



# STATE OF NORTH CAROLINA

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**OFFICE OF THE STATE AUDITOR**

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

**STATE AUDITOR**

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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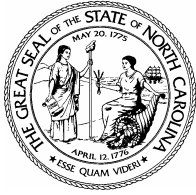
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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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, Cape Fear Community College

We have completed a financial statement and compliance audit of Cape Fear Community College for the year ended June 30, 2007, 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 and our consideration of the College's administration of the student financial assistance program in accordance with applicable laws, regulations, contracts and grants 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.*

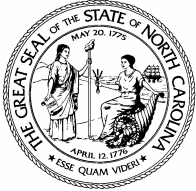
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

May 12, 2008

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

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2 S. Salisbury Street  
20601 Mail Service Center  
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Internet  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Cape Fear Community College  
Wilmington, North Carolina

We have audited the accompanying basic financial statements of Cape Fear Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, 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 Cape Fear Community College as of June 30, 2007, 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 5, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 5, 2008

## **CAPE FEAR COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Cape Fear Community College provides the following Management's Discussion and Analysis as an overview of its financial activities for the fiscal year ended June 30, 2007. It provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, or conditions. The financial statements, related notes to the financial statements, and this discussion are the responsibility of management.

### **Using the Annual Financial Report**

The financial statements present financial information in a form similar to that used by corporations. They focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. They should be read in conjunction with the accompanying financial statements and notes.

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. Financial activities are reported as either operating or nonoperating. With State appropriations and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit. In the past, State appropriations and gifts were included as normal operating revenues and contributed to operation expenditures, which generally resulted in a net positive number for operating income. The utilization of capital assets is reflected in the financial statements as depreciation.

The Statement of Cash Flows is another financial indicator of the ability of the College to meet financial obligations as they occur. It presents information related to cash inflows and outflows summarized by operating, noncapital financing, and related investment activities.

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

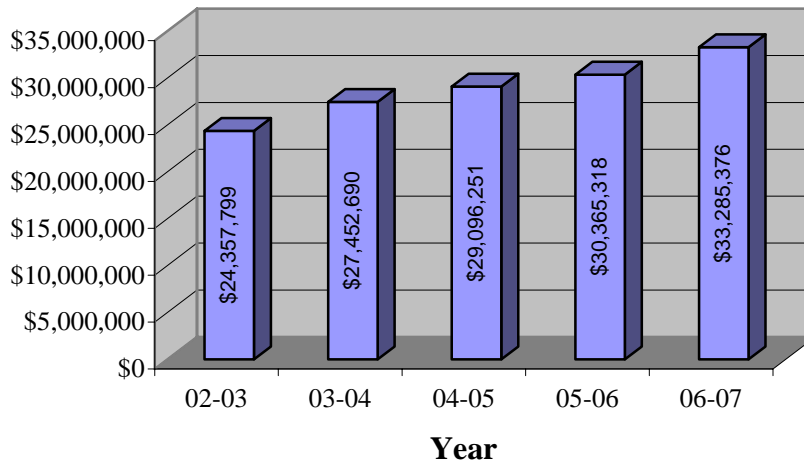
### **Financial Highlights**

The College's budget increased by \$2.90 million due to a small increase in budgeted FTE (full-time equivalency) of 213 and largely due to the increase in the dollar value assigned to each FTE. The total number of students served during the year increased by 102 to reach a total of 29,001. The State again suffered a revenue shortfall and all community colleges were mandated to revert 1% during the fiscal year. The College's share was \$235,701.

