



# STATE OF NORTH CAROLINA

**COASTAL CAROLINA COMMUNITY COLLEGE**

**JACKSONVILLE, 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**

**COASTAL CAROLINA COMMUNITY COLLEGE**

**JACKSONVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

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

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

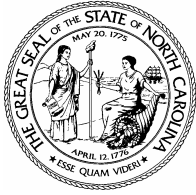
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STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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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, Coastal Carolina Community College

We have completed a financial statement audit of Coastal Carolina 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 resulted in no 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.*

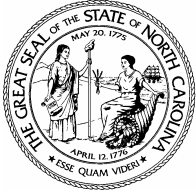
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 2, 2007

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Coastal Carolina Community College  
Jacksonville, North Carolina

We have audited the accompanying basic financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 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 did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., which represent 11 percent, 13 percent, and 1 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Carolina Community College as of June 30, 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 February 16, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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

February 16, 2007

## **COASTAL CAROLINA COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Introduction**

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

### **Using This Annual Report**

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

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

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities which are supported mainly by State, local, federal, and other revenues. This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

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

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

### **Financial Highlights**

The HVAC Geothermal project is in the fifth year of design and construction. Originally, the plan consisted of replacing boilers and chillers in seven buildings on our campus: Classroom A Building, Classroom B Building, Henderson Administration Building, Health and Occupational Science Building, Student Services Building, Louis Shields Learning Resource Center, and the Fine Arts Building. During fiscal year 2003-2004, the Lloyd Respass Trades Building was added, bringing the total budget for this project to \$5,588,348.00, which consists of State and local funds. This project was the first of several approved by Senate Bill 912 of the 1999-2000 General Assembly general obligation bond issuance.

The Math and Science Technology Building was the second project approved in the bond issuance. This will be a new building for our campus and is in the fourth year of design and construction. The total budget for this project is \$10,055,086.00, consisting of State and local funds.

Our third project began this year, which is the A. D. Guy Business Technology Building Energy Management Project. This project was approved for \$251,200.00.

Coastal achieved a Superior Status on the Performance Standards earning an additional funding allotment of \$97,689.00. Furthermore, the College attained all twelve measures of the Performance Standards earning another funding allotment of \$232,674.00.

Of its original annual budget, the College had two reversions to the NC Community College System Office this fiscal year. The first one requested was 1% due to the anticipated shortfall in curriculum tuition and continuing education registration fees. At that time, they also requested we reserve an additional .50% which we did revert back to the State. The total of these reversions was \$177,204.00.

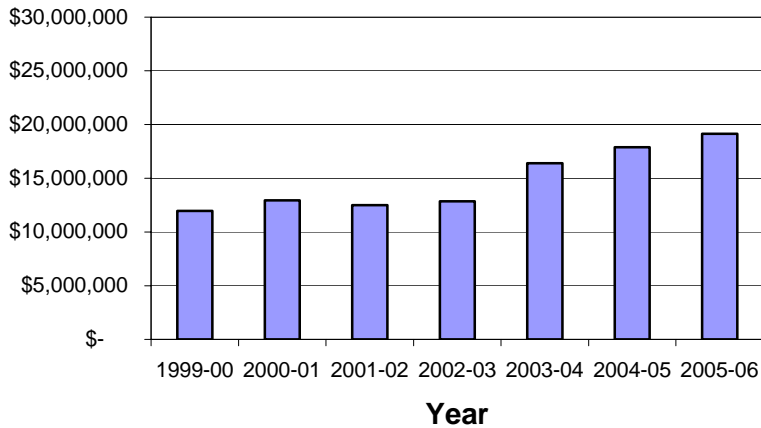
In addition to the funding we receive from the State based on a Full Time Equivalent formula, we receive funding from Onslow County for the maintenance of buildings and infrastructure.

The College continues to grow by budget increases, campus expansion, and student enrollment. The value of the FTE also increased, thereby increasing the overall State formula allocation for this fiscal year.

