



# STATE OF NORTH CAROLINA

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**Beth A. Wood, CPA**  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, Cape Fear Community College

We have completed a financial statement audit of Cape Fear Community College for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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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, 2009, 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, 2009, 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.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

April 21, 2010

## **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, 2009. It provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, or conditions. The user is encouraged to read the accompanying financial statements and notes to the financial statements for detailed information. 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.

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 aid and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit. The utilization of capital assets is reflected in the financial statements as depreciation.

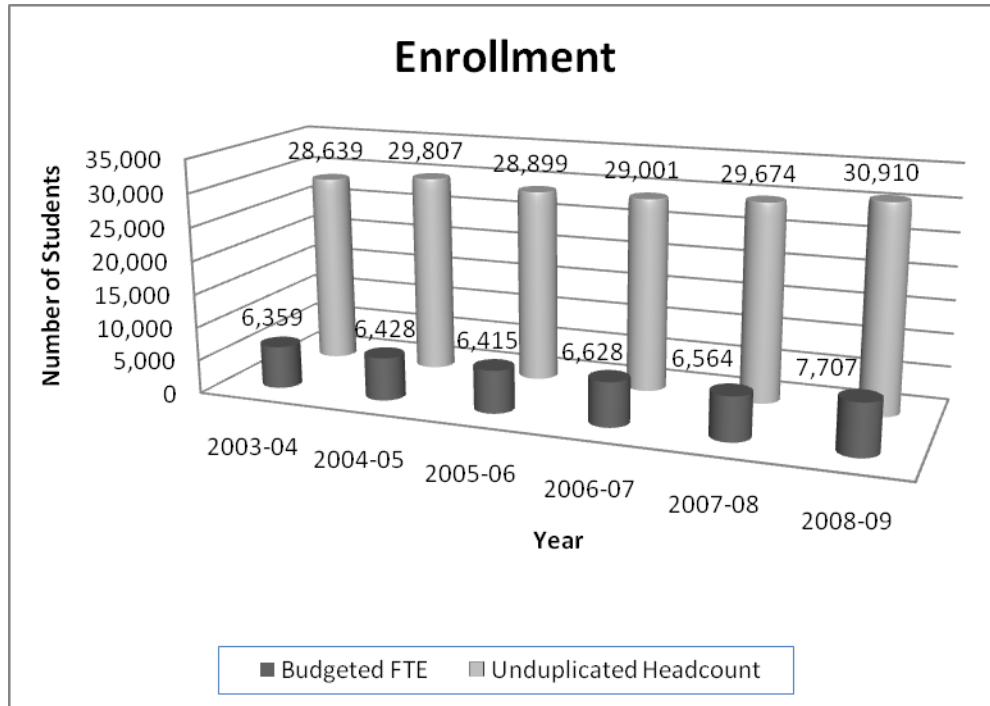
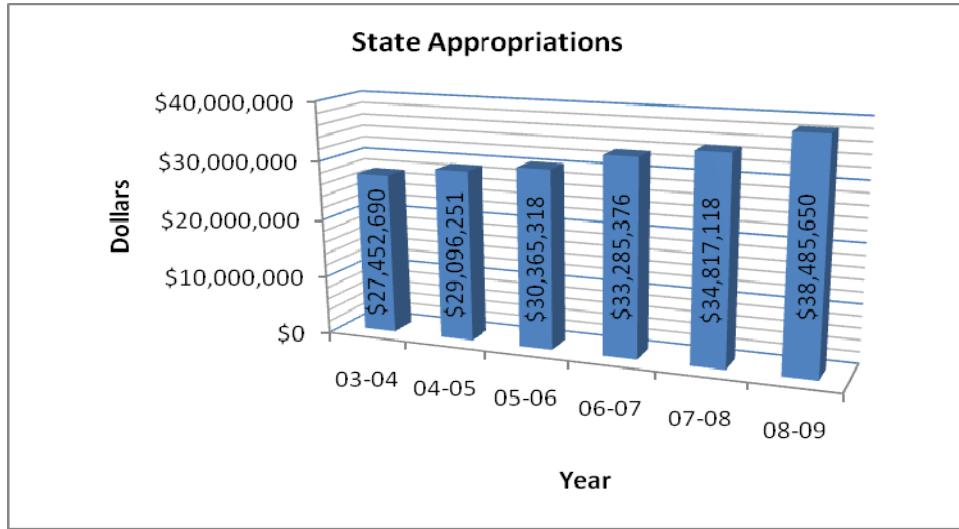
The Statement of Cash Flows is another financial indicator of the ability of the College to meet financial obligations as they occur. It presents information related to cash inflows and outflows summarized by operating, noncapital financing, and related investment activities.