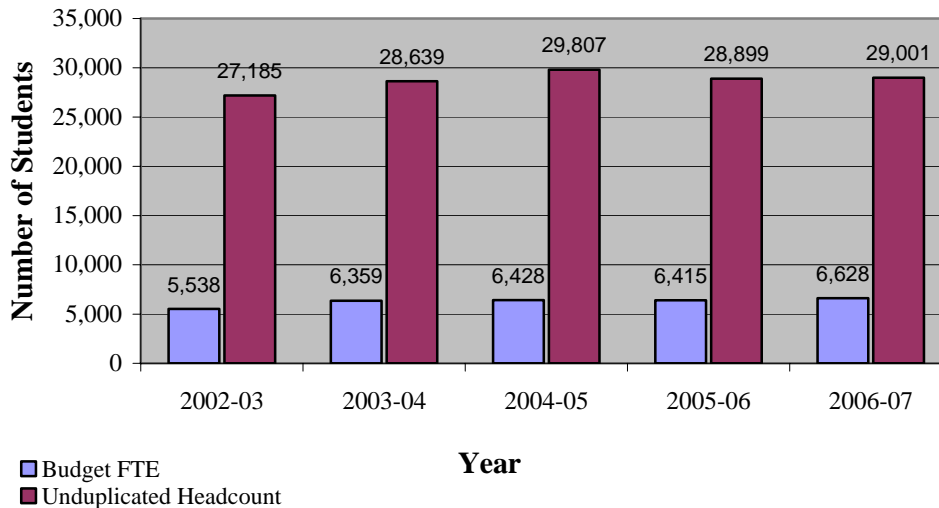
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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**State Appropriations**



**Enrollment**



In addition to the funding received from the State based on FTE's, the College received \$5,457,275 from New Hanover County for the maintenance of buildings and infrastructure. The College also received \$109,099 from Pender County for operational expenses of the Burgaw Campus.

The College has successfully implemented the phase 1 and phase 2 of the Colleague Computer Information System (CIS). The CIS project is the community college-wide system being implemented across the State. During the year students were empowered to pay for



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

their classes online and now the students can do everything they need to do to attend classes at Cape Fear Community College online.

### Financial Analysis

#### Statement of Net Assets

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (total assets minus total liabilities) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2007. The data provides readers of this statement information on assets available to continue operations; pay amounts due vendors and lending institutions; and the net assets available for expenditure by the College. The College's net assets increased by \$12.8 million (15.1%) during fiscal year 2007 mainly due to the increase in Due from Primary Government of \$11.9 million for construction activity.

#### Condensed Statement of Net Assets For Year Ended June 30, as Indicated

	<u>2007</u>	<u>As Restated 2,006</u>	<u>Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 7,116,495	\$ 5,300,973	\$ 1,815,522	34.2 %
Noncurrent Assets	15,644,550	3,545,433	12,099,117	341.3 %
Capital Assets	78,013,700	78,967,915	(954,215)	(1.2) %
<b>Total Assets</b>	<u>100,774,744</u>	<u>87,814,321</u>	<u>12,960,424</u>	14.8 %
<b>Liabilities</b>				
Current Liabilities	1,637,422	1,599,083	38,339	2.4 %
Noncurrent Liabilities	1,622,285	1,497,633	124,652	8.3 %
<b>Total Liabilities</b>	<u>3,259,707</u>	<u>3,096,716</u>	<u>162,991</u>	5.3 %
<b>Net Assets</b>				
Invested in Capital Assets	77,993,063	78,896,716	(903,653)	(1.4) %
Restricted - Expendable	15,425,385	3,257,306	12,168,079	373.6 %
Unrestricted	4,096,590	2,563,583	1,533,007	59.8 %
<b>Total Net Assets</b>	<u>\$ 97,515,037</u>	<u>\$ 84,717,605</u>	<u>\$ 12,797,432</u>	15.1 %

The total assets as of June 30 are valued at \$100.78 million. Increases were primarily noted in current assets and are due to the county increasing the amount of funds they allotted to the College for construction thereby creating additional cash balances. The largest asset categories include the College's net investment in capital assets for land, buildings, infrastructure, equipment, and construction-in-progress which account for 77% of total assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The total liabilities are valued at \$3.26 million. The largest components are accounts payable and accrued payroll, which accounts for 37.6% of the total.

