



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CENTRAL CAROLINA COMMUNITY COLLEGE

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

CENTRAL CAROLINA COMMUNITY COLLEGE

SANFORD, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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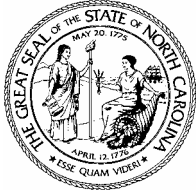
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Central Carolina 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 other matters based on an audit of the financial statements resulted in no reportable audit findings.

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.

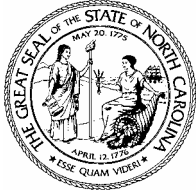
Leslie W. Merritt, Jr.

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

June 30, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
College 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
Component Unit Exhibits	
B-1 Statement of Financial Position.....	13
B-2 Statement of Activities	14
Notes to the Financial Statements	15
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
ORDERING INFORMATION.....	33



STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Central Carolina Community College
Sanford, North Carolina

We have audited the accompanying financial statements of Central Carolina 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 Central Carolina 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 Central Carolina 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 discretely presented component unit, 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 Central Carolina 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 auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Carolina 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 15 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 June 2, 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., CPA, CFP
State Auditor

June 2, 2006

**CENTRAL CAROLINA COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Purpose

The information in this section is intended to provide a general overview of Central Carolina Community College's (CCCC) financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information. For more information, please contact the Division of Finance at 919-718-7498.

Overview of the Financial Statements

Central Carolina Community College's discussion and analysis provides a summary of the college's financial statements and a comparison of prior year information. The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; Statement of Cash Flows; and Notes to the Financial Statements. For the fiscal year ended June 30, 2005, the College implemented Government 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.

Institutional Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash, receivables, inventories, and notes receivable.

	Current Assets		
	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Cash	\$ 2,820,225.59	\$ 2,692,692.41	\$ 127,533.18
Receivables, Net	426,111.41	1,184,375.21	(758,263.80)
Inventories	554,418.99	401,257.55	153,161.44
Notes Receivable	<u>2,872.10</u>	<u>2,672.10</u>	<u>200.00</u>
Total Current Assets	<u>\$ 3,803,628.09</u>	<u>\$ 4,280,997.27</u>	<u>\$ (477,369.18)</u>

Noncurrent assets include cash, receivables, due from primary government for construction projects, and capital assets. The increase in noncurrent receivables is attributed to the booking of the portion of the \$2,500,000.00 allotted to the college by Lee County for the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

construction of an Emergency Services Training Center. In addition, capital assets increased by \$1,970,425.34 due to the completion of the new Science Building, Telecommunications Building and Harnett County Building.

	Noncurrent Assets		
	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Cash	\$ 305,659.48	\$ 30,093.16	\$ 275,566.32
Receivables	2,361,223.51		2,361,223.51
Due from Primary Govt	2,773,177.92	2,958,497.51	(185,319.59)
Capital Assets	<u>24,293,645.84</u>	<u>22,282,920.50</u>	<u>2,010,725.34</u>
Total Noncurrent Assets	<u>\$ 29,733,706.75</u>	<u>\$ 25,271,511.17</u>	<u>\$ 4,462,195.58</u>

	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Total Assets	<u>\$ 33,537,334.84</u>	<u>\$ 29,552,508.44</u>	<u>\$ 3,984,826.40</u>

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased items cost more than \$5,000 at the date of purchase and have a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure is depreciated over a 10 to 75 year period, buildings are depreciated over a 10 to 50 year period, and equipment is depreciated in 3 to 25 years, depending on the expected useful life of the infrastructure, equipment, or building.

Institutional Liabilities

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies.

	Liabilities		
	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Current	\$ 426,247.38	\$ 929,574.19	\$ (503,326.81)
Long-Term	<u>1,809,889.13</u>	<u>1,576,066.85</u>	<u>233,822.28</u>
Total Liabilities	<u>\$ 2,236,136.51</u>	<u>\$ 2,505,641.04</u>	<u>\$ (269,504.53)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets

Net Assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. The College's net assets increased by \$4,214,030.93 for the fiscal year to \$31,301,198.33. Net assets invested in capital assets are \$24,293,645.84. Net assets restricted for nonexpendable scholarships and fellowships are \$5,180.00. Net assets restricted for expendable scholarships and fellowships are \$109,294.14. Net assets restricted for expendable loans are \$6,407.64. Net assets restricted for capital projects are \$5,424,985.69. Other restricted and unrestricted net assets are \$1,461,685.02.