### **Financial Highlights**

During the year, the College experienced an increase in enrollment as is customary during times of economic down turn. The total number of students who attended the College increased by 1,236 to 30,910 while the FTE (budgeted full time equivalency) increased by 1,143 to 7,707 during 2008-09. This contributed to an increase in budget allocation of \$3.7 million.

Due to the economic conditions that prevailed during 2008-09 fiscal year, the State imposed spending restrictions. The College spent \$37.3 million of the allocated budget of \$38.5 million. The College froze hiring, suspended professional development and travel, and curtailed purchases to only essential instructional needs to weather this financial storm.

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



In addition to the funding received from the State based on FTE’s, the College received \$5,964,592 from New Hanover County for operations and maintenance of plant. The College also received \$237,451 from Pender County for operational expenses of the Burgaw Campus.

The voters in New Hanover County overwhelmingly approved a \$164 million construction bond referendum for the College in November 2008. The College will receive \$163 million for new construction and New Hanover County will retain \$1 million for bond expenses. This bond referendum is the largest local bond to ever pass in the State of North Carolina. This financial support approved by the citizens of New Hanover County during the current economic slowdown strongly reflects the community’s support for Cape Fear Community



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

College to assist in meeting its core mission and to make sure students are not turned away due to lack of space.

The College received two major land donations during the year. Mr. Alston Burke donated 24.17 acres of land valued at \$1,849,500 to be utilized as Cape Fear Community College Alston W. Burke Surf City Campus. Mr. Nathan Sanders donated 351.56 acres of land valued at \$3,897,400 to be utilized as Cape Fear Community College Judia Blackburn Sanders Nature Preserve. Both these donations greatly enhance the educational opportunities for current and future students.

### 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, 2009. The data provides readers of this statement information on assets available to continue operations; pay amounts due to vendors and lending institutions; and the net assets available for expenditure by the College. The College's net assets increased by \$6.1 million (5.5%) during fiscal year 2009, mainly due to an increase in Capital Assets resulting from the additions of the donated land valued at \$5.7 million.

#### Condensed Statement of Net Assets

For Year Ended June 30, as Indicated

	<u>2009</u>	<u>2008 (Restated)</u>	<u>Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 8,705,045	\$ 8,893,305	\$ (188,260)	(2.1) %
Noncurrent Assets	8,368,065	15,686,458	(7,318,393)	(46.7) %
Capital Assets (Net)	<u>105,088,740</u>	<u>89,755,819</u>	<u>15,332,921</u>	17.1 %
<b>Total Assets</b>	<u>122,161,850</u>	<u>114,335,582</u>	<u>7,826,268</u>	6.8 %
<b>Liabilities</b>				
Current Liabilities	3,363,306	2,342,517	1,020,789	43.6 %
Noncurrent Liabilities	<u>2,379,237</u>	<u>1,647,352</u>	<u>731,885</u>	44.4 %
<b>Total Liabilities</b>	<u>5,742,543</u>	<u>3,989,869</u>	<u>1,752,674</u>	43.9 %
<b>Net Assets</b>				
Invested in Capital Assets	105,088,740	89,733,450	15,355,290	17.1 %
Restricted	7,460,799	16,464,570	(9,003,771)	(54.7) %
Unrestricted	<u>3,869,768</u>	<u>4,147,693</u>	<u>(277,925)</u>	(6.7) %
<b>Total Net Assets</b>	<u>\$ 116,419,307</u>	<u>\$ 110,345,713</u>	<u>\$ 6,073,594</u>	5.5 %

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

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The total assets as of June 30 are valued at \$122.2 million. 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 86% of total assets.

The 2008 current assets and noncurrent assets restatement was due to a current and noncurrent misclassification of receivables. There was a decrease in noncurrent assets of \$7.3 million in 2009 due to noncurrent receivables decreasing because substantial construction work was done on the Cosmetology/Early College Building in 2009.