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the College.

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided; i.e., State appropriations and investment income. Nonoperating expenses include expenses not involved in the normal operations of the College.

#### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For Year Ended June 30, as Indicated

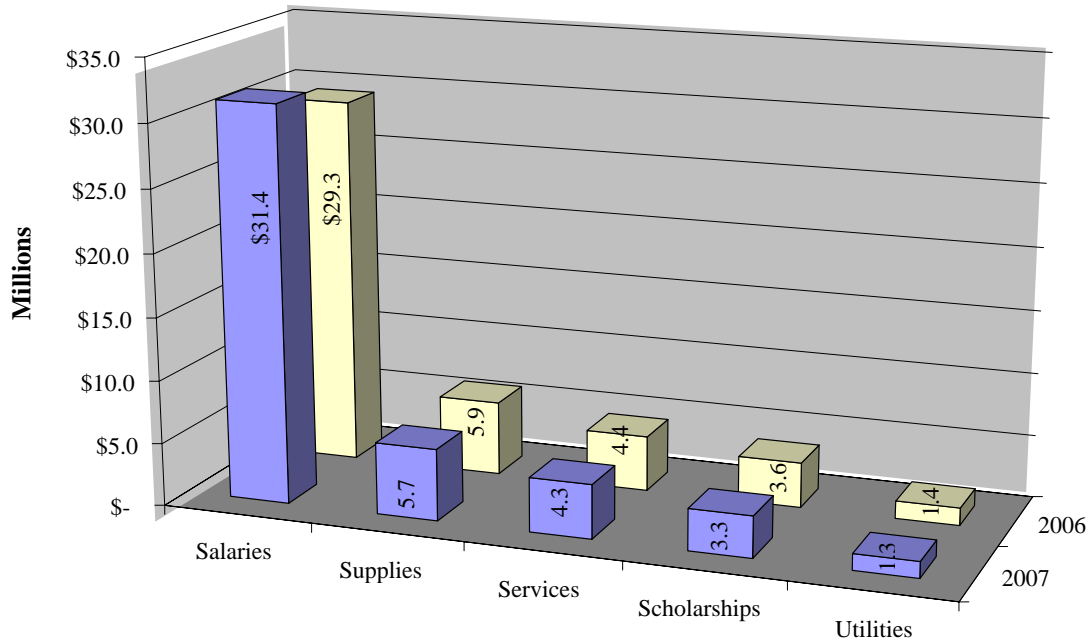
	2007	2006	Change	% Change
<b>Operating Revenues</b>				
Tuition and Fees, Net	\$ 6,348,550	\$ 6,162,633	\$ 185,917	3.0 %
Federal Grants and Contracts	4,966,021	5,430,824	(464,803)	(8.6) %
State and Local Grants and Contracts	521,737	533,138	(11,401)	(2.1) %
Sales and Services	2,707,969	2,636,881	71,088	2.7 %
Other Operating Revenues	116,173	100,103	16,070	16.1 %
Total Operating Revenues	<u>14,660,450</u>	<u>14,863,579</u>	<u>(203,129)</u>	(1.4) %
Less Operating Expenses	<u>48,656,619</u>	<u>46,770,223</u>	<u>1,886,396</u>	4.0 %
<b>Operating Loss</b>	<u>(33,996,169)</u>	<u>(31,906,644)</u>	<u>(2,089,525)</u>	6.6 %
<b>Nonoperating Revenues (Expenses)</b>				
State Aid	25,043,637	19,780,774	5,262,863	26.6 %
County Appropriations	5,566,374	5,426,316	140,058	2.6 %
Noncapital Grants	402,208	385,124	17,084	4.4 %
Noncapital Gifts	650,324	459,272	191,052	41.6 %
Investment Income	214,597	124,336	90,261	72.6 %
Other Nonoperating Expenses	(51,525)	(44,883)	(6,642)	14.8 %
Total Nonoperating Revenues	<u>31,825,615</u>	<u>26,130,939</u>	<u>5,694,676</u>	21.8 %
<b>Other Revenues</b>				
State Capital Aid	14,289,211	4,612,379	9,676,832	209.8 %
County Capital Aid	565,428	351,025	214,403	61.1 %
Capital Grants	113,346	125,789	(12,443)	(9.9) %
Total Other Revenues	<u>14,967,985</u>	<u>5,089,193</u>	<u>9,878,792</u>	194.1 %
<b>Increase in Net Assets</b>	<u>12,797,431</u>	<u>(686,512)</u>	<u>13,483,943</u>	(1964.1) %
<b>Net Assets-Beginning of Year</b>	84,399,501	85,086,013	(686,512)	(1.0) %
<b>Restatements</b>	<u>318,105</u>	<u>318,105</u>	<u>318,105</u>	100.0 %
<b>Net Assets-End of Year</b>	<u>\$ 97,515,037</u>	<u>\$ 84,399,501</u>	<u>\$ 13,115,536</u>	15.5 %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The total operating revenues decreased by 1.4% mainly due to reduction in Federal Grants and Contracts by \$464,803 as a result of 202 fewer Pell awards during the year.