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees, federal, state and local grants and contracts, and the revenue received from sales and services, principally comprised of the revenue received from the bookstore, vending, and the rental of the food service operation. Student tuition, though identified as a revenue, is remitted back to the State Treasurer and is not netted against the College's state aid identified as nonoperating revenue. The operating revenue \$4,037,929.96 accrues from the College's participation in the Federal Title IV financial aid programs, including Pell Grants of \$3,760,224.40.

Operating Revenues

	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Student Tuition and Fees, Net	\$ 2,850,777.66	\$ 2,514,377.89	\$ 336,399.77
Federal Grants and Contracts	4,037,929.96	4,066,525.02	(28,595.06)
State/Local Grants and Contracts	741,443.36	362,224.81	379,218.55
Sales and Service	1,650,723.61	2,260,035.72	(609,312.11)
Other Operating Revenue		35,697.33	(35,697.33)
	<u>9,280,874.59</u>	<u>9,238,860.77</u>	<u>42,013.82</u>
Total Operating Revenue	<u>\$ 9,280,874.59</u>	<u>\$ 9,238,860.77</u>	<u>\$ 42,013.82</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements as well as funds appropriated from the Lee, Harnett and Chatham County Boards of Commissioners.

Nonoperating Revenues

	<u>2005</u>	<u>2004</u>	<u>Difference</u>
State Aid	\$ 18,238,749.48	\$ 17,172,158.14	\$ 1,066,591.34
County Appropriations	2,497,606.00	2,297,837.00	199,769.00
Noncapital Grants	784,497.89	823,284.23	(38,786.34)
Noncapital Gifts	72,094.32	6,362.97	65,731.35
Investment Income	74,992.86	85,552.24	(10,559.38)
Other Nonoperating Expenses		(41,999.79)	41,999.79
Total Nonoperating Revenues	<u>\$ 21,667,940.55</u>	<u>\$ 20,343,194.79</u>	<u>\$ 1,324,745.76</u>

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits. The salary expense increase of \$1,921,346.87 can be attributed to the state's commitment to increase faculty salaries and the multi-campus and off-campus allotments totaling \$870,383.00 which were used primarily to offset the costs of needed administrative personnel at both the Chatham and Harnett campuses.

Operating Expenses

	<u>2005</u>	<u>2004</u>	<u>Difference</u>
Salaries and Benefits	\$ 21,201,731.74	\$ 19,280,384.87	\$ 1,921,346.87
Supplies and Materials	4,626,769.70	4,192,861.58	433,908.12
Services	2,655,471.76	2,633,603.54	21,868.22
Scholarships and Fellowships	2,658,624.65	3,135,257.40	(476,632.75)
Utilities	784,176.45	648,758.94	135,417.51
Depreciation	996,043.27	886,379.56	109,663.71
Total Operating Expenses	<u>\$ 32,922,817.57</u>	<u>\$ 30,777,245.89</u>	<u>\$ 2,145,571.68</u>

Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. County capital aid is provided to the College by the three counties served, primarily for the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

purpose of construction of new facilities at the campuses. The Board also provides construction funds as a part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations and repairs. Capital gifts are provided through annual contributions of the CCCC Foundation, Inc.

Capital Contributions

	<u>2005</u>	<u>2004</u>	<u>Difference</u>
State Capital Aid	\$ 3,491,859.36	\$ 3,411,848.32	\$ 80,011.04
County Capital Appropriations	855,010.80	0.00	855,010.80
Capital Grants	1,868,263.20	1,822,952.46	45,310.74
Capital Gifts	<u>13,200.00</u>	<u>21,000.00</u>	<u>(7,800.00)</u>
Total Capital Contributions	<u>\$ 6,228,333.36</u>	<u>\$ 5,255,800.78</u>	<u>\$ 972,532.58</u>

Significant Capital Asset Activities

The College was authorized \$13,902,295.00 from the 2000 North Carolina Higher Education Bond Referendum for new construction, \$5,024,443.00 from Lee County, and \$221,094.00 from Harnett County, of which \$8,174,999.67 is remaining to be spent.