The total liabilities are valued at \$5.7 million. Compensated absences, accrued payroll and accounts payable are the three largest components, with contracts retainage and contracts payable representing 28%. Contracts retainage and contracts payable accounted for \$1.09 million of the \$1.8 million increase in total liabilities due to the ongoing construction activities.

### **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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2009	2008 Restated	Change	% Change
<b>Operating Revenues</b>				
Tuition and Fees, Net	\$ 7,706,242	\$ 6,865,779	\$ 840,463	12.2 %
Sales and Services	3,200,725	2,676,962	523,763	19.6 %
Other Operating Revenues	231,916	144,559	87,357	60.4 %
Total Operating Revenues	<u>11,138,883</u>	<u>9,687,300</u>	<u>1,451,583</u>	15.0 %
<b>Operating Expenses</b>				
Personal Services	36,614,018	33,588,801	3,025,217	9.0 %
Supplies and Materials	7,901,904	6,552,735	1,349,169	20.6 %
Services	4,775,867	5,067,131	(291,264)	(5.7) %
Scholarships and Fellowships	6,504,732	4,007,083	2,497,649	62.3 %
Utilities	1,419,006	1,363,279	55,727	4.1 %
Depreciation	2,432,154	2,711,248	(279,094)	(10.3) %
Total Operating Expenses	<u>59,647,681</u>	<u>53,290,277</u>	<u>6,357,404</u>	11.9 %
<b>Operating Loss</b>	<u>(48,508,798)</u>	<u>(43,602,977)</u>	<u>(4,905,821)</u>	11.3 %
<b>Nonoperating Revenues</b>				
State Aid	25,377,493	25,370,488	7,005	0.0 %
State Aid - Federal Recovery Funds	1,686,147		1,686,147	100.0 %
County Appropriations	6,202,043	5,719,069	482,974	8.4 %
Noncapital Grants - Federal Student Financial Aid	7,677,939	5,493,347	2,184,592	39.8 %
Noncapital Grants	2,646,141	1,544,583	1,101,558	71.3 %
Noncapital Gifts	749,929	796,699	(46,770)	(5.9) %
Investment Income	247,580	389,588	(142,008)	(36.5) %
Other Nonoperating Revenues	5,238	7,097,159	(7,091,921)	(99.9) %
Total Nonoperating Revenues	<u>44,592,510</u>	<u>46,410,933</u>	<u>(1,818,423)</u>	(3.9) %
<b>Other Revenues</b>				
State Capital Aid	1,203,597	2,261,353	(1,057,756)	(46.8) %
County Capital Aid	2,871,412	7,612,100	(4,740,688)	(62.3) %
Capital Grants	143,731	149,267	(5,536)	(3.7) %
Capital Gifts	5,771,142		5,771,142	100.0 %
Total Other Revenues	<u>9,989,882</u>	<u>10,022,720</u>	<u>(32,838)</u>	(0.3) %
<b>Change in Net Assets</b>	<u>6,073,594</u>	<u>12,830,676</u>	<u>(6,757,082)</u>	(52.7) %
<b>Net Assets- Beginning of Year</b>	<u>110,345,713</u>	<u>97,515,037</u>	<u>12,830,676</u>	13.2 %
<b>Net Assets- End of Year</b>	<u>\$ 116,419,307</u>	<u>\$ 110,345,713</u>	<u>\$ 6,073,594</u>	5.5 %

