



# STATE OF NORTH CAROLINA

**CRAVEN COMMUNITY COLLEGE**

**NEW BERN, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**CRAVEN COMMUNITY COLLEGE**

**NEW BERN, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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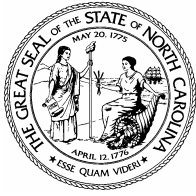
**BOARD OF TRUSTEES**

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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**

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

We have completed a financial statement audit of Craven Community College for the year ended June 30, 2006, 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 certain deficiencies and/or instances of noncompliance that are detailed in the Audit Finding 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 29, 2007

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Craven Community College  
New Bern, North Carolina

We have audited the accompanying basic financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craven Community College as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2007, 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.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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

May 9, 2007

## **CRAVEN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of Craven Community College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2006, and June 30, 2005. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

### **Using This Annual Report**

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

The College's net assets are one indicator of its financial stability. The Statement of Net Assets includes all assets and liabilities. The increase or decrease in net assets is an indicator of the improvement or erosion of the College's financial condition.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Activities are reported as operating or nonoperating. The College's dependency on State aid, county appropriations, and gifts could result in operating deficits because the financial reporting model classifies State aid, county appropriations, and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, and related investing activities. The direct method is used to present cash flows.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

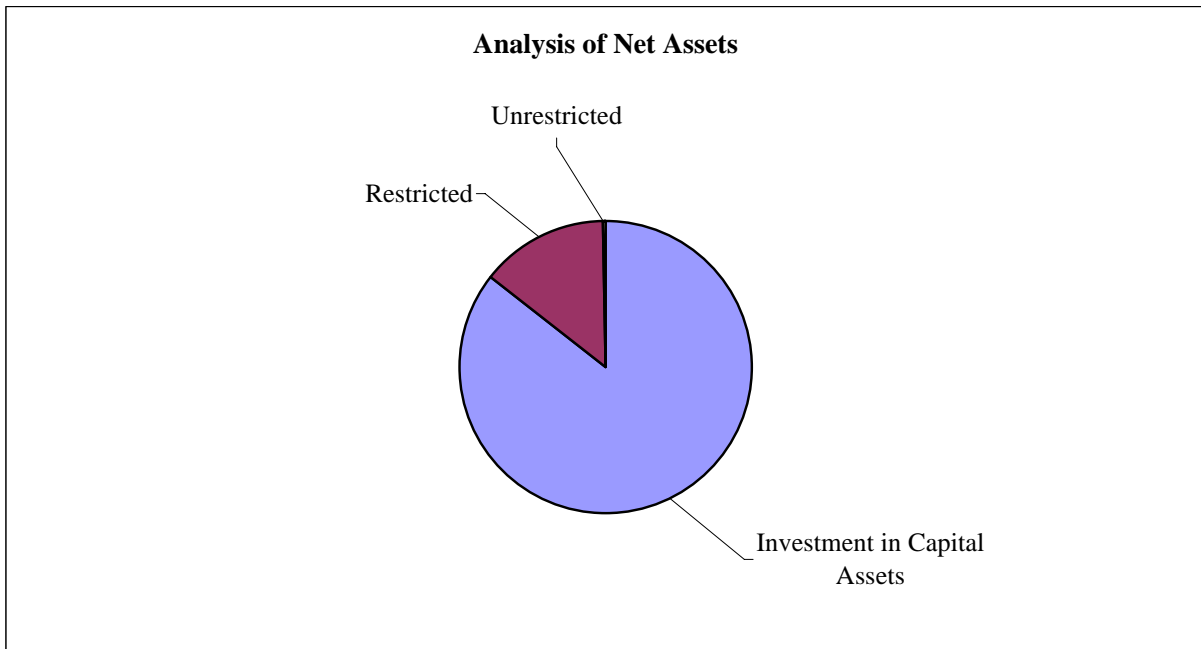
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Financial Analysis of the College as a Whole**

**Analysis of Net Assets  
June 30,  
(in thousands)**

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Net Assets:				
Investment in Capital Assets	\$ 24,784.78	\$ 22,645.06	\$ 2,139.72	9.45 %
Restricted	4,072.16	7,455.26	(3,383.10)	(45.38) %
Unrestricted	<u>120.49</u>	<u>208.50</u>	<u>(88.01)</u>	<u>(42.21) %</u>
Total	<u>\$ 28,977.43</u>	<u>\$ 30,308.82</u>	<u>\$ (1,331.39)</u>	