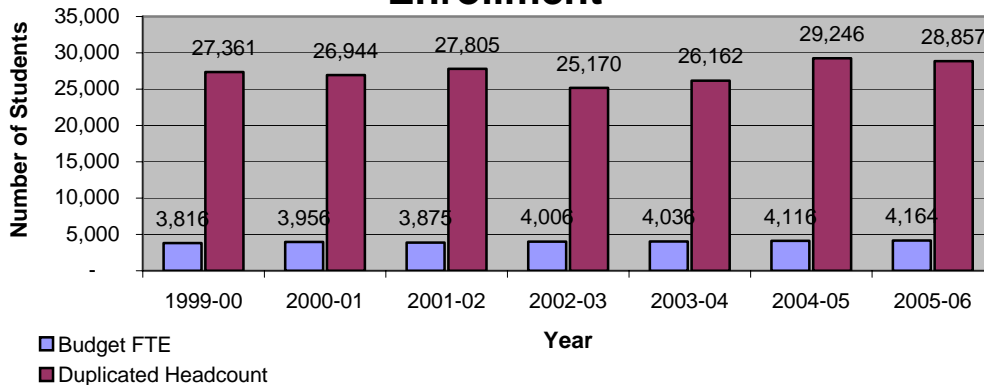


**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**State Appropriations**



**Enrollment**



**Financial Analysis**

**Analysis of Current Assets and Net Assets**

As of June 30, 2006, the College's current and noncurrent assets have had minor increases from the last fiscal year with an overall increase of 2.25%. However, within the category of noncurrent assets, the Capital Assets have had a major increase of \$4.9 million, specifically the Construction in Progress account. This is attributed to the majority of the actual construction of the Math and Science Technology Building being done in FY 2005-2006 (increased slightly to \$7.73 million from \$7.36 million at June 30). Related to this, the Restricted Due from Primary Government had a major decrease of \$4.7 million. This is the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

account receivable shown in FY 2004-2005 for the Math and Science Technology Building. Therefore, while the total Net Assets have only increased \$1.2 million, the categories of Investment in Capital Assets and Expendable Capital Projects have moved up and down, respectively, by approximately the same amounts for the new building.

Condensed Statement of Net Assets				
	2006	2005	Increase (Decrease)	Percent Change
Current Assets	\$ 4,845,444.62	\$ 4,594,029.03	\$ 251,415.59	5.47 %
Noncurrent Assets				
Capital Assets, Net of Depreciation	24,755,003.44	19,764,734.63	4,990,268.81	25.25 %
Other	2,795,719.02	7,323,012.30	(4,527,293.28)	(61.82) %
<b>Total Assets</b>	<b>32,396,167.08</b>	<b>31,681,775.96</b>	<b>714,391.12</b>	
Current Liabilities	953,282.70	1,335,590.47	(382,307.77)	(28.62) %
Noncurrent Liabilities	385,725.47	450,929.58	(65,204.11)	(14.46) %
<b>Total Liabilities</b>	<b>1,339,008.17</b>	<b>1,786,520.05</b>	<b>(447,511.88)</b>	
<b>Net Assets</b>				
Investment in Capital Assets	24,755,003.44	19,669,230.72	5,085,772.72	25.86 %
Restricted for:				
Nonexpendable				
Scholarships and Fellowships	2,161,659.22	1,936,866.25	224,792.97	11.61 %
Expendable				
Capital Projects	374,806.09	4,540,574.71	(4,165,768.62)	(91.75) %
Scholarships and Fellowships	18,652.40	16,960.21	1,692.19	9.98 %
Other	245,787.51	261,550.67	(15,763.16)	(6.03) %
Unrestricted	3,501,250.25	3,470,073.35	31,176.90	0.90 %
<b>Total Net Assets</b>	<b>\$ 31,057,158.91</b>	<b>\$ 29,895,255.91</b>	<b>\$ 1,161,903.00</b>	

### Analysis of Liabilities

The College had an overall decrease in liabilities primarily due to the changes within the current liability section, specifically in accounts payable. This occurred because at the end of FY 2004-2005 we owed \$675,000.00 to our construction vendors. We completed our financial obligation of our note payable this year which decreased our long term liabilities, both current and noncurrent portions.