The nonoperating revenues and other revenues increased by 50% due mainly to the approval of new construction projects and the recognition of revenue in the amount of \$12.74 million.

### Operational Expenses



There was an increase of \$1.89 million in operating expenses mainly due the increase of personnel expenses of \$2.11 million due to hiring new full-time and part-time employees.

### Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the College's:

- Ability to generate future net cash flows,
- Ability to meet its obligations as they come due, and
- Need for external financing.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Cash Flows For Year Ended June 30, as Indicated

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Cash Provided (Used) by:</b>			
Operating Activities	\$ (31,062,986)	\$ (30,826,486)	\$ (236,500)
Noncapital Financing Activities	31,662,543	26,051,486	5,611,057
Capital Financing Activities	1,304,554	4,668,895	(3,364,341)
Investing Activities	<u>214,597</u>	<u>124,336</u>	<u>90,261</u>
<b>Net Change in Cash</b>	<u>2,118,708</u>	<u>18,231</u>	<u>2,100,477</u>
<b>Cash, Beginning of Year</b>	<u>3,751,029</u>	<u>3,732,798</u>	<u>18,231</u>
<b>Cash, Ending of Year</b>	<u>\$ 5,869,737</u>	<u>\$ 3,751,029</u>	<u>\$ 2,118,708</u>

Major sources of funds for the operating activities were provided by student tuition and fees (\$6.35 million), federal grants and contracts (\$4.97 million), and auxiliary enterprises (\$2.71 million).

Major uses of funds in operating activities were for employee compensation (\$31.44 million), payments to suppliers (\$5.71 million), services (\$4.34 million), and scholarships (\$3.27 million).

The largest inflow of funds used in operations is the appropriations from the State of North Carolina (\$25.04 million), but it is shown as nonoperating revenue per GASB Statement No. 35. County appropriations inflows amounted to \$5.57 million. The increase in noncapital financing activities of \$5.6 million is mainly due to an increase in State aid for operations due to increased student enrollment. There was a decrease in capital financing activities of \$3.4 million due to the increase in due from primary government for construction.

The State of North Carolina also provided \$14.29 million for construction during the year.

### Capital Assets

The College had \$78.01 million invested in capital assets, net of depreciation as of June 30, 2007.