The following is a graphic illustration of net assets:





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

**Condensed Statement of Net Assets  
June 30,  
(in thousands)**

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 2,454.08	\$ 1,810.35	\$ 643.73	35.56 %
Noncurrent Assets:				
Capital Assets, Net of Depreciation	24,784.78	22,645.06	2,139.72	9.45 %
Other	<u>3,189.65</u>	<u>6,807.18</u>	<u>(3,617.53)</u>	(53.14) %
Total Assets	<u>30,428.51</u>	<u>31,262.59</u>	<u>(834.08)</u>	
Current Liabilities	911.86	554.80	357.06	64.36 %
Noncurrent Liabilities	<u>539.22</u>	<u>398.97</u>	<u>140.25</u>	35.15 %
Total Liabilities	<u>1,451.08</u>	<u>953.77</u>	<u>497.31</u>	
Net Assets:				
Investment in Capital Assets	24,784.78	22,645.06	2,139.72	9.45 %
Restricted	4,072.16	7,455.26	(3,383.10)	(45.38) %
Unrestricted	<u>120.49</u>	<u>208.50</u>	<u>(88.01)</u>	(42.21) %
Total Net Assets	<u>\$ 28,977.43</u>	<u>\$ 30,308.82</u>	<u>\$ (1,331.39)</u>	

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

As of June 30, 2006, the College's net assets have decreased by \$1,331,391 from \$30,308,816 to \$28,977,425. The net assets decreased due to reclassification of construction bond funds which were recognized as a receivable and revenue in prior years. During the current year, the receivable was reduced as a result of the funds being reflected at the system office level instead of at the community college due to project delays. Therefore the receivable was decreased and reflected as a refund to grantors nonoperating expense in the current year. This amount was \$1,363,521.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Tuition and Fees	\$ 1,745.56	\$ 2,322.86	\$ (577.30)	(24.85) %
Federal Grants and Contracts	2,652.98	2,935.93	(282.95)	(9.64) %
State Grants and Contracts	149.18	94.41	54.77	58.01 %
Auxiliary	179.90	1,196.05	(1,016.15)	(84.96) %
Other	235.84	50.30	185.54	368.87 %
Total	<u>4,963.46</u>	<u>6,599.55</u>	<u>(1,636.09)</u>	
Less Operating Expenses	<u>21,168.77</u>	<u>21,990.71</u>	<u>(821.94)</u>	(3.74) %
Net Operating Loss	<u>(16,205.31)</u>	<u>(15,391.16)</u>	<u>(814.15)</u>	5.29 %
Nonoperating Revenues (Expenses):				
State Aid	10,395.34	9,870.02	525.32	5.32 %
County Appropriations	2,760.68	2,629.18	131.50	5.00 %
Refund to Grantors	(1,363.52)		(1,363.52)	
Noncapital Grants	1,175.30	967.34	207.96	21.50 %
Noncapital Gifts	752.64	707.96	44.68	6.31 %
Investment Income	193.00	165.21	27.79	16.82 %
Other Nonoperating Revenue	0.15	3.32	(3.17)	(95.48) %
Total	<u>13,913.59</u>	<u>14,343.03</u>	<u>(429.44)</u>	
Loss Before Other Revenues	<u>(2,291.72)</u>	<u>(1,048.13)</u>	<u>(1,243.59)</u>	118.65 %
Other Revenues:				
State Capital Aid	366.04	2,066.53	(1,700.49)	(82.29) %
County Capital Appropriations	75.00	493.61	(418.61)	(84.81) %
Capital Grants	2.31	12.90	(10.59)	(82.09) %
Capital Gifts	516.98	905.20	(388.22)	(42.89) %
Increase (Decrease) in Net Assets	<u>(1,331.39)</u>	<u>2,430.11</u>	<u>(3,761.50)</u>	(154.79) %
Net Assets, July 1	<u>30,308.82</u>	<u>27,878.71</u>	<u>2,430.11</u>	8.72 %
Net Assets, End of Year	<u>\$ 28,977.43</u>	<u>\$ 30,308.82</u>	<u>\$ (1,331.39)</u>	(4.39) %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Expense:				
Personal Services	\$ 13,687.68	\$ 13,006.76	\$ 680.92	5.24 %
Supplies and Materials	1,461.97	2,566.29	(1,104.32)	(43.03) %
Services	2,505.51	2,523.73	(18.22)	(0.72) %
Scholarships/Fellowships	1,732.57	2,269.36	(536.79)	(23.65) %
Utilities	651.99	587.23	64.76	11.03 %
Depreciation	1,129.05	1,037.34	91.71	8.84 %
Total	<u>\$ 21,168.77</u>	<u>\$ 21,990.71</u>	<u>\$ (821.94)</u>	