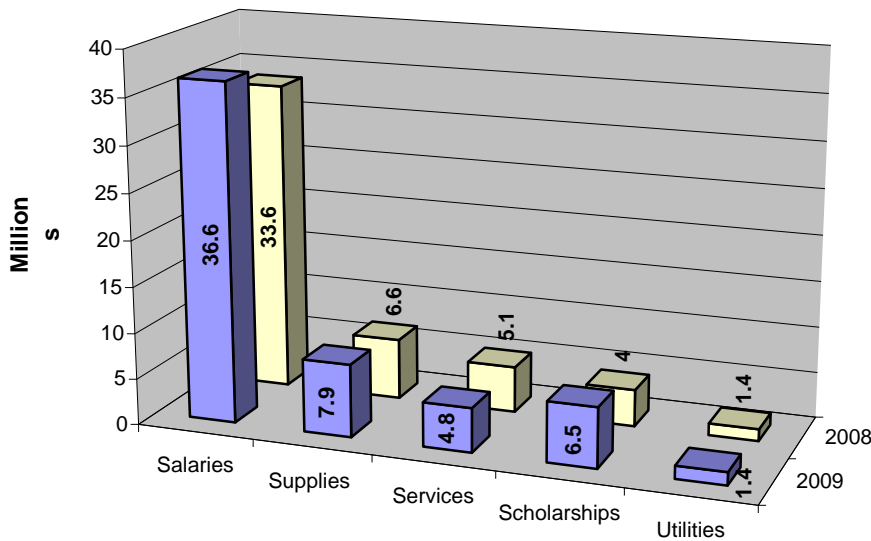
Operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided; i.e., State aid, county appropriations, grants and gifts. This year at the direction of the Office of the State Controller federal, State and local grants and contracts have been shown under noncapital grants. Nonoperating expenses include expenses not involved in the normal operations of the College.

The total operating revenues increased by \$1.5 million. Tuition and fees increased by \$840 thousand (12.2%) due to the increase in curriculum enrollment by 7.2%. This increase

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

in revenue was offset by a decrease in nonoperating revenue of \$1.8 million. This net decrease is the difference between the increase in \$7 million recognized last year on the exchange of land with the City of Wilmington and an increase in noncapital grants. Scholarships and fellowships which is a component of noncapital grants increased by \$3.3 million partly due to the number of students eligible for financial aid and partly due to the increase in the allocation of PELL award per student from \$4,310 to \$4,731 this year and an increase of \$1.7 million in State aid in keeping with the increase in enrollment. Although the total other revenue decreased by \$33,000 in 2009, we received two pieces of land valued at \$5.7 million in 2009 and this increase was offset by a reduction in county capital aid for construction in 2008.

### Operating Expenses



There was an increase of \$6.4 million in operating expenses mainly due to the increase of personnel expenses of \$3 million resulting from the hiring of new full-time and part-time employees and an annual salary increase of 3% to 5% for 2008-09. To support the additional staff, students, and enrollment growth there was an increase of \$1.3 million in supplies and materials expenses this year.

### 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

	2009	2008	Change	% Change
<b>Cash Provided (Used) by:</b>				
Operating Activities	\$ (44,785,301)	\$ (35,502,362)	\$ (9,282,939)	26.1 %
Noncapital Financing Activities	44,339,691	32,271,339	12,068,352	37.4 %
Capital Financing Activities	1,134,975	4,980,067	(3,845,092)	(77.2) %
Investing Activities	247,580	389,587	(142,007)	(36.5) %
<b>Net Change in Cash</b>	<u>936,945</u>	<u>2,138,631</u>	<u>(1,201,686)</u>	(56.2) %
<b>Cash, Beginning of Year</b>	<u>8,008,368</u>	<u>5,869,737</u>	<u>2,138,631</u>	36.4 %
<b>Cash, Ending of Year</b>	<u>\$ 8,945,313</u>	<u>\$ 8,008,368</u>	<u>\$ 936,945</u>	11.7 %

Major sources of funds for the operating activities were provided by student tuition and fees (\$7.2 million), and auxiliary enterprises (\$3.2 million).

Major uses of funds in operating activities were for employee compensation (\$36.5 million), payments to vendors and suppliers (\$13.1 million), and scholarships (\$6.5 million).

The largest inflow of funds used in operations is the aid from the State of North Carolina (\$27.1 million), county appropriations (\$6.2 million), and noncapital grants (\$10.3 million). These are shown as nonoperating revenue per *Government Accounting Standard Board (GASB) Statement No. 35*. The \$1.1 million cash in flow related to capital financing activities is due to the net inflow of State capital aid (\$10.2 million), county capital aid (\$2.9 million), capital grants (\$143,731) and the outflow of cash for the acquisition and construction of capital assets (\$12.1 million).

### Capital Assets

The College had \$105.1 million invested in capital assets, net of accumulated depreciation as of June 30, 2009.