### Capital Assets For the Year Ended June 30, as Indicated (Net of Depreciation)

	<u>2007</u>	<u>2006</u> (as restated)	<u>Change</u>
Land	\$ 8,109,491	\$ 8,109,491	\$ 0
Construction in Progress	1,434,056	2,561,822	(1,127,766)
Buildings	60,467,113	62,326,204	(1,859,091)
Machinery and Equipment	3,682,937	3,687,393	(4,456)
General Infrastructure	<u>4,320,103</u>	<u>2,283,005</u>	<u>2,037,098</u>
<b>Total Capital Assets, Net of Depreciation</b>	<u>\$ 78,013,700</u>	<u>\$ 78,967,915</u>	<u>\$ (954,215)</u>

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

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The construction of both the Soccer facility and Truck Driver Training Course were completed in June of 2007, at a cost of \$161,000 and \$2,008,360, respectively using New Hanover County Bond Funds. On going capital projects include:

- Public Safety Training Center, an \$8.87 million project, is a joint venture with New Hanover County and the City of Wilmington with a projected completion date of May 2008.
- Design of a research vessel for Marine Technology is expected to be completed during 2008 at a cost of \$500,000.
- Construction of a 400-car parking deck at the Wilmington Campus and Cosmetology Building at the North Campus a \$14.29 million project, with a projected completion date of June 2008.
- Dredging of boat basin and construction of boat ramp and dock at a cost of \$600,000 to be completed in June 2008.

During 2006, the College took possession of the Wilmington Police Headquarters. A study has commenced to determine the feasibility of renovating the building to meet building codes and using or replacing the facility to meet the College's facility needs.

### **Economic Forecast**

The economy of our region grew by 6% during 2006 and is expected to grow by 7% during 2007 and 6% to 7% during 2008. The unemployment rate for New Hanover County during 2006 was 3.9% and the rate for Pender County was 4.5%, while the national rate was 5.1%. During this period of full employment Cape Fear Community College did have a slight increase in enrollment, which is commendable.

Southeastern North Carolina is one of the fastest-growing areas in the country and Cape Fear Community College is one of the primary providers of higher education providing state of the art training in a multitude of disciplines for the citizens of New Hanover and Pender Counties. Cape Fear Community College is well positioned to meet the needs of the growing community with over 60 excellent programs of study. The College constantly monitors the changes in technology and the economy and responds to the job training needs of the region. Cape Fear Community College relies on advisory committees representing over 200 area businesses to assure that the College's materials and curriculum are relevant to industry needs.

Cape Fear Community College has become the fifth most crowded community college in North Carolina. We currently have less than 76 square feet of space per student FTE; the average in the North Carolina Community College System is 95 square feet while the recommended space is 100 square feet per student FTE. The lack of class room space has had an adverse impact on the growth of the College. Management is looking at ways to alleviate this urgent problem and has plans to request bond funds in the next election.

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

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The management and the financial condition of the Cape Fear Community College are strong and the College is well positioned to provide the young men and women of the area the educational edge they need to succeed in life.

***Cape Fear Community College***  
***Statement of Net Assets***  
***June 30, 2007***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 4,495,930.84
Restricted Cash and Cash Equivalents	552,445.56
Receivables, Net (Note 3)	1,054,434.69
Inventories	815,931.75
Prepaid Items	195,616.69
Notes Receivable (Note 3)	<u>2,135.33</u>
Total Current Assets	<u>7,116,494.86</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	821,360.70
Restricted Due from Primary Government	14,823,189.25
Capital Assets - Nondepreciable (Note 4)	9,543,547.28
Capital Assets - Depreciable, Net (Note 4)	<u>68,470,152.29</u>
Total Noncurrent Assets	<u>93,658,249.52</u>

Total Assets	<u>100,774,744.38</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,226,997.08
Unearned Revenue	214,130.17
Long-Term Liabilities - Current Portion (Note 6)	<u>196,294.86</u>
Total Current Liabilities	<u>1,637,422.11</u>

Noncurrent Liabilities:

Funds Held for Others	821,360.70
Long-Term Liabilities (Note 6)	<u>800,924.64</u>
Total Noncurrent Liabilities	<u>1,622,285.34</u>

Total Liabilities	<u>3,259,707.45</u>
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	77,993,062.80
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Restricted for:

Expendable:

Scholarships and Fellowships	12,246.80
Loans	2,260.48
Capital Projects	14,871,659.04
Restricted for Specific Programs	169,274.57
Other	369,943.73

Unrestricted	<u>4,096,589.51</u>
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Total Net Assets	<u>\$ 97,515,036.93</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Cape Fear Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 6,348,550.37
Federal Grants and Contracts	4,966,020.64
State and Local Grants and Contracts	521,737.18
Sales and Services, Net (Note 9)	2,707,968.54
Other Operating Revenues	<u>116,173.28</u>
Total Operating Revenues	<u>14,660,450.01</u>

**EXPENSES**

Operating Expenses:	
Personal Services	31,441,666.57
Supplies and Materials	5,708,166.80
Services	4,338,358.76
Scholarships and Fellowships	3,270,512.71
Utilities	1,310,063.12
Depreciation	<u>2,587,851.20</u>
Total Operating Expenses	<u>48,656,619.16</u>
Operating Loss	<u>(33,996,169.15)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	25,043,637.18
County Appropriations	5,566,374.00
Noncapital Grants	402,208.29
Noncapital Gifts	650,323.99
Investment Income	214,597.22
Other Nonoperating Expenses	<u>(51,525.91)</u>
Net Nonoperating Revenues	<u>31,825,614.77</u>
Loss Before Other Revenues	(2,170,554.38)
State Capital Aid	14,289,210.85
County Capital Aid	565,428.52
Capital Grants	<u>113,345.97</u>
Increase in Net Assets	12,797,430.96

**NET ASSETS**

Net Assets, July 1, 2006 as Restated (Note 16)	<u>84,717,605.97</u>
Net Assets, June 30, 2007	<u>\$ 97,515,036.93</u>

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



***Cape Fear Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 14,903,650.12
Payments to Employees and Fringe Benefits	(31,451,012.17)
Payments to Vendors and Suppliers	(11,414,371.70)
Payments for Scholarships and Fellowships	(3,270,512.71)
Other Receipts	<u>169,260.27</u>
Net Cash Used by Operating Activities	<u>(31,062,986.19)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	25,043,637.18
County Appropriations	5,566,374.00
Noncapital Grants Received	402,208.29
Noncapital Gifts Received	<u>650,323.99</u>
Cash Provided by Noncapital Financing Activities	<u>31,662,543.46</u>

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

State Capital Aid Received	2,359,353.97
County Capital Aid	565,428.52
Capital Grants Received	113,345.97
Acquisition and Construction of Capital Assets	(1,685,161.17)
Interest Paid on Capital Debt	(5,014.84)
Principal Paid on Capital Debt	<u>(43,398.43)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,304,554.02</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>214,597.22</u>
Cash Provided by Investing Activities	<u>214,597.22</u>

Net Increase in Cash and Cash Equivalents	2,118,708.51
Cash and Cash Equivalents, July 1, 2006	<u>3,751,028.59</u>
Cash and Cash Equivalents, June 30, 2007	<u><u>\$ 5,869,737.10</u></u>

***Cape Fear Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3  
Page 2***

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

Operating Loss	\$ (33,996,169.15)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,587,851.20
Changes in Assets and Liabilities:	
Receivables, Net	171,631.26
Inventories	73,314.93
Prepaid Items	(111,019.96)
Accounts Payable and Accrued Liabilities	(20,077.99)
Unearned Revenue	71,568.85
Funds Held for Others	169,260.27
Compensated Absences	(9,345.60)
Net Cash Used by Operating Activities	<u>\$ (31,062,986.19)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 4,495,930.84
Restricted Cash and Cash Equivalents	552,445.56
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>821,360.70</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 5,869,737.10</u>

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

Increase in Receivables Related to Nonoperating Income	\$ 11,929,856.88
Capital Asset Write-Offs	51,525.91

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

**CAPE FEAR COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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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. Cape Fear 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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. 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.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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 College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

**Invested in Capital Assets, Net of Related Debt** – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

**Restricted Net Assets – 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money 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 \$14,160.00, and deposits in private financial institutions with a carrying value of \$620,569.82 and a bank balance of \$999,856.64.