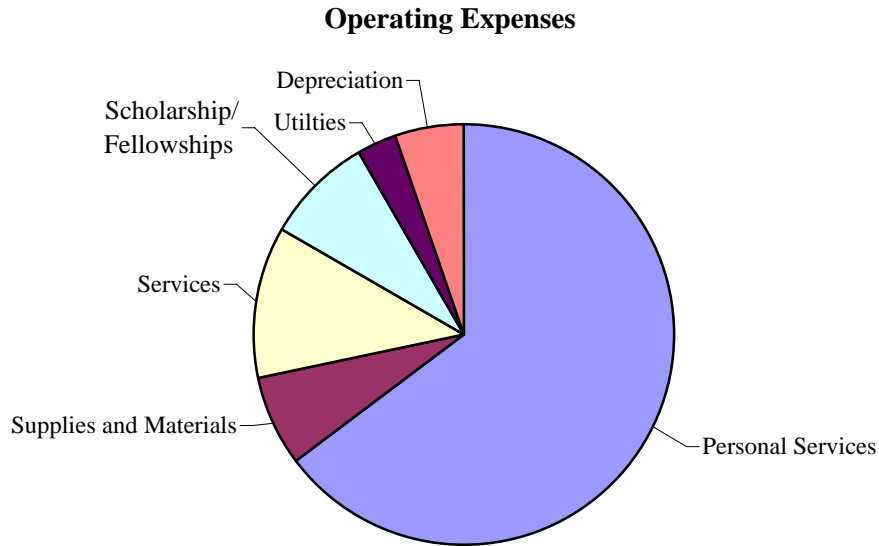
These schedules were prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets.

Operating expenses at June 30, 2006, decreased over the same period in fiscal year 2005. This decreased was caused primarily by a decrease in supplies and materials of \$1,104,324 due to the closure of the College owned bookstore.