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

	2009	2008	Change
Land	\$ 17,158,559	\$ 11,387,417	\$ 5,771,142
Construction in Progress	11,598,886	10,194,060	1,404,826
Buildings	68,037,911	60,406,631	7,631,280
Machinery and Equipment	4,069,395	3,876,558	192,837
General Infrastructure	<u>4,223,989</u>	<u>3,891,153</u>	<u>332,836</u>
<b>Total Capital Assets, Net of Depreciation</b>	<u>\$ 105,088,740</u>	<u>\$ 89,755,819</u>	<u>\$ 15,332,921</u>

Net additions to buildings were \$7.6 million as of June 30, 2009 mainly due to the addition of the Public Safety Training Center.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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Other activities related to capital assets now, and in the future with the \$163 million bond funds are as follows:

- Construction of a 400-car parking deck at the Wilmington Campus and Cosmetology/Early College Building at the North Campus, a \$16.86 million project. Cosmetology/Early College Building was completed in time for the fall semester. The projected completion date of the parking deck is April 2010.
- Renovation and expansion of the bookstore was completed in June 2009 at a cost of \$770,000.
- Demolition of the former Police Building is scheduled to start in November 2009.
- Construction of 1000-1200 car parking deck is scheduled to start in early 2010.
- Construction of Union Station Building is scheduled to start in July 2010.
- Construction of the Fine Arts Center is scheduled to begin early 2011.
- Construction of an Advanced and Emerging Technology Center at North Campus is scheduled to begin early 2012.

### **Economic Forecast**

The effect of the nation's economy is being felt in all of the 100 North Carolina Counties with New Hanover and Pender Counties ending the year with a 9.5%, and 11.6% unemployment rate. The State as a whole ended with an 11% unemployment rate in comparison.

During challenging economic times, as expected the enrollment at Cape Fear Community College increased by 7.2%. Management believes that the College is well positioned and prepared to meet the educational needs of the community of this area even during these times of economic hardship.

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 meets 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.

More than 30,000 students take classes every year. Cape Fear touches all aspects of this community. Over 80% of CFCC students live and work in our local area before enrolling and after graduation stay in the area and work. The college's economic impact is felt throughout New Hanover and Pender counties by generating an additional \$435 million in business sales and \$192 million in labor income each year.

With great appreciation to the citizens of New Hanover County who passed the \$164 million bond referendum, the College will soon have adequate class room space to meet the growing needs of every student in this area to provide education and retraining. With continued support of the local citizens, Cape Fear Community College will continue to strive to start new educational programs and services to make the Cape Fear region the very best it can be.

***Cape Fear Community College***  
***Statement of Net Assets***  
***June 30, 2009***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,002,891.06
Restricted Cash and Cash Equivalents	1,949,487.26
Receivables, Net (Note 3)	574,121.74
Inventories	998,569.61
Prepaid Items	<u>179,975.64</u>
Total Current Assets	<u>8,705,045.31</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,992,935.29
Receivables (Note 3)	2,900,277.28
Restricted Due from Primary Government	3,474,852.00
Capital Assets - Nondepreciable (Note 4)	28,757,445.85
Capital Assets - Depreciable, Net (Note 4)	<u>76,331,294.38</u>
Total Noncurrent Assets	<u>113,456,804.80</u>
Total Assets	<u>122,161,850.11</u>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	2,898,849.54
Unearned Revenue	279,844.28
Long-Term Liabilities - Current Portion (Note 6)	<u>184,612.31</u>
Total Current Liabilities	<u>3,363,306.13</u>

Noncurrent Liabilities:

Funds Held for Others	1,336,564.53
Long-Term Liabilities (Note 6)	<u>1,042,672.32</u>
Total Noncurrent Liabilities	<u>2,379,236.85</u>
Total Liabilities	<u>5,742,542.98</u>

**NET ASSETS**

Invested in Capital Assets	105,088,740.23
Restricted for:	
Expendable:	
Scholarships and Fellowships	24,821.63
Capital Projects	6,953,867.79
Restricted for Specific Programs	200,833.21
Other	281,276.09
Unrestricted	<u>3,869,768.18</u>
Total Net Assets	<u>\$ 116,419,307.13</u>