The following contractual amounts have been paid for projects listed.

1. Project #1106 Classroom/Science Building \$4,824,124.36
2. Project #1107 Telecommunications Building \$3,158,756.33
3. Project #1325 Harnett County \$1,937,553.16
4. Project #1359 Student Center/Adm \$222,877.16
5. Project #1360 Main Classroom \$310,496.28
6. Project #1361 LRC/SCI \$218,062.42
7. Project #1362 Renovation of Classroom Bldg. \$30,218.00
8. Project #1363 Emergency Training Center \$173,841.62
9. Project #1408 Renovation of Science Bldg. \$40,300.00
10. Project #1410 Computer Tech Building \$56,600.00

The Lee County Board of Commissioners reduced the College's allocations for current expense by \$27,800.00 for FY 2004-2005 for the operation of plant. No appropriations were provided for equipment.

Economic Forecast

The economic future of Central Carolina Community College looks very good. We have seen significant improvement in the state's economy during the 2004-2005 FY as evidenced by job growth and decreased unemployment rates reported by the Employment Security Commission in recent months. We have been encouraged by the fact that legislative appropriations for the N.C. Community College System have continued to grow even in recent lean budget years. As we start the 2005-2006 FY we are working with state budgets that emphasize the need to increase community college salaries to a level that is competitive with the rest of the nation. There has been a strong commitment from legislative leaders to further enhance funding for salaries, multi-campus funding, workforce training, and small business centers in the next five years.

Central Carolina Community College serves one of the fastest growing population regions in the state. In a recent report titled "State of the Research Triangle Region 2005", by ESRI Business Information Solutions, annual population growth for the 2004-2009 planning period is projected at 3.2% for Chatham County, 2.7% for Harnett County, and 1.1% for Lee County. County officials in all three of these counties realize that a robust community college is necessary in their planning for industrial growth to provide jobs and tax revenues to meet the needs of their ever increasing populations. CCCC is currently building a new facility in the Western Harnett Industrial Park to meet the training needs of industrial clients. Chatham County officials have recently committed funding for a new \$3.5 million facility in Siler City, N.C. to provide similar training opportunities for industry in that area. In total our three counties have committed approximately \$10 million to expansion of college facilities in the past four years. Local operating budgets have also been increased to handle the costs of operating these new facilities.

The College is also looking beyond traditional governmental funding to seek resources for new educational missions. Our sister institution, the Central Carolina Community College Foundation, Inc., continues to seek donations from both industrial and private citizens of our community to augment state and local funding. CCCC has added a grants writer position to our staff to seek grant funding to promote educational initiatives. Programs that have already benefited from grant revenues are our sustainable farming, bio-fuels, and bio-processing programs.

So, CCCC's economic future does look good because of the commitment of local governmental leaders and due to forward-looking management of resources that are available. When economic activity slows down we believe, as do local community leaders, that CCCC is part of the solution and not part of the problem. We are confident that appropriate funding will be available for us to carry out our mission.

Central Carolina Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,215,514.84
Restricted Cash and Cash Equivalents	604,710.75
Receivables, Net (Note 4)	426,111.41
Inventories	554,418.99
Notes Receivable (Note 4)	2,872.10
	<hr/>
Total Current Assets	3,803,628.09

Noncurrent Assets:

Restricted Cash and Cash Equivalents	305,659.48
Receivables (Note 4)	2,361,223.51
Restricted Due from Primary Government	2,773,177.92
Capital Assets - Nondepreciable (Note 5)	774,638.11
Capital Assets - Depreciable, Net (Note 5)	23,519,007.73
	<hr/>
Total Noncurrent Assets	29,733,706.75
	<hr/>
Total Assets	33,537,334.84