	2006	2005	Increase (Decrease)	Percent Change
Current Liabilities	\$ 885,959.69	\$ 1,142,466.78	\$ (256,507.09)	(25.25) %
Long-Term Liabilities - Current Portion	67,323.01	193,123.69	(125,800.68)	(65.14) %
<b>Total Current Liabilities</b>	<b>953,282.70</b>	<b>1,335,590.47</b>	<b>(382,307.77)</b>	<b>(28.62) %</b>
Noncurrent Long-Term Liabilities	385,725.47	450,929.58	(65,204.11)	(14.46) %
<b>Total Liabilities</b>	<b>\$ 1,339,008.17</b>	<b>\$ 1,786,520.05</b>	<b>\$ (447,511.88)</b>	<b>(25.05) %</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Analysis of Net Capital Assets

This schedule defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. During this year, we completed the campus lighting project and the natural gas project. As noted below, the College's total capital assets increased mainly due to the Construction in Progress account of our Allied Health and Science Building.

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>
Capital Assets			
Land	\$ 823,349.75	\$ 823,349.75	\$ 0.00
Buildings	18,052,678.39	18,052,678.39	
Machinery and Equipment	2,213,974.32	2,166,821.69	47,152.63
Infrastructure	1,965,780.91	1,690,148.20	275,632.71
Construction in Progress	<u>14,628,820.87</u>	<u>9,305,206.49</u>	<u>5,323,614.38</u>
Total	37,684,604.24	32,038,204.52	5,646,399.72
Less: Accumulated Depreciation	<u>(12,929,600.80)</u>	<u>(12,273,469.89)</u>	<u>(656,130.91)</u>
Net Capital Assets	<u>\$ 24,755,003.44</u>	<u>\$ 19,764,734.63</u>	<u>\$ 4,990,268.81</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of Revenues

As noted below, the student tuition and fees revenue had a minor increase this fiscal year. In addition, the Occupational Extension/Continuing Education revenue also increased by \$48,000.00. The main offsetting decreases were in our Student Activity Fees and the Defensive Driving course revenue, of which it decreased over \$13,000.00. The Federal Grants and Contracts decrease was due to a reduction in Pell of over \$500,000.00. Our Smart Start program is funded through the State of North Carolina. It provides two projects: Prodigy and Educating the Workforce. Both projects had an increase in funding this year, \$22,000.00 and \$44,000.00, respectively. The analysis of expenditures is noted in a separate section. State Capital Aid is a direct reflection of the revenues from the Bond proceeds of construction projects. It also includes equipment purchases. Last fiscal year we had over \$5.6 million for the construction projects and this year we had \$1.6 million for construction and equipment.

	2006	2005	Increase (Decrease)	Percent Change
<b>Operating Revenues</b>				
Student Tuition and Fees	\$ 3,579,887.22	\$ 3,555,258.08	\$ 24,629.14	0.69 %
Federal Grants and Contracts	4,259,541.52	4,790,686.40	(531,144.88)	(11.09) %
State and Local Grants and Contracts	533,859.25	370,185.46	163,673.79	44.21 %
Sales and Services and Other	2,260,937.32	2,424,716.21	(163,778.89)	(6.75) %
Total Operating Revenues	<u>10,634,225.31</u>	<u>11,140,846.15</u>	<u>(506,620.84)</u>	
Less Operating Expenses	28,679,403.43	27,192,007.87	1,487,395.56	
Operating Loss	<u>(18,045,178.12)</u>	<u>(16,051,161.72)</u>	<u>(1,994,016.40)</u>	
<b>Nonoperating Revenues:</b>				
State Aid	14,323,756.47	13,097,182.36	1,226,574.11	9.37 %
County Appropriations	2,209,236.75	1,977,108.12	232,128.63	11.74 %
Noncapital Gifts and Grants, Net	329,436.30	338,292.09	(8,855.79)	(2.62) %
Investment Income, Net	253,964.10	303,559.61	(49,595.51)	(16.34) %
Net Nonoperating Revenues	17,116,393.62	15,716,142.18	1,400,251.44	
<b>Other Revenues:</b>				
State Capital Aid	1,599,872.99	5,669,385.00	(4,069,512.01)	(71.78) %
County Capital Appropriations	190,763.25	183,891.88	6,871.37	3.74 %
Capital Grants	140,878.26	147,576.45	(6,698.19)	(4.54) %
Additions to Endowments	159,173.00	193,700.00	(34,527.00)	(17.82) %
Total Nonoperating Revenues	<u>19,207,081.12</u>	<u>21,910,695.51</u>	<u>(2,703,614.39)</u>	
Increase (Decrease) in Net Assets	<u>\$ 1,161,903.00</u>	<u>\$ 5,859,533.79</u>	<u>\$ (4,697,630.79)</u>	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Analysis of Expenses

