



STATE OF NORTH CAROLINA

CAPE FEAR COMMUNITY COLLEGE

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

CAPE FEAR COMMUNITY COLLEGE

WILMINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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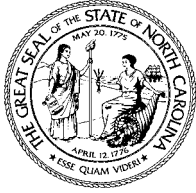
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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. 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, 2011, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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, 2011, 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.

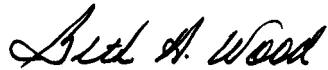
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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 November 15, 2011 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)

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

November 15, 2011

CAPE FEAR COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Cape Fear Community College is pleased to present the Management's Discussion and Analysis of its financial activities for the fiscal year ended June 30, 2011. It provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, and conditions. The reader is encouraged to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

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.

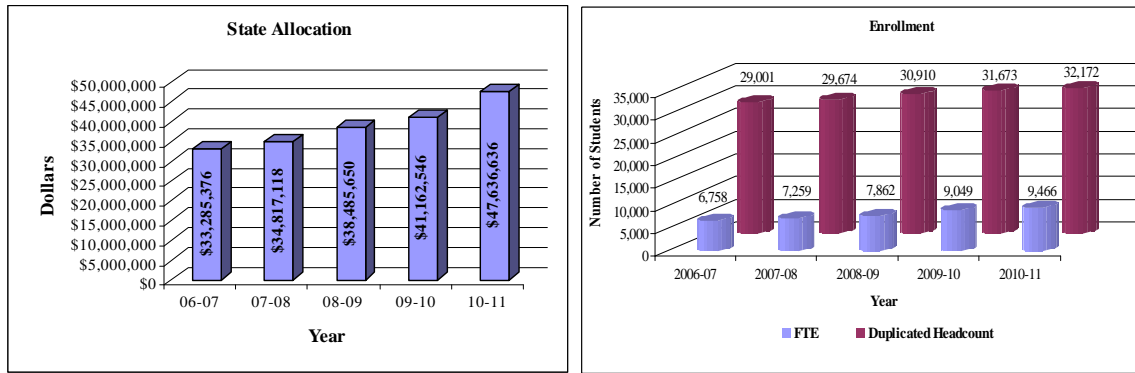
The Statement of Cash Flows is another financial indicator of the ability of the College to meet financial obligations as they occur. It presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and related investment activities.

Financial Highlights

During the year, the enrollment growth of the College continued. The College served the large numbers of unemployed and underemployed citizens of New Hanover County and surrounding areas. The full time equivalent (FTE) of curriculum students increased by 417 (4.6%) during the year. The total number of students who attended either or both curriculum and continuing education classes, duplicated headcount, increased by 499 to 32,172. The College received \$6.5 million more than the previous year from the State in 2010-11, based on budgeted FTE.

The College's total budget allocation based on enrollment was \$48,903,644. The initial allocation was immediately reduced by \$1,267,008 by legislative action as management reduction flexibility, and the College was allocated \$47,636,636. From this amount the College was required to revert \$669,300. Due to the prevailing economic conditions during 2010-11 and the possible reversion of additional State funds, the College exercised prudence in its fiscal management and spent \$46,645,860 of the State's allocation during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



In addition to the funding received from the State, the College received \$5,841,767 from New Hanover County for operations and maintenance of plant for 2010-11. There was no increase in funding from the 2009-10 level. The College also received \$185,711 from Pender County for operational expenses of the Burgaw and Surf City campuses, a reduction of \$70,215 from the previous year.

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, 2011. The data provides readers of this statement information on assets available to continue operations, pay amounts due to vendors; and the net assets available for operations by the College.

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

	2011	2010	Change	% Change
Assets				
Current Assets	\$ 9,310,402	\$ 7,942,542	\$ 1,367,860	17.2 %
Noncurrent Assets	6,787,406	2,639,839	4,147,567	157.1 %
Capital Assets (Net)	<u>134,221,230</u>	<u>111,954,090</u>	<u>22,267,140</u>	19.9 %
Total Assets	<u>150,319,038</u>	<u>122,536,471</u>	<u>27,782,567</u>	22.7 %
Liabilities				
Current Liabilities	7,920,043	2,076,231	5,843,812	281.5 %
Noncurrent Liabilities	<u>2,608,332</u>	<u>2,604,993</u>	<u>3,339</u>	0.1 %
Total Liabilities	<u>10,528,375</u>	<u>4,681,224</u>	<u>5,847,151</u>	124.9 %
Net Assets				
Invested in Capital Assets	134,221,230	111,954,090	22,267,140	19.9 %
Restricted	1,048,607	3,339,133	(2,290,526)	(68.6) %
Unrestricted	<u>4,520,826</u>	<u>2,562,024</u>	<u>1,958,802</u>	76.5 %
Total Net Assets	<u>\$ 139,790,663</u>	<u>\$ 117,855,247</u>	<u>\$ 21,935,416</u>	18.6 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Notable changes in the above table are due to:

- Noncurrent assets increased by 4.1 million (157.1%) mainly due to a \$4.5 million increase in construction receivable from New Hanover County recorded in 2011. This is mainly due to the new construction activity taking place at the College for the Union Station Parking Deck, the Union Station Building, and the Humanities and Fine Arts Center.
- Current liabilities increased by \$5.8 million (281.5%). This increase was also related to the construction activity stated above. The construction and retainage payable recorded in 2011 was \$5.8 million, and the amount recorded in 2010 was \$492,058.
- Investment in capital assets increased by \$22.3 million (19.9%) due to the recording of construction in progress in the amount of \$22.7 million for capital projects.
- The College's net assets increased by \$21.9 million (18.6%) during fiscal year 2011, mainly due to progress made on the construction activity stated above.