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	197,388.69
Deferred Revenue	146,571.55
Funds Held for Others	17,391.22
Long-Term Liabilities - Current Portion (Note 7)	64,895.92
	<hr/>
Total Current Liabilities	426,247.38

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,809,889.13
	<hr/>
Total Noncurrent Liabilities	1,809,889.13
	<hr/>
Total Liabilities	2,236,136.51

NET ASSETS

Invested in Capital Assets	24,293,645.84
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,180.00
Expendable:	
Scholarships and Fellowships	109,294.14
Loans	6,407.64
Capital Projects	5,424,985.69
Other	397,065.43
Unrestricted	1,064,619.59
	<hr/>
Total Net Assets	\$ 31,301,198.33

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

Central Carolina 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 9)	\$ 2,850,777.66
Federal Grants and Contracts	4,037,929.96
State and Local Grants and Contracts	741,443.36
Sales and Services, Net (Note 9)	1,650,723.61

Total Operating Revenues	9,280,874.59
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EXPENSES

Operating Expenses:

Personal Services	21,201,731.74
Supplies and Materials	4,626,769.70
Services	2,655,471.76
Scholarships and Fellowships	2,658,624.65
Utilities	784,176.45
Depreciation	996,043.27

Total Operating Expenses	32,922,817.57
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Operating (Loss)	(23,641,942.98)
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NONOPERATING REVENUES (EXPENSES)

State Aid	18,238,749.48
County Appropriations	2,497,606.00
Noncapital Grants	784,497.89
Noncapital Gifts	72,094.32
Investment Income	74,992.86

Net Nonoperating Revenues	21,667,940.55
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Income Before Other Revenues, Expenses, Gains, and Losses	(1,974,002.43)
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State Capital Aid	3,491,859.36
County Capital Appropriations	855,010.80
Capital Grants	1,868,263.20
Capital Gifts	13,200.00

Increase (Decrease) in Net Assets	4,254,330.93
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NET ASSETS

Net Assets, July 1, 2004	27,046,867.40
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Net Assets, June 30, 2005	\$ 31,301,198.33
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The accompanying notes to the financial statements are an integral part of this statement.

Central Carolina 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	\$ 9,263,610.38
Payments to Employees and Fringe Benefits	(21,000,139.10)
Payments to Vendors and Suppliers	(8,147,751.62)
Payments for Scholarships and Fellowships	(2,658,624.65)
Loans Issued to Students	(200.00)
Other Receipts (Payments)	4,815.63
	<hr/>
Net Cash Provided (Used) by Operating Activities	(22,538,289.36)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	18,238,749.48
County Appropriations	2,497,606.00
Noncapital Grants Received	784,497.89
Noncapital Gifts and Endowments Received	72,094.32
	<hr/>
Net Cash Provided by Noncapital Financing Activities	21,592,947.69

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	3,677,178.95
County Capital Appropriations	855,010.80
Capital Grants Received	173,841.62
Acquisition and Construction of Capital Assets	(3,432,583.06)
	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	1,273,448.31

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	74,992.86
	<hr/>
Net Cash Provided (Used) by Investing Activities	74,992.86

Net Increase (Decrease) in Cash and Cash Equivalents	403,099.50
Cash and Cash Equivalents, July 1, 2004	2,722,785.57
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 3,125,885.07

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

Operating (Loss)	\$ (23,641,942.98)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	996,043.27
Miscellaneous Nonoperating Income	19,833.57
Changes in Assets and Liabilities:	
Receivables, Net	91,461.87
Inventories	(153,161.44)
Notes Receivable	(200.00)
Accounts Payable and Accrued Liabilities	70,681.29
Deferred Revenue	(116,222.08)
Funds Held for Others	(7,521.94)
Compensated Absences	202,739.08
	<hr/>
Net Cash Used by Operating Activities	\$ (22,538,289.36)

Central Carolina Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 2,215,514.84
Restricted Cash and Cash Equivalents	604,710.75

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>305,659.48</u>
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Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 3,125,885.07</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 45,478.00
Assets Acquired through a Gift	13,200.00
Increase in Receivables Related to Nonoperating Income	1,694,421.58
Capital Asset Write-Offs	76,961.27