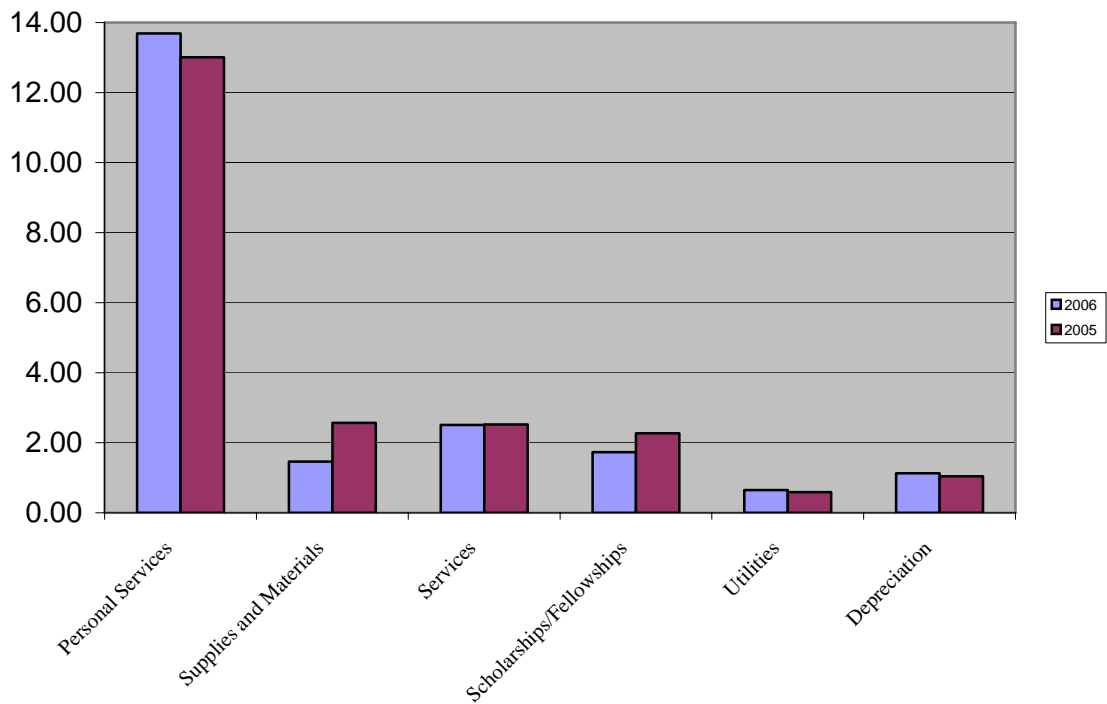
Operating revenue decreased by \$1,636,097. This was due largely to the closure of the College owned bookstore, which accounts for approximately \$1,016,147. Enrollment growth stalled and tuition and fees decreased by \$577,301. Although State aid and county appropriations increased by \$525,317 and \$131,500 respectively, total nonoperating revenues and expenses decreased by \$429,444. During the current year, the receivables were reduced as a result of the construction bond funds being reflected at the system office level instead of at the community college due to project delays. Therefore the receivable was decreased and reflected as a refund to grantors nonoperating expense in the current year. This amount was \$1,363,521.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following is a graphic illustration of operating expenses:



**Comparison of Operating Expenses  
Fiscal Years 2006 and 2005**



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

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### **Capital Assets**

As of June 30, 2006, the College had recorded \$33,763,638 in capital assets, \$8,978,856 in accumulated depreciation and \$24,784,782 in net capital assets. Construction in progress consists of the Machine Shop Addition (a \$1,104,000 project), Advanced Manufacturing Center (a \$7,900,000 project), Information and Technology Building (a \$5,325,711 project) and Roadway, Parking and Maintenance Building (a \$1,500,922 project). As of June 30, 2006 the College has commitments of \$506,376 for ongoing construction projects. The 2000 State Bond Referendum as authorized by Senate Bill 912 will fund the majority of these projects. The Legislature has also approved in the 2005-2006 budget a total of \$7,400,000 dollars for the Advanced Manufacturing Center of which \$3,700,000 was received in the 2005-2006 fiscal year and \$3,700,000 is to be received in the 2006-2007 fiscal year. Additional funding for some projects are provided through campus access fees, bookstore funds, local funds, and the U. S. Department of Economic Development Administration

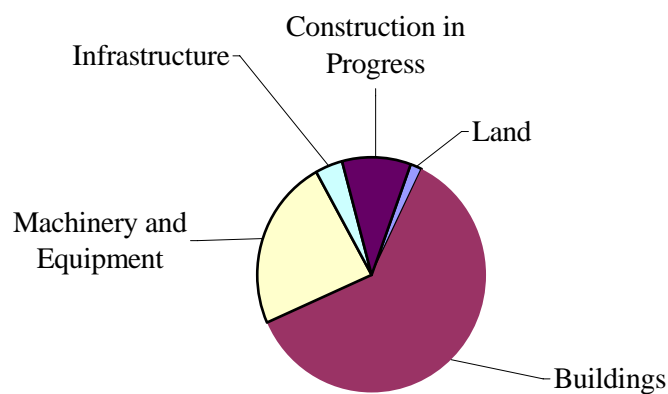
These schedules are prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets, Net For Years Ended June 30, (in thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 596.50	\$ 596.50	\$ 0.00	0.00%
Buildings	20,565.08	20,372.43	192.65	0.95%
Machinery and Equipment	8,001.14	7,449.20	551.94	7.41%
Infrastructure	1,314.34	1,007.12	307.22	30.50%
Construction in Progress	<u>3,286.57</u>	<u>1,208.55</u>	<u>2,078.02</u>	171.94%
Total	33,763.63	30,633.80	3,129.83	
Less: Accumulated Depreciation	<u>8,978.86</u>	<u>7,988.74</u>	<u>990.12</u>	12.39%
Net Capital Assets	<u>\$ 24,784.77</u>	<u>\$ 22,645.06</u>	<u>\$ 2,139.71</u>	