The College experienced a 5% overall increase in expenses from the prior fiscal year. As a rule, personal services comprise the largest category of expenses and it increased 9.17%. This category includes salary and benefit expenses, retirement contributions, and employer tax amounts. Our employees, on average, received a 4.50% annual raise. For fiscal year 2005-2006 the total NC retirement rate was set at 6.82% as compared to the previous year of 5.82%. The Services category includes items like travel which increased \$23,000 over the prior year due to a ban on travel in the prior year, memberships and workshop/conference expenses which increased by over \$6,000.00, contracted services, maintenance agreements, and rental of equipment that increased almost \$32,000.00, repairs to facilities that increased over \$87,000.00 and finally maintenance agreements for server software that increased over \$14,000.00.

	2006	2005	Increase (Decrease)	Difference
Personal Services	\$ 18,236,806.88	\$ 16,705,628.13	\$ 1,531,178.75	9.17 %
Supplies and Materials	3,414,243.26	3,500,325.87	(86,082.61)	(2.46) %
Services	1,993,158.83	1,980,511.73	12,647.10	0.64 %
Scholarships and Fellowships	3,815,404.01	3,875,799.26	(60,395.25)	(1.56) %
Utilities	543,689.01	472,065.39	71,623.62	15.17 %
Depreciation	676,101.44	657,677.49	18,423.95	2.80 %
Total Operating Expenditures	<u>\$ 28,679,403.43</u>	<u>\$ 27,192,007.87</u>	<u>\$ 1,487,395.56</u>	5.47 %

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

**Coastal Carolina Community College**  
**Statement of Net Assets**  
**June 30, 2006**

**Exhibit A-1**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,667,099.78
Short-Term Investments	1,090,729.00
Restricted Short-Term Investments	128,243.00
Receivables, Net (Note 4)	509,030.94
Inventories	392,109.10
Prepaid Items	56,622.80
Notes Receivable, (Note 4)	1,610.00
	<hr/>
Total Current Assets	4,845,444.62
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	76,101.22
Restricted Due from Primary Government	530,321.80
Endowment Investments	2,095,695.00
Other Long-Term Investments	51,800.00
Notes Receivable, (Note 4)	41,801.00
Capital Assets - Nondepreciable (Note 5)	15,452,170.62
Capital Assets - Depreciable, Net (Note 5)	9,302,832.82
	<hr/>
Total Noncurrent Assets	27,550,722.46
	<hr/>
Total Assets	32,396,167.08
	<hr/>

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	711,432.51
Unearned Revenue	158,001.46
Funds Held for Others	16,525.72
Long-Term Liabilities - Current Portion (Note 7)	67,323.01
	<hr/>
Total Current Liabilities	953,282.70
	<hr/>
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	385,725.47
	<hr/>
Total Noncurrent Liabilities	385,725.47
	<hr/>
Total Liabilities	1,339,008.17
	<hr/>

**NET ASSETS**

Invested in Capital Assets	24,755,003.44
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,161,659.22
Expendable:	
Scholarships and Fellowships	18,652.40
Capital Projects	374,806.09
Other	245,787.51
Unrestricted	3,501,250.25
	<hr/>
Total Net Assets	\$ 31,057,158.91
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The accompanying notes to the financial statements are an integral part of this statement.

