1,649,157.21
Utilities	428,218.66
Depreciation	824,017.42
Total Operating Expenses	16,042,130.85
Operating Loss	(11,258,484.26)
NONOPERATING REVENUES	
State Aid	6,703,154.81
County Appropriations	1,658,850.00
Noncapital Grants	162,689.75
Noncapital Gifts	238,912.53
Investment Income	15,286.77
Other Nonoperating Revenues	1,313.21
Total Nonoperating Revenues	8,780,207.07
Loss Before Other Revenues	(2,478,277.19)
State Capital Aid	950,999.20
County Capital Appropriations	72,524.97
Capital Grants	1,548,732.15
Increase in Net Assets	93,979.13
NET ASSETS	
Net Assets, July 1, 2004	22,740,515.86
Net Assets, June 30, 2005	$ 22,834,494.99

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

Carteret Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	4,795,349.95
Payments to Employees and Fringe Benefits		(8,899,472.20)
Payments to Vendors and Suppliers		(4,570,347.73)
Payments for Scholarships and Fellowships		(1,675,959.37)
Loans Issued to Students		(12,255.37)
Collection of Loans to Students		5,580.55
Other Receipts		1,297.51
Net Cash Used by Operating Activities		(10,355,806.66)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,703,154.81
County Appropriations		1,658,850.00
Noncapital Grants Received		13,663.92
Noncapital Gifts		238,912.53
Cash Provided by Noncapital Financing Activities		8,614,581.26
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,164,517.30
County Capital Appropriations		72,524.97
Capital Grants Received		2,113,472.48
Proceeds from Capital Debt		665,971.00
Acquisition and Construction of Capital Assets		(2,310,540.65)
Net Cash Provided by Capital and Related Financing Activities		1,705,945.10
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		15,286.77
Purchase of Investments and Related Fees		(10,907.45)
Net Cash Provided by Investing Activities		4,379.32
Net Decrease in Cash and Cash Equivalents		(30,900.98)
Cash and Cash Equivalents, July 1, 2004		401,397.75
Cash and Cash Equivalents, June 30, 2005	$	370,496.77
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(11,258,484.26)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		824,017.42
Provision for Uncollectible Loans and Write-Offs		9,364.26
Miscellaneous Nonoperating Income		1,313.21
Changes in Assets and Liabilities:		
Receivables		16,885.78
Inventories		31,975.11
Prepaid Items		17,655.31
Notes Receivable, Net		(6,674.82)
Accounts Payable and Accrued Liabilities		118,168.30
Deferred Revenue		(31,984.58)
Funds Held for Others		(15.70)
Compensated Absences		(78,026.69)
Net Cash Used by Operating Activities	$	(10,355,806.66)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	21,877.96
Restricted Cash and Cash Equivalents		344,388.65
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		4,230.16
Total Cash and Cash Equivalents - June 30, 2005	$	370,496.77

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	665,971.00
Capital Assets Written-off		6,448.00
Increase in Receivables Related to Nonoperating Income		9,773.25

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

Carteret Community College Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

ASSETS		
Current Assets:		
Cash	$	247,620.00
Donated Boat Inventory		153,240.00
Total Current Assets		400,860.00
Property & Equipment, Net		1,138,343.00
Total Property and Equipment, Net		1,138,343.00
Other Assets:		
Other Assets		3,056.00
Investments		536,146.00
Total Other Assets		539,202.00
Total Assets	$	2,078,405.00
LIABILITIES and NET ASSETS		
Current Liabilities:		
Accounts Payable	$	874.00
Accrued Expenses		1,566.00
Current Portion of Long-Term Debt		42,226.00
Deferred Revenue		1,957.00
Total Current Liabilities		46,623.00
Long-Term Liabilities:		
Notes Payable, Net of Current Portion		553,342.00
Total Long-Term Liabilities		553,342.00
Total Liabilities		599,965.00
NET ASSETS		
Unrestricted		1,055,981.00
Temporarily Restricted		237,981.00
Permanently Restricted		184,478.00
Total Net Assets		1,478,440.00
Total Liabilities and Net Assets	$	2,078,405.00