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, 2009***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 7,706,242.36
Sales and Services, Net (Note 9)	3,200,725.16
Other Operating Revenues	<u>231,915.98</u>
Total Operating Revenues	<u>11,138,883.50</u>

**EXPENSES**

Operating Expenses:	
Personal Services	36,614,018.25
Supplies and Materials	7,901,904.24
Services	4,775,866.53
Scholarships and Fellowships	6,504,731.72
Utilities	1,419,006.14
Depreciation	<u>2,432,154.46</u>
Total Operating Expenses	<u>59,647,681.34</u>
Operating Loss	<u>(48,508,797.84)</u>

**NONOPERATING REVENUES**

State Aid	25,377,493.12
State Aid - Federal Recovery Funds	1,686,146.74
County Appropriations	6,202,042.50
Noncapital Grants - Federal Student Financial Aid	7,677,938.98
Noncapital Grants	2,646,141.48
Noncapital Gifts	749,928.49
Investment Income	247,580.06
Other Nonoperating Revenues	<u>5,238.12</u>
Net Nonoperating Revenues	<u>44,592,509.49</u>
Loss Before Other Revenues	(3,916,288.35)
State Capital Aid	1,203,597.09
County Capital Aid	2,871,411.73
Capital Grants	143,731.11
Capital Gifts	<u>5,771,142.35</u>
Increase in Net Assets	6,073,593.93

**NET ASSETS**

Net Assets, July 1, 2008	<u>110,345,713.20</u>
Net Assets, June 30, 2009	<u>\$ 116,419,307.13</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, 2009***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 10,638,162.16
Payments to Employees and Fringe Benefits	(36,498,043.06)
Payments to Vendors and Suppliers	(13,097,067.42)
Payments for Scholarships and Fellowships	(6,504,731.72)
Other Receipts	676,379.21
	<hr/>
Net Cash Used by Operating Activities	(44,785,300.83)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	25,377,493.12
State Aid - Federal Recovery Funds	1,686,146.74
County Appropriations	6,202,042.50
Noncapital Grants - Federal Student Financial Aid	7,677,938.98
Noncapital Grants Received	2,646,141.48
Noncapital Gifts Received	749,928.49
	<hr/>
Cash Provided by Noncapital Financing Activities	44,339,691.31

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

State Capital Aid Received	10,221,632.21
County Capital Aid	2,871,411.73
Capital Grants Received	143,731.11
Acquisition and Construction of Capital Assets	(12,097,151.29)
Principal Paid on Capital Debt	(4,648.36)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,134,975.40

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	247,580.06
	<hr/>
Cash Provided by Investing Activities	247,580.06

Net Increase in Cash and Cash Equivalents	936,945.94
Cash and Cash Equivalents, July 1, 2008	8,008,367.67
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 8,945,313.61

***Cape Fear Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2009***

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

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

Operating Loss	\$ (48,508,797.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	2,432,154.46
Miscellaneous Nonoperating Income	108,456.47
Changes in Assets and Liabilities:	
Receivables, Net	(535,072.89)
Inventories	8,797.67
Prepaid Items	(48,160.74)
Accounts Payable and Accrued Liabilities	949,072.56
Unearned Revenue	34,351.55
Funds Held for Others	567,922.74
Pollution Remediation Payable	90,000.00
Compensated Absences	115,975.19
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (44,785,300.83)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 5,002,891.06
Restricted Cash and Cash Equivalents	1,949,487.26
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,992,935.29
	<hr/>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 8,945,313.61</u></u>

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

Assets Acquired through a Gift	\$ 5,809,747.62
Capital Asset Write-Offs	386,064.59
Loss of Disposal of Capital Assets	(103,218.35)

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, 2009**

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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 (GAAP), 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State aid, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences and pollution remediation payables 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

**Invested in Capital Assets** - This represents the College's total investment in capital assets.

**Restricted Net Assets – Expendable** - Expendable restricted net assets include resources for which the College is legally or contractually

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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obligated to spend in accordance with restrictions imposed by external parties.

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

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

- L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money 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 \$15,240.00, and deposits in private financial institutions with a carrying value of \$553,900.03 and a bank balance of \$1,813,271.45.