***Coastal Carolina Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 3,579,887.22
Federal Grants and Contracts	4,259,541.52
State and Local Grants and Contracts	533,859.25
Sales and Services, Net (Note 9)	2,133,022.96
Other Operating Revenues	127,914.36
	<hr/>
Total Operating Revenues	10,634,225.31
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**EXPENSES**

Operating Expenses:	
Personal Services	18,236,806.88
Supplies and Materials	3,414,243.26
Services	1,993,158.83
Scholarships and Fellowships	3,815,404.01
Utilities	543,689.01
Depreciation	676,101.44
	<hr/>
Total Operating Expenses	28,679,403.43
	<hr/>
Operating Loss	(18,045,178.12)
	<hr/>

**NONOPERATING REVENUES**

State Aid	14,323,756.47
County Appropriations	2,209,236.75
Noncapital Grants	196,137.89
Noncapital Gifts, (Note 9)	133,298.41
Investment Income, Net	253,964.10
	<hr/>
Net Nonoperating Revenues	17,116,393.62
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Loss Before Other Revenues and Gains	(928,784.50)
	<hr/>
State Capital Aid	1,599,872.99
County Capital Appropriations	190,763.25
Capital Grants	140,878.26
Additions to Endowments	159,173.00
	<hr/>
Increase in Net Assets	1,161,903.00

**NET ASSETS**

Net Assets, July 1, 2005	29,895,255.91
	<hr/>
Net Assets, June 30, 2006	\$ 31,057,158.91
	<hr/> <hr/>

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

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

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 11,441,357.35
Payments to Employees and Fringe Benefits	(18,162,028.76)
Payments to Vendors and Suppliers	(7,308,872.21)
Payments for Scholarships and Fellowships	(3,705,299.26)
Collection of Loans to Students	1,508.00
Other Receipts	22,694.85
	<u>22,694.85</u>
Net Cash Used by Operating Activities	<u>(17,710,640.03)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	14,323,756.47
County Appropriations	2,209,236.75
Noncapital Grants Received	196,137.89
Noncapital Gifts and Endowments Received	292,471.41
	<u>292,471.41</u>
Cash Provided by Noncapital Financing Activities	<u>17,021,602.52</u>

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

State Capital Aid Received	6,334,776.41
County Capital Appropriations	190,763.25
Capital Grants Received	140,878.26
Acquisition and Construction of Capital Assets	(5,666,370.26)
Principal Paid on Capital Debt and Leases	(95,503.91)
	<u>(95,503.91)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>904,543.75</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Investments and Related Fees	<u>(93,960.90)</u>
Cash Used by Investing Activities	<u>(93,960.90)</u>

Net Increase in Cash and Cash Equivalents	121,545.34
Cash and Cash Equivalents, July 1, 2005	<u>2,621,655.66</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 2,743,201.00</u>



***Coastal Carolina 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	\$ (18,045,178.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	676,101.44
Changes in Assets and Liabilities:	
Receivables, Net	6,605.80
Inventories	16,988.74
Prepaid Items	(14,657.93)
Notes Receivable, Net	1,508.00
Accounts Payable and Accrued Liabilities	(607,501.44)
Unearned Revenue	333,199.86
Funds Held for Others	19,525.78
Compensated Absences	(97,232.16)
Net Cash Used by Operating Activities	<u><u>\$ (17,710,640.03)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,667,099.78
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>76,101.22</u>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 2,743,201.00</u></u>

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

Change in Fair Value of Investments	<u><u>\$ 253,964.10</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

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**COASTAL CAROLINA 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. Coastal Carolina Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and 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.

**Blended Component Units** – Although a legally separate, tax-exempt component unit, Coastal Carolina Community College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a 27-member board consisting of two ex officio directors and 25 appointed directors. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Coastal Carolina Community College Board of Trustees and the Foundation's sole purpose is to benefit Coastal Carolina Community College, its financial statements have been blended with those of the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

During the year ended June 30, 2006, the Foundation distributed \$103,961.53 to the College for both restricted and unrestricted purposes.

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

- 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, savings accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 debt securities, mutual funds, and real estate. Except for real estate not held by a governmental external investment pool, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out, method.

- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000.00 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 over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.

**K. Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

**M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

**O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as The College Store and Coastal Café. In addition, the College has other miscellaneous sales and service units that operated either on a

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 cash equivalents includes cash on hand totaling \$8,760.00 and deposits in private financial institutions with a carrying value of \$727,389.50, and a bank balance of \$2,606,546.20.

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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**B. Investments** – In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by 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 \$2,007,051.50, 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 1.18 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Foundation, is 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.