See Note 1 in the Notes to the Financial Statements

Carteret Community College Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit B-2

UNRESTRICTED NET ASSETS	
Support:	
Cash Donations	$ 2,160.00
Community and Internal Fund Drives	21,116.00
Noncash Donations	145,014.00
Boat Contributions, Net of Gains or Losses	226,558.00
Special Program Revenue	14,174.00
Total Support	409,022.00
Other Revenues:	
Real Estate Rental Income	64,600.00
Investment Income	60.00
Miscellaneous income	4,248.00
Total Other Revenues	68,908.00
Net Assets Released form Restrictions:	215,486.00
Total Support and Revenues	693,416.00
Expenses:	
Program Services	
College Support	324,779.00
Scholarships	84,119.00
Total Program Services	408,898.00
Supporting Services:	
Property Management	52,061.00
Foundation Administration	44,032.00
Boat Program Expense	68,524.00
Fund Raising Expense	15,468.00
Total Supporting Services	180,085.00
Total Expenses	588,983.00
Increase in Unrestricted Net Assets	104,433.00
TEMPORARILY RESTRICTED NET ASSETS	
Miscellaneous Ddonations	78,095.00
Scholarship Donations	76,507.00
Investment Loss	(1,171.00)
Net Assets Released from Restrictions	(215,486.00)
Decrease in Temporarily Restricted Net Assets	(62,055.00)

PERMANENTLY RESTRICTED NET ASSETS	
Endowment Fund Contributions	17,614.00
Increase in Permanently Restricted Net Assets	17,614.00
Total Increase in Net Assets	59,992.00
Net Assets at Beginning of Year	1,418,448.00
Net Assets at End of Year	$ 1,478,440.00

See Note 1 in the Notes to the Financial Statements

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. Carteret 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 either blended or discretely presented 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. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – The Carteret Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Carteret Community College Foundation, Inc. is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 22 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Carteret Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2005, the Foundation distributed $408,898 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Laurie Manning, Controller, 3505 Arendell Street, Morehead City, North Carolina or by calling (252) 222-6158.

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 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, and cash on deposit with private bank accounts.

E. **Investments –** This classification includes a mutual fund holding by the College through The North Carolina Capital Management Trust. Investment in the Trust is recorded at cost, which approximates market value held by the College.

F. **Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants 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 shown at book value with no provision for doubtful accounts considered necessary. Notes receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the last invoice 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 20 years for general infrastructure, 10 to 40 years for buildings, and 3 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.

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 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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 – 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 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 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $2,685.00, and deposits in private financial institutions with a carrying value of $367,811.77 and a bank balance of $794,799.68**.**

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.

Of the cash on deposit with private financial institutions at June 30, 2005, $292,114.26 of the bank balance was covered by federal depository insurance and $502,685.42 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), 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.

At June 30, 2005, the College investments consisted of $542,016.01 in the North Carolina Capital Management Trust. This investment is subject to the following risks:

Credit Risk: Credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The College does not have a formal investment policy that addresses credit risk. At June 30, 2005, North Carolina Capital Management Trust carried a credit rating of AAAm by Standard and Poor's.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. At June 30, 2005, the College's investment was held by a counterparty, not in the College's name.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 93,611.57	$ 0.00	$ 93,611.57
Accounts	33,348.67		33,348.67
Intergovernmental	236,497.24		236,497.24
Other	105,049.48		105,049.48
Total Current Receivables	$ 468,506.96	$ 0.00	$ 468,506.96
Noncurrent Receivables:			
Intergovernmental	$ 600,886.00	$ 0.00	$ 600,886.00
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 90,612.18	$ 88,427.59	$ 2,184.59