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

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

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	630,994
Investments		1,393,446
Accrued Sales Tax Receivable		629
Property and Equipment, Net		1,268
		<hr/>
Total Assets		2,026,337

LIABILITIES

Accounts Payable and Accrued Expenses		1,390
		<hr/>
Total Liabilities		1,390

NET ASSETS

Unrestricted		396,704
Temporarily Restricted		266,805
Permanently Restricted		1,361,438
		<hr/>
Total Net Assets	\$	2,024,947

See Note 1 in the Notes to the Financial Statements

Central Carolina Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues:

Contributions	\$ 142,624
Fund Raising Activities	39,039
Investment Return	49,965
	<hr/>
Total Unrestricted Revenues	231,628
	<hr/>

Net Assets Released from Restrictions:

Satisfaction of Program Restrictions	177,756
	<hr/>
Total Unrestricted Revenues and Other Support	409,384
	<hr/>

Expenses:

Awards and Scholarships	222,480
General Administrative	119,691
Fund Raising	18,715
	<hr/>
Total Expenses	360,886
	<hr/>

Increase/(Decrease) in Unrestricted Net Assets	48,498
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	137,349
Interest Income Added to Endowment Principal	(12,259)
Investment Return	76,167
Conversion of Restricted Funds to Endowments	(32,369)
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(177,756)
	<hr/>
Increase/(Decrease) in Temporarily Restricted Net Assets	(8,868)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	86,078
Interest Income Added to Endowment Principal	12,259
Conversion of Restricted Funds to Endowments	32,369
	<hr/>
Increase/(Decrease) in Permanently Restricted Net Assets	130,706
	<hr/>

Increase/(Decrease) in Net Assets	170,336
Net Assets at Beginning of Year	1,854,611
	<hr/>
Net Assets at End of Year	\$ 2,024,947
	<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

CENTRAL CAROLINA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. Central 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 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 Units – Central Carolina Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as discretely presented component units based on the nature and significance of their relationship to the College.

The Central Carolina 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 not less than 1 nor more than 8 of the voluntary Trustees of Central Carolina Community College and such non-Trustee members as may be selected pursuant to the bylaws of the Central Carolina Community College Foundation, Inc. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Central Carolina 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 \$222,480 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Services Department, Central Carolina Community College, 1105 Kelly Drive, Sanford, NC 27330.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected. Receivables are recorded net of estimated uncollectible amounts
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value using the last invoice cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.
- H. 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.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 June 30th plus the leave earned, less the leave taken between July 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.

K. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Assets – This represents the College’s total investment in capital assets.

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

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

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

L. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- M. 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.

- N. County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

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. Also, the College may establish time deposit accounts, money

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,765.00, and deposits in private financial institutions with a carrying value of \$55,318.76 and a bank balance of \$420,180.21.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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 amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,067,801.31 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2005, net appreciation of \$203.10 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 477,452.93	\$ 140,270.70	\$ 337,182.23
Other	88,929.18		88,929.18
Total Current Receivables	<u>\$ 566,382.11</u>	<u>\$ 140,270.70</u>	<u>\$ 426,111.41</u>
Noncurrent Receivables:			
Intergovernmental	<u>\$ 2,361,223.51</u>	<u>\$ 0.00</u>	<u>\$ 2,361,223.51</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 2,872.10</u>	<u>\$ 0.00</u>	<u>\$ 2,872.10</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, 2005, is presented as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 503,896.49	\$ 0.00	\$ 0.00	\$ 503,896.49
Construction in Progress	6,727,963.69	263,819.77	6,721,041.84	270,741.62
Total Capital Assets, Nondepreciable	<u>7,231,860.18</u>	<u>263,819.77</u>	<u>6,721,041.84</u>	<u>774,638.11</u>
Capital Assets, Depreciable:				
Buildings	22,108,786.30	9,272,106.87		31,380,893.17
Machinery and Equipment	3,920,495.24	211,716.90	76,961.27	4,055,250.87
Total Capital Assets, Depreciable	<u>26,029,281.54</u>	<u>9,483,823.77</u>	<u>76,961.27</u>	<u>35,436,144.04</u>
Less Accumulated Depreciation:				
Buildings	9,004,905.29	690,089.00		9,694,994.29
Machinery and Equipment	1,973,315.45	305,954.27	57,127.70	2,222,142.02
Total Accumulated Depreciation	<u>10,978,220.74</u>	<u>996,043.27</u>	<u>57,127.70</u>	<u>11,917,136.31</u>
Total Capital Assets, Depreciable, Net	<u>15,051,060.80</u>	<u>8,487,780.50</u>	<u>19,833.57</u>	<u>23,519,007.73</u>
Capital Assets, Net	<u>\$ 22,282,920.98</u>	<u>\$ 8,751,600.27</u>	<u>\$ 6,740,875.41</u>	<u>\$ 24,293,645.84</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 133,992.57
Accrued Payroll	13,666.76
Contract Retainage	45,478.00
Other	4,251.36
Total Accounts Payable and Accrued Liabilities	<u>\$ 197,388.69</u>