### *Investments*

<b>Investment Type</b>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>
Debt Securities		6 to 10
Common Trust Funds	\$ 1,166,811.00	<u>\$ 1,166,811.00</u>
Other Securities		
Domestic Mutual Funds	1,701,914.00	
International Mutual Funds	445,942.00	
Investments in Real Estate	<u>51,800.00</u>	
Total Investments	<u>\$ 3,366,467.00</u>	

*Credit Risk:* The College does not have a formal policy that addresses credit risk. As of June 30, 2006, the College's investments in the Common Trust Fund were not rated; however, based on the unaudited fact sheets for the Wachovia Charitable Fixed Income Fund, the average quality of the portfolio is rated AAA by Standard and Poors.

*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.

*Concentration of Credit Risk:* Since the Foundation's investments are in mutual or common trust funds the disclosure is not required.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Foreign Currency Risk:* Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The investments below are subject to currency risk based on investments in several foreign countries.

Investment	Currency	Fair Value (U.S. Dollars)
Evergreen International Equity Fund	Various	\$ 445,942

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

Cash on Hand	\$ 8,760.00
Carrying Amount of Deposits with Private Financial Institutions	727,389.50
Investments in the Short Term Investment Fund	2,007,051.50
Other Investments	3,366,467.00
Total Deposits and Investments	\$ 6,109,668.00
Current:	
Cash and Cash Equivalents	\$ 2,667,099.78
Short-Term Investments	1,090,729.00
Restricted Short-Term Investments	128,243.00
Noncurrent:	
Restricted Cash and Cash Equivalents	76,101.22
Endowment Investments	2,095,695.00
Other Long-Term Investments	51,800.00
Total	\$ 6,109,668.00

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which allows up to 100% of the endowment income each year for the sole purpose of funding student scholarships.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 425,445.84	\$ 88,703.80	\$ 336,742.04
Accounts	140,278.04		140,278.04
Intergovernmental	28,280.07		28,280.07
Other	3,730.79		3,730.79
<b>Total Current Receivables</b>	<b>\$ 597,734.74</b>	<b>\$ 88,703.80</b>	<b>\$ 509,030.94</b>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Real Estate Loan	\$ 1,610.00	\$ 0.00	\$ 1,610.00
<b>Notes Receivable - Noncurrent:</b>			
Real Estate Loan	\$ 41,801.00	\$ 0.00	\$ 41,801.00

### 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
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 823,349.75	\$ 0.00	\$ 0.00	\$ 823,349.75
Construction in Progress	9,305,206.49	5,599,247.09	275,632.71	14,628,820.87
<b>Total Capital Assets, Nondepreciable</b>	<b>10,128,556.24</b>	<b>5,599,247.09</b>	<b>275,632.71</b>	<b>15,452,170.62</b>
<b>Capital Assets, Depreciable:</b>				
Buildings	18,052,678.39			18,052,678.39
Machinery and Equipment	2,166,821.69	67,123.17	19,970.54	2,213,974.32
General Infrastructure	1,690,148.20	275,632.71		1,965,780.91
<b>Total Capital Assets, Depreciable</b>	<b>21,909,648.28</b>	<b>342,755.88</b>	<b>19,970.54</b>	<b>22,232,433.62</b>
<b>Less Accumulated Depreciation:</b>				
Buildings	9,104,427.06	956,481.69		10,060,908.75
Machinery and Equipment	1,577,568.29	134,597.56	400,688.70	1,311,477.15
General Infrastructure	1,591,474.54	54,277.96	88,537.60	1,557,214.90
<b>Total Accumulated Depreciation</b>	<b>12,273,469.89</b>	<b>1,145,357.21</b>	<b>489,226.30</b>	<b>12,929,600.80</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>9,636,178.39</b>	<b>(802,601.33)</b>	<b>(469,255.76)</b>	<b>9,302,832.82</b>
<b>Capital Assets, Net</b>	<b>\$ 19,764,734.63</b>	<b>\$ 4,796,645.76</b>	<b>\$ (193,623.05)</b>	<b>\$ 24,755,003.44</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 141,294.08
Accrued Payroll	570,138.43
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 711,432.51</b>