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	$ 3,004,590.91	$ 0.00	$ 0.00	$ 0.00	$ 3,004,590.91
Construction in Progress	12,062,777.57	(13,383,722.55)	1,328,444.98		7,500.00
Total Capital Assets, Nondepreciable	15,067,368.48	(13,383,722.55)	1,328,444.98		3,012,090.91
Capital Assets, Depreciable:					
Buildings	8,564,320.31	12,580,699.19			21,145,019.50
Machinery and Equipment	2,324,953.12		223,595.63	6,448.00	2,542,100.75
General Infrastructure	739,716.41	803,023.36			1,542,739.77
Total Capital Assets, Depreciable	11,628,989.84	13,383,722.55	223,595.63	6,448.00	25,229,860.02
Less Accumulated Depreciation:					
Buildings	3,663,958.01		474,054.60		4,138,012.61
Machinery and Equipment	1,753,918.78		185,158.54	6,448.00	1,932,629.32
General Infrastructure	193,148.38		164,804.28		357,952.66
Total Accumulated Depreciation	5,611,025.17		824,017.42	6,448.00	6,428,594.59
Total Capital Assets, Depreciable, Net	6,017,964.67	13,383,722.55	(600,421.79)		18,801,265.43
Capital Assets, Net	$ 21,085,333.15	$ 0.00	$ 728,023.19	$ 0.00	$ 21,813,356.34

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 236,374.08
Accrued Payroll	14,964.16
Contract Retainage	141,000.00
Intergovernmental Payables	91,409.61
Other	85.09
Total Accounts Payable and Accrued Liabilities	$ 483,832.94

NOTE 6 - 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, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Notes Payable	$ 0.00	$ 665,971.00	$ 0.00	$ 665,971.00	$ 43,854.91
Compensated Absences	546,054.32	443,097.34	521,124.03	468,027.63	77,364.97
Total Long-Term Liabilities	$ 546,054.32	$ 1,109,068.34	$ 521,124.03	$ 1,133,998.63	$ 121,219.88

B. Notes Payable – The College was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2005	Principal Outstanding 06/30/2005
Performance Contract	BB&T	4.09%	06/14/2017	$ 665,971.00	$ 0.00	$ 665,971.00

The annual requirements to pay principal and interest on the notes payable at June 30, 2005, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2006	$ 43,854.91	$ 26,395.73
2007	45,682.60	24,568.04
2008	47,586.44	22,664.20
2009	49,569.62	20,681.02
2010	51,635.44	18,615.20
2011-2015	292,306.99	58,946.21
2016-2020	135,335.00	5,166.00
Total Requirements	$ 665,971.00	$ 177,036.40

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 90,640.32
2007	90,640.32
2008	90,640.32
2009	90,640.32
Total Minimum Lease Payments	$ 362,561.28

Rental expense for all operating leases during the year was $139,020.58.

NOTE 8 - REVENUES

A summary of student tuition and fees net of scholarship discounts is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 1,577,597.78	$ 413,211.20	$ 1,164,386.58

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,777,016.06	$ 1,065,001.40	$ 271,224.37	$ 0.00	$ 0.00	$ 0.00	$ 6,113,241.83
Research	114,189.18	98,446.42	8,000.74				220,636.34
Public Service		9,820.89					9,820.89
Academic Support	1,020,915.05	57,900.72	24,101.55				1,102,917.32
Student Services	591,258.78	17,132.55	126,420.03	64,224.34	1,101.41		800,137.11
Institutional Support	1,516,329.57	83,432.13	248,997.64				1,848,759.34
Operations and Maintenance of Plant	556,555.05	815,561.05	508,350.11		427,117.25		2,307,583.46
Student Financial Aid	43,052.72	197,279.28	21,705.56	1,584,932.87			1,846,970.43
Auxiliary Enterprises	201,032.88	728,814.45	38,199.38				968,046.71
Depreciation						824,017.42	824,017.42
Total Operating Expenses	$ 8,820,349.29	$ 3,073,388.89	$ 1,246,999.38	$ 1,649,157.21	$ 428,218.66	$ 824,017.42	$ 16,042,130.85

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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $7,632,287.32, of which $6,025,056.74 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $361,503.17 and $130,743.73, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $130,743.73, $12,411.52, and $0.00, 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 $51,948.00 for the year ended June 30, 2005.