NOTE 7 - 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
Compensated Absences	\$ 1,672,045.97	\$ 1,019,963.36	\$ 817,224.28	\$ 1,874,785.05	\$ 64,895.92

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 113,503.00
2007	113,503.00
2008	113,503.00
2009	9,645.00
Total Minimum Lease Payments	<u>\$ 350,154.00</u>

Rental expense for all operating leases during the year was \$132,917.67.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 3,906,171.77</u>	<u>\$ 980,759.72</u>	<u>\$ 74,634.39</u>	<u>\$ 2,850,777.66</u>
Sales and Services:				
Dining	\$ 17,204.12	\$ 0.00	\$ 0.00	\$ 17,204.12
Bookstore	1,963,093.56	578,438.71	65,636.31	1,319,018.54
Other	<u>314,500.95</u>			<u>314,500.95</u>
Total Sales and Services	<u>\$ 2,294,798.63</u>	<u>\$ 578,438.71</u>	<u>\$ 65,636.31</u>	<u>\$ 1,650,723.61</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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	\$ 13,074,139.42	\$ 2,004,678.90	\$ 866,713.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ 15,945,531.63
Public Service	284,984.87	18,562.67	71,300.04		60,706.06		435,553.64
Academic Support	2,771,856.04	152,968.17	90,551.48				3,015,375.69
Student Services	1,181,470.82	54,456.09	112,896.94				1,348,823.85
Institutional Support	2,632,693.76	248,292.30	1,007,875.92				3,888,861.98
Operations and Maintenance of Plant	980,999.16	617,941.86	467,883.27		723,470.39		2,790,294.68
Student Financial Aid				2,658,624.65			2,658,624.65
Auxiliary Enterprises	275,587.67	1,529,869.71	38,250.80				1,843,708.18
Depreciation						996,043.27	996,043.27
Total Operating Expenses	\$ 21,201,731.74	\$ 4,626,769.70	\$ 2,655,471.76	\$ 2,658,624.65	\$ 784,176.45	\$ 996,043.27	\$ 32,922,817.57

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 G.S. 135-5 and G.S. 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 \$17,778,880.46, of which \$13,983,361.48 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$839,001.72 and \$303,438.94, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$303,438.94, \$29,337.45, and \$ 0.00, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – Central Carolina Community College offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through AIG Insurance Company. The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$40,877.00 for the year ended June 30, 2005.

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. The voluntary contributions by employees amounted to \$130,616.00 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 \$69,695.00 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was \$447,467.56. 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 \$62,225.95. 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, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,237,854.07 and on other purchases were \$302,368.16 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 \$2,939,066.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - 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
Central Carolina Community College
Sanford, North Carolina

We have audited the financial statements of Central Carolina 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 June 2, 2006. We did not audit the financial statements of Central Carolina Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based on the report of the other auditor.

As discussed in Note 15 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.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation

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of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

We noted certain matters that we have reported to management of the College in a separate letter dated June 20, 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

June 2, 2006

ORDERING INFORMATION

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