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,235,007.28 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 1.6 years as of June 30, 2007. 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.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2007, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 727,602.02	\$ 25,408.90	\$ 702,193.12
Accounts	95,121.84		95,121.84
Intergovernmental	249,088.07		249,088.07
Other	8,031.66		8,031.66
	<u>1,079,843.59</u>	<u>25,408.90</u>	<u>1,054,434.69</u>
<b>Total Current Receivables</b>	<u>\$ 1,079,843.59</u>	<u>\$ 25,408.90</u>	<u>\$ 1,054,434.69</u>
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>2,135.33</u>	<u>0.00</u>	<u>2,135.33</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 8,109,491.04	\$ 0.00	\$ 0.00	\$ 8,109,491.04
Construction in Progress	2,561,821.50	1,041,527.18	2,169,292.44	1,434,056.24
<b>Total Capital Assets, Nondepreciable</b>	<b>10,671,312.54</b>	<b>1,041,527.18</b>	<b>2,169,292.44</b>	<b>9,543,547.28</b>
Capital Assets, Depreciable:				
Buildings	73,761,716.52			73,761,716.52
Machinery and Equipment	7,081,213.49	643,633.99	150,846.44	7,574,001.04
General Infrastructure	3,099,826.38	2,169,292.44		5,269,118.82
<b>Total Capital Assets, Depreciable</b>	<b>83,942,756.39</b>	<b>2,812,926.43</b>	<b>150,846.44</b>	<b>86,604,836.38</b>
Less Accumulated Depreciation:				
Buildings	11,435,512.19	1,859,091.17		13,294,603.36
Machinery and Equipment	3,393,820.29	596,564.72	99,320.53	3,891,064.48
General Infrastructure	816,820.94	132,195.31		949,016.25
<b>Total Accumulated Depreciation</b>	<b>15,646,153.42</b>	<b>2,587,851.20</b>	<b>99,320.53</b>	<b>18,134,684.09</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>68,296,602.97</b>	<b>225,075.23</b>	<b>51,525.91</b>	<b>68,470,152.29</b>
<b>Capital Assets, Net</b>	<b>\$ 78,967,915.51</b>	<b>\$ 1,266,602.41</b>	<b>\$ 2,220,818.35</b>	<b>\$ 78,013,699.57</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 606,015.76
Accrued Payroll	620,784.88
Contract Retainage	196.44
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,226,997.08</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 64,035.20	\$ 0.00	\$ 43,398.43	\$ 20,636.77	\$ 15,988.41
Compensated Absences	985,928.33	733,626.35	742,971.95	976,582.73	180,306.45
<b>Total Long-Term Liabilities</b>	<u>\$ 1,049,963.53</u>	<u>\$ 733,626.35</u>	<u>\$ 786,370.38</u>	<u>\$ 997,219.50</u>	<u>\$ 196,294.86</u>

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

Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2007	Principal Outstanding 06/30/2007
Nebraska Book Co.	8.5	8/21/2008	\$ 69,917.11	\$ 49,280.34	\$ 20,636.77
BB&T	4.18	1/31/2007	178,227.00	178,227.00	
			<u>\$ 248,144.11</u>	<u>\$ 227,507.34</u>	<u>\$ 20,636.77</u>

**C. Annual Requirements**– The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2008	\$ 15,988.41	\$ 1,754.12
2009	4,648.36	395.11
Total Requirements	<u>\$ 20,636.77</u>	<u>\$ 2,149.23</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases related to property and equipment consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 81,801.50
2009	64,467.36
2010	64,467.36
2011	49,526.40
2012	<u>49,526.40</u>
Total Minimum Lease Payments	<u><u>\$ 309,789.02</u></u>

Rental expense for all operating leases during the year was \$89,651.91.

### NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services consists of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 14,607.00
2009	14,607.00
2010	14,607.00
2011	14,607.00
2012-2016	<u>73,035.00</u>
Total Minimum Lease Revenues	<u><u>\$ 131,463.00</u></u>

Rental revenue for all operating leases during the year was \$14,607.00.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - 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>	\$ 7,983,720.53	\$ 1,609,761.26	\$ 25,408.90	\$ 6,348,550.37
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Daycare	\$ 378,265.29	\$ 0.00	\$ 0.00	\$ 378,265.29
Bookstore	2,841,075.93	780,548.70		2,060,527.23
Parking	16,025.00			16,025.00
Vending	191,443.16			191,443.16
Other	111,486.41	49,778.55		61,707.86
<b>Total Sales and Services</b>	\$ 3,538,295.79	\$ 830,327.25	\$ 0.00	\$ 2,707,968.54

### 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	\$ 20,198,263.48	\$ 1,607,296.36	\$ 824,930.93	\$ 46,185.00	\$ 0.00	\$ 0.00	\$ 22,676,675.77
Academic Support	2,773,737.10	82,233.87	183,196.47				3,039,167.44
Student Services	1,877,117.39	162,314.19	102,147.52	217,110.00			2,358,689.10
Institutional Support	4,683,342.43	261,926.21	1,386,196.47				6,331,465.11
Operations and Maintenance of Plant	1,424,056.78	1,571,537.93	1,299,618.51		1,310,063.12		5,605,276.34
Student Financial Aid				3,007,217.71			3,007,217.71
Auxiliary Enterprises	485,149.39	2,022,858.24	542,268.86				3,050,276.49
Depreciation						2,587,851.20	2,587,851.20
Total Operating Expenses	\$ 31,441,666.57	\$ 5,708,166.80	\$ 4,338,358.76	\$ 3,270,512.71	\$ 1,310,063.12	\$ 2,587,851.20	\$ 48,656,619.16

### NOTE 12 - 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 is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$26,367,342.80, of which \$21,261,665.84 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$1,275,702.18 and \$565,560.31, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$565,560.31, \$458,006.81, and \$396,245.82, 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 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 \$65,749.72 for the year ended June 30, 2007.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$344,558.04 for the year ended June 30, 2007.

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 \$177,710.92 for the year ended June 30, 2007.

### 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, 2007, the College's total contribution to the Plan was \$807,943.30. 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. Disability Income –** 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$110,560.66. 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.

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 \$75,000 deductible. The College purchases coverage for losses from employee dishonesty for county and institutional fund paid employees under an employee dishonesty bond.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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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. In addition, the College provides student accident insurance to all its students through a private insurance company. This is paid entirely from the college bookstore revenues.

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.

The College maintains a Medical Professional Liability Occurrence Insurance Policy covering all students in the Health Care Programs. The limits of liability are \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

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**

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,180,772.39 and on other purchases were \$223,122.41 at June 30, 2007.

### **NOTE 15 - CAPE FEAR COMMUNITY COLLEGE FOUNDATION, INC.**

The Cape Fear Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation.



## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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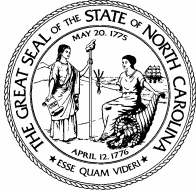
However, the College reports funds held for the foundation awaiting investment and expenditure and for distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$46,658.00 for the year ended June 30, 2007.

### **NOTE 16 - NET ASSET RESTATEMENT**

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 84,399,500.91
Restatement:	
Accounting Error in Estimating Useful Life of Capital Assets When Reporting Model Implemented	<u>318,105.06</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 84,717,605.97</u></u>

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STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

**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  
Cape Fear Community College  
Wilmington, North Carolina

We have audited the financial statements of Cape Fear Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated May 5, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management of the College the Board of Trustees, the State Board of Community Colleges, 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 5, 2008

## **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  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647