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 $21,640.00 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was $192,901.82. 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. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $26,811.50. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

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. Losses from county and institutional fund employees are insured with private insurance companies.

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 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 $327,594.88 at June 30, 2005.

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 $513,902.00 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.

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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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
Carteret Community College
Morehead City, North Carolina

We have audited the financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 16, 2006. We did not audit the financial statements of the Carteret Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. 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 the Foundation, is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* during the year ended June 30, 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to the discretely presented component unit.

<u>Internal Control Over Financial Reporting</u>

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 opinions 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 report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

1. Inadequate Controls Over Cash

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, which are reported in the Audit Findings and Recommendations section of this report, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* We also noted a certain additional matter that we have reported to management of the College in a separate letter dated April 19, 2006.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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 16, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

1. INADEQUATE CONTROLS OVER CASH

The College did not have adequate controls in place to assure proper segregation of duties and proper review and approval procedures. Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

Bank reconciliations are not being done for the payroll accounts. In addition, the controller does the bank reconciliations for non-payroll accounts, and no one reviews these reconciliations. The controller also has access to blank checks and posts entries to the general ledger. No one reviews the journal entries. This creates a situation where one person can write a fraudulent check, manipulate the general ledger to hide it, and not be detected during the normal bank reconciliation process.

Cashiers void their own receipts without prior approval from anyone. There is no indication that the Controller is reviewing the daily cash reports or void listings. In addition, although a mail receipts log is being prepared it is not being reconciled to the daily receipts that are entered on the system. A reconciliation would guarantee that all checks received have been entered in the system. Not performing this additional step could lead to some checks being held out, resulting in a possible violation of the Daily Deposit Act, or not being deposited at all.

Recommendation: The College should strengthen controls over cash by implementing proper segregation of duties, enhance management oversight, and implement policies and procedures to enhance accountability and ensure accurate reporting and safeguarding of assets.

College's Response: This recommendation for this draft audit finding indicates that "the College should strengthen controls over cash by implementing proper segregation of duties, enhance management oversight, and implement policies and procedures to enhance accountability and ensure accurate reporting and safeguarding of assets." We agree with the recommendations and the College has responded to these recommendations by implementing new procedures as outlined below to address each specific item in the draft audit finding.

The audit finding indicates that bank reconciliations are not being done for payroll accounts and the Controller does the bank reconciliations for non-payroll accounts without a review by anyone of these reconciliations. The Assistant Controller position is tasked with the bank reconciliations, however, because of turnover in this position last year this responsibility was shifted to the Controller. The individual in the Assistant Controller position during the March to December 2005 timeframe was unable to assume the bank reconciliation responsibility, but the new Assistant Controller who assumed this role in January 2006 has assumed this responsibility and she now completes both the payroll and the non-payroll account reconciliations. The Controller reviews the reconciliations. Additionally, the Controller enters journal entries, and the Vice President of Administrative Services reviews all journal entries.

The audit finding also indicates that Cashiers were able to void their own receipts without prior approval. Previously, the Controller reviewed all voids, but the review occurred *after* the void had been receipted. This issue has been resolved and our procedure requires the Controller to approve all voids **before** the Cashiers void the receipts. The Controller manages this process and enforces compliance of the procedure.

Finally, the audit finding indicates that mail receipts are not being reconciled to the daily receipts entered on the system. This issue has also been resolved and our process requires the Assistant to the Vice President for Administrative Services to log mail receipts and the Controller (or the Vice President in the Controller's absence) to review and sign the DCA's. The Controller also verifies the mail receipts log during her review and ensures that all mail receipts have been receipted and are shown on the DCA's.

Additionally the Vice President of Administrative Services has always routinely audited general ledger accounts, transactions, and journal entries.

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