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, 2009, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$8,376,173.58 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 342,757.61	\$ 36,574.00	\$ 306,183.61
Accounts	177,109.99		177,109.99
Intergovernmental	89,768.21		89,768.21
Other	1,059.93		1,059.93
<b>Total Current Receivables</b>	<b>\$ 610,695.74</b>	<b>\$ 36,574.00</b>	<b>\$ 574,121.74</b>
<b>Noncurrent Receivables:</b>			
Intergovernmental	\$ 2,900,277.28	\$ 0.00	\$ 2,900,277.28



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 11,387,417.04	\$ 5,771,142.35	\$ 0.00	\$ 17,158,559.39
Construction in Progress	10,194,060.37	10,941,026.66	9,536,200.57	11,598,886.46
<b>Total Capital Assets, Nondepreciable</b>	<u>21,581,477.41</u>	<u>16,712,169.01</u>	<u>9,536,200.57</u>	<u>28,757,445.85</u>
Capital Assets, Depreciable:				
Buildings	75,342,277.52	9,536,200.57		84,878,478.09
Machinery and Equipment	8,182,018.32	624,737.32	386,064.59	8,420,691.05
General Infrastructure	4,919,344.98	531,387.31		5,450,732.29
<b>Total Capital Assets, Depreciable</b>	<u>88,443,640.82</u>	<u>10,692,325.20</u>	<u>386,064.59</u>	<u>98,749,901.43</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	14,935,645.90	1,904,921.03		16,840,566.93
Machinery and Equipment	4,305,460.59	328,682.25	282,846.24	4,351,296.60
General Infrastructure	1,028,192.34	198,551.18		1,226,743.52
<b>Total Accumulated Depreciation</b>	<u>20,269,298.83</u>	<u>2,432,154.46</u>	<u>282,846.24</u>	<u>22,418,607.05</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>68,174,341.99</u>	<u>8,260,170.74</u>	<u>103,218.35</u>	<u>76,331,294.38</u>
<b>Capital Assets, Net</b>	<u>\$ 89,755,819.40</u>	<u>\$ 24,972,339.75</u>	<u>\$ 9,639,418.92</u>	<u>\$ 105,088,740.23</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 1,299,717.33
Accrued Payroll	751,154.50
Contract Retainage	847,977.71
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 2,898,849.54</u>

### NOTE 6 LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Notes Payable	\$ 4,648.36	\$ 0.00	\$ 4,648.36	\$ 0.00	\$ 0.00
Compensated Absences	1,021,309.44	1,008,676.85	892,701.66	1,137,284.63	166,612.31
Pollution Remediation Payable		90,000.00		90,000.00	18,000.00
<b>Total Long-Term Liabilities</b>	<u>\$ 1,025,957.80</u>	<u>\$ 1,098,676.85</u>	<u>\$ 897,350.02</u>	<u>\$ 1,227,284.63</u>	<u>\$ 184,612.31</u>

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

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**B. Pollution Remediation Payable** - The College has recognized a pollution remediation liability for monitoring a site that was contaminated by the flammable material used to train firefighters. The clean up has been completed and was jointly done by New Hanover County, the City of Wilmington, the US Air Force and Cape Fear Community College. The College paid a total of \$499,739, being its one fourth share of the clean up, the last installment being paid on 11/11/2003. The liability recorded is for monitoring costs. The amount of the estimated liability is \$90,000.00. This estimate was calculated based on past payments made to Environmental Protection Agency for monitoring. This liability is subject to potential changes due to the fluctuation in the number of hours required for monitoring and the variance in personnel costs of the monitoring staff.

**NOTE 7 - OPERATING LEASE OBLIGATIONS**

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 77,356.72
2011	62,415.76
2012	62,917.69
Total Minimum Lease Payments	<u>\$ 202,690.17</u>

Rental expense for all operating leases during the year was \$76,928.98.