### Capital Assets, Net



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

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### **Economic Forecast**

The New Bern Area Chamber of Commerce reports that the New Bern/Craven County area is experiencing steady growth in population, education, and economic development. The decade 1990-2000 saw a population growth of 12% for Craven County. By 2010 the area is projected to have more than 100,000 residents (US Census Bureau reports an estimated population of 91,754 in 2003). The fastest growing segment of the population is the relocation/early retirement age group (55+). Two new Super Hornet squadrons to be based at Cherry Point MCAS are expected to bring about 2,500 people into the area and have an annual economic impact of \$20 million by 2010. The mild climate, excellent health care and affordable lifestyle in the area make it an attractive destination for many retirees, who add immeasurably to the area's available experienced workforce. Because of the well-trained workforce, a growing population with increased buying power, affordable cost of living and doing business, available resources and technology, and an overall favorable environment, the New Bern/Craven County area is inviting to new businesses.

Growth for the area is evident with the construction of commercial sites such as the WalMart project in Havelock (expected to be completed in early 2008 and employ more than 400 people) as well as residential sites such as Carolina Colours off of Hwy 70 East in New Bern (developers anticipate 2,000 residential units), Duck Creek in Bridgeton (developers plan for 500 residential units and upscale shops on the waterfront), and many other projects. In August 2006, New Bern City Manager, Bill Hartman, gave a conservative estimate for growth over the next 10 to 15 years as 9,000 additional sewer connections and 22,000 more people living in the area. He also included in his estimates 500 to 700 lots being developed every year.

Major industries in the area include Naval Aviation Depot (NADEP) at Cherry Point, Moen, Inc., BSH Home Appliances, Hatteras Yachts, and Weyerhaeuser Company. Major employers enjoy the support and job training provided by the College's industry training and workforce continuing education programs. In 2005 BSH Home Appliances announced expansion plans that would add approximately 1,200 more jobs over the course of the next three years. This would bring their total number of employees up to approximately 1,900. With their expansion also comes the advantage of other businesses relocating to the area to meet their supply needs such as Carolina Technical Plastics and Prettl Systems. Hatteras Yachts has expansion plans, which will add approximately 100-150 jobs.

Craven Community College monitors the changes in technology and economy and strives to meet the needs of our growing community. To meet industry needs, the College has completed the building expansion to house the new technology necessary for the machining technology program. The College has secured funding for the Bosch-Siemens Advanced Manufacturing Center, which will house a new manufacturing program, provide facilities for the Early College initiative (the initial class of 50 students which started this fall are currently housed in temporary trailers) and provide facilities for local industry to utilize for training.

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

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The first set of aviation systems technology program students graduated this year and will provide a skilled workforce for NADEP which employees approximately 4,133 people as well as area airports. The new medical assisting program that started in fall of 2005 is off to a good start.

With emphasis on community engagement and economic development, Craven Community College actively collaborates with a variety of other organizations working to achieve broad-based economic development.

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



**Craven Community College**  
**Statement of Net Assets**  
**June 30, 2006**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 653,926.51
Restricted Cash and Cash Equivalents	1,284,535.22
Receivables, Net (Note 4)	299,152.58
Due from State of North Carolina Component Units	20,187.99
Inventories	194,034.63
Notes Receivable, Net (Note 4)	2,242.44

Total Current Assets	2,454,079.37
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,406,298.57
Receivables (Note 4)	29,263.20
Restricted Due from Primary Government	492,153.09
Endowment Investments	1,261,341.98
Other Long-Term Investments	589.22
Capital Assets - Nondepreciable (Note 5)	3,883,072.75
Capital Assets - Depreciable, Net (Note 5)	20,901,709.60

Total Noncurrent Assets	27,974,428.41
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Total Assets	30,428,507.78
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	705,669.05
Unearned Revenue	57,123.41
Funds Held for Others	30,694.71
Long-Term Liabilities - Current Portion (Note 7)	118,372.73