### 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
Notes Payable	\$ 95,503.91	\$ 0.00	\$ 95,503.91	\$ 0.00	\$ 0.00
Compensated Absences	550,280.64	506,258.17	603,490.33	453,048.48	67,323.01
<b>Total Long-Term Liabilities</b>	<b>\$ 645,784.55</b>	<b>\$ 506,258.17</b>	<b>\$ 698,994.24</b>	<b>\$ 453,048.48</b>	<b>\$ 67,323.01</b>

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	\$ 87,439.14
2008	34,164.00
2009	1,069.35
<b>Total Minimum Lease Payments</b>	<b>\$ 122,672.49</b>

Rental expense for all operating leases during the year was \$262,490.09.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	<u>\$ 4,349,733.75</u>	<u>\$ 0.00</u>	<u>\$ 681,142.73</u>	<u>\$ 88,703.80</u>	<u>\$ 3,579,887.22</u>
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Cafeteria	\$ 260,475.90	\$ 4,390.06	\$ 0.00	\$ 0.00	\$ 256,085.84
Vending	64,512.60				64,512.60
Bookstore	1,955,092.17	21,533.37	170,285.68		1,763,273.12
Other	346.40				346.40
Sales and Services of Education and Related Activities	<u>48,805.00</u>				<u>48,805.00</u>
<b>Total Sales and Services</b>	<u>\$ 2,329,232.07</u>	<u>\$ 25,923.43</u>	<u>\$ 170,285.68</u>	<u>\$ 0.00</u>	<u>\$ 2,133,022.96</u>
<b>Nonoperating - Noncapital Gifts</b>	<u>\$ 133,298.41</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 133,298.41</u>

### 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	\$ 11,457,968.16	\$ 1,161,824.08	\$ 475,473.29	\$ 199,953.38	\$ 1,817.69	\$ 0.00	\$ 13,297,036.60
Academic Support	2,203,286.55	149,770.49	155,990.01				2,509,047.05
Student Services	1,244,467.36	55,018.26	108,191.45				1,407,677.07
Institutional Support	2,521,247.93	290,285.73	624,510.61	43,384.97			3,479,429.24
Operations and Maintenance of Plant	644,743.31	86,783.10	602,845.75	210.00	541,871.32		1,876,453.48
Student Financial Aid				3,552,949.37			3,552,949.37
Auxiliary Enterprises	165,093.57	1,670,561.60	26,147.72	18,906.29			1,880,709.18
Depreciation						676,101.44	676,101.44
<b>Total Operating Expenses</b>	<u>\$ 18,236,806.88</u>	<u>\$ 3,414,243.26</u>	<u>\$ 1,993,158.83</u>	<u>\$ 3,815,404.01</u>	<u>\$ 543,689.01</u>	<u>\$ 676,101.44</u>	<u>\$ 28,679,403.43</u>

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Benefit and contribution provisions for the 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 \$15,173,984.28, of which \$11,995,498.39 was covered under the System. Total employee and employer contributions for pension benefits for the year were \$719,729.91 and \$280,694.67, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$280,694.67, \$244,976.68, and \$22,649.64, respectively.

The 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 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 \$182,156.00 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 \$65,005.00 for the year ended June 30, 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 3.8% 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 \$455,828.94. 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 .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 \$62,376.60. 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 the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Other insurance purchased by the College includes firearms training general liability insurance with coverage of \$2,000,000 for bodily injury and property damage, and boiler, machinery, and equipment insurance with coverage based on the buildings and contents value of \$57,261,505. 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

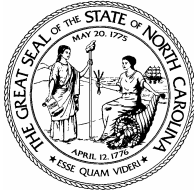
### NOTE 14 - COMMITMENTS AND CONTINGENCIES

**A. Commitments** – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,029,969.98 and on other purchases were \$152,967.28 at June 30, 2006.

**B. Other Contingent Receivables** – The Foundation has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied (or, in the case of permanent endowments, cannot begin to be satisfied). In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements.

The purpose and amount of other contingent receivables at year end is as follows:

Purpose	Amount
Southerland Family donation over a two year period of \$50,000 per year.	\$ 100,000.00



STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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

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Board of Trustees  
Coastal Carolina Community College  
Jacksonville, North Carolina

We have audited the financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated February 16, 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. Other auditors audited the financial statements of Coastal Carolina Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, 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

February 16, 2007

## **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:

Office of the State Auditor  
State of North Carolina  
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