**NOTE 8 - OPERATING LEASE REVENUES**

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 14,607.00
2011	14,607.00
2012	14,607.00
2013	14,607.00
2014	14,607.00
2015-2016	29,214.00
Total Minimum Lease Revenues	<u>\$ 102,249.00</u>

Rental revenue for the operating lease 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>	\$ 10,137,246.80	\$ 2,430,843.04	\$ 161.40	\$ 7,706,242.36
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Daycare	\$ 427,445.30	\$ 0.00	\$ 0.00	\$ 427,445.30
Bookstore	3,794,238.46	1,282,751.40		2,511,487.06
Parking	36,170.75			36,170.75
Vending	204,310.60			204,310.60
Other	21,311.45			21,311.45
<b>Total Sales and Services</b>	\$ 4,483,476.56	\$ 1,282,751.40	\$ 0.00	\$ 3,200,725.16

### 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	\$ 23,289,333.44	\$ 3,136,427.79	\$ 739,499.59	\$ 0.00	\$ 0.00	\$ 0.00	\$ 27,165,260.82
Academic Support	3,682,014.09	176,087.86	164,003.60				4,022,105.55
Student Services	2,333,785.23	139,431.97	221,960.56				2,695,177.76
Institutional Support	5,058,638.88	115,876.61	1,578,984.72				6,753,500.21
Operations and Maintenance of Plant	1,723,397.15	1,067,410.19	1,586,467.41		1,419,006.14		5,796,280.89
Student Financial Aid			8,440.00	6,504,731.72			6,513,171.72
Auxiliary Enterprises	526,849.46	3,266,669.82	476,510.65				4,270,029.93
Depreciation						2,432,154.46	2,432,154.46
<b>Total Operating Expenses</b>	\$ 36,614,018.25	\$ 7,901,904.24	\$ 4,775,866.53	\$ 6,504,731.72	\$ 1,419,006.14	\$ 2,432,154.46	\$ 59,647,681.34

### 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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$30,379,110.11, of which \$24,416,694.63 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$820,400.94 and \$1,465,004.32, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$820,400.94, \$680,027.78, and 565,560.31 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 \$73,026.72 for the year ended June 30, 2009.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$319,481.00 for the year ended June 30, 2009.

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 \$190,753.00 for the year ended June 30, 2009.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$1,001,084.48, \$914,135.71, and \$807,943.30, respectively. 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*. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$126,966.81, \$115,939.16, and \$110,560.66, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, including 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 \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the \$10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College purchases coverage for employee dishonesty for employees paid with county and institutional funds under an employee dishonesty bond.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The Marine Technology Program has coverage for their ocean going vessels in the amount of \$1,000,000, with an additional \$1,000,000 of coverage for pollution related to such vessels. The Allied Health Program has medical professional liability insurance with coverage of \$1,000,000 for each incident and \$3,000,000 in aggregate.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 \$12,049,354.32 and on other purchases were \$560,924.58 at June 30, 2009.

### **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



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from the Foundation. This support was \$108,760.64 for the year ended June 30, 2009.

### **NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2009, the College implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 49 requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid revenue as nonoperating revenue instead of operating. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

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**Beth A. Wood, CPA**  
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  
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, 2009, and have issued our report thereon dated April 21, 2010.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during the year ended June 30, 2009.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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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. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

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.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

April 21, 2010

## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Financial Reporting**

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

#### DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included the following:

- a. The College did not account for interfund borrowing, causing current cash to be overstated by \$875,347. This also caused current restricted cash and noncurrent restricted cash to be understated by \$224,608 and \$650,739, respectively.
- b. The College did not recognize receivables designated for capital purposes as noncurrent, thus overstating current intergovernmental receivables by \$2,900,277 while understating noncurrent intergovernmental receivables by the same amount.
- c. The College did not reverse a prior year accounts receivable balance, causing student accounts receivable to be overstated by \$403,697 and student tuition and fees to be understated by the same amount.
- d. The College did not correctly report its net assets. For example, net assets invested in capital assets were understated by \$2,535,373, while the amount restricted for capital projects was overstated by \$1,660,026. Unrestricted net assets were overstated by \$875,347. Adjustments were made to other net asset accounts as well.
- e. The College incorrectly included grants received from state and local sources in the noncapital grants - federal student financial aid account, causing this account to be overstated by \$2,646,141 and the noncapital grants account to be understated by the same amount.

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and review and modify its internal controls to ensure the accuracy and completeness of the financial statements.

*College's Response:* The College concurs with the audit finding and recommendation. The College agrees to improve the financial statement preparation process by utilizing an additional accountant, revising the current review procedures, and including additional internal controls to ensure the accuracy and completeness of the financial statements.

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## **ORDERING INFORMATION**

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

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