Total Current Liabilities	911,859.90
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	539,222.56
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Total Liabilities	1,451,082.46
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**NET ASSETS**

Invested in Capital Assets	24,784,782.35
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	1,285,722.13
Other	37,367.57

Expendable:

Scholarships and Fellowships	158,748.62
Loans	37,425.99
Capital Projects	1,809,157.23
Other	743,732.75

Unrestricted	120,488.68
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Total Net Assets	\$ 28,977,425.32
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**Craven Community College**  
**Statement of Revenues, Expenses, and**  
**Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2006**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,745,559.36
Federal Grants and Contracts	2,652,975.51
State and Local Grants and Contracts	149,182.06
Sales and Services, Net (Note 8)	179,901.68
Other Operating Revenues	235,838.39

Total Operating Revenues	4,963,457.00
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**EXPENSES**

Operating Expenses:

Personal Services	13,687,675.10
Supplies and Materials	1,461,970.04
Services	2,505,512.72
Scholarships and Fellowships	1,732,568.92
Utilities	651,994.37
Depreciation	1,129,046.52

Total Operating Expenses	21,168,767.67
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Operating Loss	(16,205,310.67)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	10,395,337.22
County Appropriations	2,760,683.00
Noncapital Grants	1,175,298.05
Noncapital Gifts	752,641.61
Investment Income, Net	192,995.46
Other Nonoperating Revenues	151.90
Refund to Grantors	(1,363,521.00)

Net Nonoperating Revenues	13,913,586.24
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Loss Before Other Revenues	(2,291,724.43)
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State Capital Aid	366,041.85
County Capital Appropriations	75,000.00
Capital Grants	2,310.66
Capital Gifts	516,981.00

Decrease in Net Assets	(1,331,390.92)
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**NET ASSETS**

Net Assets, July 1, 2005	30,308,816.24
Net Assets, June 30, 2006	\$ 28,977,425.32

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

***Craven Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,076,234.55
Payments to Employees and Fringe Benefits	(13,563,691.13)
Payments to Vendors and Suppliers	(4,480,705.48)
Payments for Scholarships and Fellowships	(1,625,932.53)
Loans Issued to Students	(40,043.13)
Collection of Loans to Students	42,061.81
Other Receipts (Payments)	(2,403.44)
	<hr/>
Net Cash Used by Operating Activities	(14,594,479.35)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	10,395,337.22
County Appropriations	2,760,683.00
Noncapital Grants Received	1,151,342.17
Noncapital Gifts	725,416.55
	<hr/>
Cash Provided by Noncapital Financing Activities	15,032,778.94

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,836,460.99
County Capital Appropriations	75,000.00
Capital Grants Received	93,542.67
Proceeds from Sale of Capital Assets	151.90
Acquisition and Construction of Capital Assets	(2,459,114.71)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(453,959.15)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	126,859.81
Investment Income	135,988.03
Purchase of Investments and Related Fees	(151,774.88)
	<hr/>
Net Cash Provided by Investing Activities	111,072.96

Net Increase in Cash and Cash Equivalents	95,413.40
Cash and Cash Equivalents, July 1, 2005	3,249,346.90
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 3,344,760.30
	<hr/> <hr/>

**Craven Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**

**Exhibit A-3**

**Page 2**

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

Operating Loss	\$ (16,205,310.67)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,129,046.52
Provision for Uncollectible Loans and Write-Offs	(1,164.02)
Changes in Assets and Liabilities:	
Receivables, Net	170,459.85
Inventories	105,832.40
Notes Receivable, Net	2,018.68
Accounts Payable and Accrued Liabilities	46,751.25
Due to Primary Government	(3,538.00)
Unearned Revenue	48,954.09
Funds Held for Others	(2,403.44)
Compensated Absences	114,873.99
	<u>114,873.99</u>
Net Cash Used by Operating Activities	<u>\$ (14,594,479.35)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 653,926.51
Restricted Cash and Cash Equivalents	1,284,535.22
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,406,298.57</u>
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 3,344,760.30</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 292,671.95
Assets Acquired through a Gift	517,570.22
Change in Fair Value of Investments	23,640.71
Increase in Receivables Related to Nonoperating Income	83,706.94
Capital Asset Write-Offs	27,633.35

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

**CRAVEN COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Craven Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

Separate financial statements for the Foundations may be obtained from the College Controller's Office, 800 College Court, New Bern, NC 28562, or by calling (252) 638-7304. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- B. Basis of Presentation** – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** – This classification includes mutual funds held by the College. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.
- 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, private sources in connection with reimbursement of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- G. Inventories** – Inventories, consisting of expendable supplies, are valued at the lower cost or market value 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 method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

**M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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cash equivalents includes cash on hand totaling \$1,700.90, and deposits in private financial institutions with a carrying value of \$36,764.60, and a bank balance of \$944,329.99.

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, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** – In addition to donated securities, 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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,306,294.80, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and 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.

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Investments*

<b>Investment Type</b>	<u>Fair Value</u>
Other Securities	
Mutual Funds	\$ 1,261,341.98
Other	<u>589.22</u>
Total Investments	<u><u>\$ 1,261,931.20</u></u>

*Credit Risk:* The College does not have a formal policy that addresses credit risk. As of June 30, 2006, the College's investments were not rated.

*Custodial Credit Risk:* For an investment, 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.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 1,700.90
Carrying Amount of Deposits with Private Financial Institutions	36,764.60
Investments in the Short Term Investment Fund	3,306,294.80
Other Investments	<u>1,261,931.20</u>
Total Deposits and Investments	<u><u>\$ 4,606,691.50</u></u>
Current:	
Cash and Cash Equivalents	\$ 653,926.51
Restricted Cash and Cash Equivalents	1,284,535.22
Noncurrent:	
Restricted Cash and Cash Equivalents	1,406,298.57
Endowment Investments	1,261,341.98
Other Long-Term Investments	<u>589.22</u>
Total	<u><u>\$ 4,606,691.50</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to 6% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the income for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2006, net appreciation of \$87,360.00 was available to be spent, of which \$48,792.00 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 80,079.77	\$ 16,943.99	\$ 63,135.78
Accounts	23,906.04		23,906.04
Intergovernmental	139,155.95		139,155.95
Pledges	93,453.83	31,796.81	61,657.02
Investment Earnings	5,300.26		5,300.26
Other	5,997.53		5,997.53
<b>Total Current Receivables</b>	<b>\$ 347,893.38</b>	<b>\$ 48,740.80</b>	<b>\$ 299,152.58</b>
<b>Noncurrent Receivables:</b>			
Intergovernmental	\$ 26,012.58	\$ 0.00	\$ 26,012.58
Investment Earnings	3,250.62		3,250.62
<b>Total Noncurrent Receivables</b>	<b>\$ 29,263.20</b>	<b>\$ 0.00</b>	<b>\$ 29,263.20</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 4,302.29	\$ 2,059.85	\$ 2,242.44

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Construction in Progress	1,208,553.61	2,577,894.77	499,875.63	3,286,572.75
<b>Total Capital Assets, Nondepreciable</b>	<b>1,805,053.61</b>	<b>2,577,894.77</b>	<b>499,875.63</b>	<b>3,883,072.75</b>
Capital Assets, Depreciable:				
Buildings	20,372,429.68	192,655.63		20,565,085.31
Machinery and Equipment	7,449,200.00	690,872.89	138,932.94	8,001,139.95
General Infrastructure	1,007,120.77	307,220.00		1,314,340.77
Total Capital Assets, Depreciable	28,828,750.45	1,190,748.52	138,932.94	29,880,566.03
Less Accumulated Depreciation:				
Buildings	5,481,557.18	513,224.76		5,994,781.94
Machinery and Equipment	1,871,326.13	554,236.14	138,932.94	2,286,629.33
General Infrastructure	635,859.54	61,585.62		697,445.16
Total Accumulated Depreciation	7,988,742.85	1,129,046.52	138,932.94	8,978,856.43
<b>Total Capital Assets, Depreciable, Net</b>	<b>20,840,007.60</b>	<b>61,702.00</b>		<b>20,901,709.60</b>
<b>Capital Assets, Net</b>	<b>\$ 22,645,061.21</b>	<b>\$ 2,639,596.77</b>	<b>\$ 499,875.63</b>	<b>\$ 24,784,782.35</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 113,343.95
Accrued Payroll	245,730.21
Contract Retainage	318,888.28
Other	27,706.61
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 705,669.05</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 542,721.30	\$ 489,545.07	\$ 374,671.08	\$ 657,595.29	\$ 118,372.73

### NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 2,872,772.18</u>	<u>\$ 1,110,268.83</u>	<u>\$ 16,943.99</u>	<u>\$ 1,745,559.36</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 126,099.08	\$ 7,714.09	\$ 851.38	\$ 117,533.61
Food Services	33,114.57			33,114.57
Athletic	876.00			876.00
Independent Operations	<u>28,377.50</u>			<u>28,377.50</u>
<b>Total Sales and Services</b>	<u>\$ 188,467.15</u>	<u>\$ 7,714.09</u>	<u>\$ 851.38</u>	<u>\$ 179,901.68</u>

### 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	\$ 7,375,689.25	\$ 788,459.49	\$ 628,471.75	\$ 8,792.93	\$ 0.00	\$ 0.00	\$ 8,801,413.42
Public Service	684,484.68	46,838.84	386,004.40		43,096.37		1,160,424.29
Academic Support	1,686,766.47	16,204.01	99,156.74				1,802,127.22
Student Services	1,056,537.12	23,377.34	82,466.26				1,162,380.72
Institutional Support	2,011,748.57	262,524.96	894,140.56	33,152.19			3,201,566.28
Operations and Maintenance of Plant	848,115.89	111,322.71	394,594.49		608,898.00		1,962,931.09
Student Financial Aid			11,665.20	1,690,623.80			1,702,289.00
Auxiliary Enterprises	24,333.12	213,242.69	9,013.32				246,589.13
Depreciation						1,129,046.52	1,129,046.52
<b>Total Operating Expenses</b>	<u>\$ 13,687,675.10</u>	<u>\$ 1,461,970.04</u>	<u>\$ 2,505,512.72</u>	<u>\$ 1,732,568.92</u>	<u>\$ 651,994.37</u>	<u>\$ 1,129,046.52</u>	<u>\$ 21,168,767.67</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$11,461,410.04, of which \$8,667,778.31 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$520,066.80 and \$202,826.01, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$202,826.01, \$183,631.04, and \$16,792.52, 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. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$62,259.72 for the year ended June 30, 2006.

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 \$156,628.74 for the year ended June 30, 2006.

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 \$25,800.00 for the year ended June 30, 2006.

### **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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$329,375.58. 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$45,072.45. 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses for employees paid from county and institutional funds are covered under a private insurance policy.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

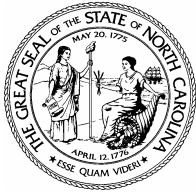
Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$506,376.25 at June 30, 2006.

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STATE OF NORTH CAROLINA  
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State Auditor

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Trustees  
Craven Community College  
New Bern, North Carolina

We have audited the financial statements of Craven Community College, a component unit of the State of North Carolina as of and for the year ended June 30, 2006, and have issued our report thereon dated May 9, 2007.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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. The reportable condition is described in the Audit Finding section of this report.

**Finding**

**ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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 Finding section of this report, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

May 9, 2007

## AUDIT FINDING

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### **Matter Related to Financial Reporting**

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

#### ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES

The College has granted computer system access rights that are inconsistent with prudent internal control principles. As a result, there is an increased risk of unauthorized entries in the system.

The Accounts Receivable Assistant was granted system access rights that would allow her the opportunity to perpetrate or conceal errors or fraud. She assisted with preparing third party billings, received third party payments through the mail while not maintaining a mail receipts log, and served as a back-up cashier with capabilities of voiding transactions, closing out her own cash drawer and preparing the daily deposit. Furthermore, she could post journal entries to conceal any other activity not already concealed through the billing and receipting process. This employee could also vouch payments, access the vendor file, print and void checks, and add new employees to the payroll file.

*This finding is resolved:* In January 2006, the College strengthened internal controls by implementing a series of management reviews and approvals of critical reports in the cashiering, accountant receivable and accounts payable areas that would in effect detect abuse caused by conflicting system access rights. The College has also reviewed the system access rights of all employees in the Business Office and removed those that were not needed to fulfill their job requirements.

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## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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