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

	2011	2010	Change	% Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 10,266,494	\$ 9,146,967	\$ 1,119,527	12.2 %
Sales and Services, Net	3,515,276	3,518,773	(3,497)	(0.1) %
Other Operating Revenues	277,543	318,048	(40,505)	(12.7) %
Total Operating Revenues	14,059,313	12,983,788	1,075,525	8.3 %
Operating Expenses:				
Salaries and Benefits	41,502,073	38,378,950	3,123,123	8.1 %
Supplies and Materials	9,821,239	8,737,734	1,083,505	12.4 %
Services	5,381,115	4,765,995	615,120	12.9 %
Scholarships and Fellowships	12,306,998	10,562,339	1,744,659	16.5 %
Utilities	1,548,352	1,489,436	58,916	4.0 %
Depreciation	3,236,091	2,944,021	292,070	9.9 %
Total Operating Expenses	73,795,868	66,878,475	6,917,393	10.3 %
Operating Loss	(59,736,555)	(53,894,687)	(5,841,868)	10.8 %
Nonoperating Revenues (Expenses):				
State Aid	28,364,949	26,530,085	1,834,864	6.9 %
County Appropriations	6,027,478	5,920,693	106,785	1.8 %
Noncapital Grants - Federal Student Financial Aid	18,639,264	14,759,916	3,879,348	26.3 %
Noncapital Grants	2,317,148	2,578,769	(261,621)	(10.1) %
Noncapital Gifts	611,554	603,856	7,698	1.3 %
Investment Income	50,900	104,557	(53,657)	(51.3) %
Other Nonoperating Expenses	(115,507)	(2,051,737)	1,936,230	(94.4) %
Total Net Nonoperating Revenues	55,895,786	48,446,139	7,449,647	15.4 %
Other Revenues:				
State Capital Aid	3,780,910	2,085,811	1,695,099	81.3 %
County Capital Aid	21,903,775	4,675,801	17,227,974	368.4 %
Capital Grants	91,500	122,876	(31,376)	(25.5) %
Total Other Revenues	25,776,185	6,884,488	18,891,697	274.4 %
Increase in Net Assets	21,935,416	1,435,940	20,499,476	1427.6 %
Net Assets- Beginning of Year	117,855,247	116,419,307	1,435,940	1.2 %
Net Assets- End of Year	\$ 139,790,663	\$ 117,855,247	\$ 21,935,416	18.6 %

Operating Revenues

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

- The total operating revenues increased by \$1 million. The main reason being the increase in tuition and fees by \$1.1 million (12.2%) due to the increase in curriculum tuition fees by \$6.50 per credit hour and an increase in enrollment by 417 students (4.6%).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

Notable changes to operating expenses are due to the following:

- There was an increase of \$6.9 million in operating expenses mainly due to the increase in salaries and wages, supplies and materials, and scholarship and fellowship expenses during the year.
- Salaries and wages expenses increased by \$3.1 million due to the following reasons:
 1. The College had 39 more full-time employees plus additional part-time employees at 2011 year end compared to 2010,
 2. Increase in retirement rate from 3.57% in 2009-10 to 4.93% in 2010-11, and
 3. Increase in medical insurance rate from 4.5% 2009-10 to 4.9% in 2010-11.
- Supplies and materials expenses increased by \$1.1 million in 2010-11. This extra expense was incurred to support the additional staff and the growth of student population. The College also restricted their purchases to essential supplies in 2009-10 due to budgetary constraints.
- Scholarship and fellowship expenses increased by \$1.7 million due to 1,079 more students receiving PELL grants during 2010-2011.

Nonoperating Revenues (Expenses)

Notable changes to net nonoperating revenues are due to the following:

- Net nonoperating revenues increased by \$7.4 million. Noncapital grants – federal student financial aid increased by \$3.9 million due to 1,079 more students being awarded PELL this year. The maximum award amount per year remained the same as last year at \$5,550 per student.
- Investment income decreased by \$53,657 (51%) due to lower interest rates prevailing in the market during the year.
- There was a variance of \$1.9 million in other nonoperating expenses mainly due to the demolition of the former Police Station Building valued at \$2.1 million during 2009-10.

Other Revenues

Notable changes to other revenues are due to:

- State capital aid had an increase of \$1.7 million and almost all of the revenue was used to purchase instructional equipment. The College received an initial allocation of \$2 million for equipment and transferred \$1.8 million from the administration budget to purchase much needed equipment for students and staff.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- County capital aid had an increase of \$17.2 million. During 2010-11 the College received \$21.9 million from New Hanover County for construction expenses of the Union Station Parking Deck, the Union Station Building and the Humanities and Fine Arts Center. In 2010, the College received \$4.7 million for construction expenses from the County.

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.

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

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>% Change</u>
Cash Provided (Used) by:				
Operating Activities	\$ (56,366,837)	\$ (49,331,398)	\$ (7,035,439)	14.3 %
Noncapital Financing Activities	55,960,393	50,393,319	5,567,074	11.0 %
Capital Financing Activities	1,327,317	(2,263,104)	3,590,421	(158.7) %
Investing Activities	<u>50,900</u>	<u>104,557</u>	<u>(53,657)</u>	<u>(51.3) %</u>
Net Change in Cash	<u>971,773</u>	<u>(1,096,626)</u>	<u>2,068,399</u>	<u>(188.6) %</u>
Cash, Beginning of Year	<u>7,848,687</u>	<u>8,945,313</u>	<u>(1,096,626)</u>	<u>(12.3) %</u>
Cash, Ending of Year	<u>\$ 8,820,460</u>	<u>\$ 7,848,687</u>	<u>\$ 971,773</u>	<u>12.4 %</u>

Major sources of funds for the operating activities were provided by student tuition and fees (\$10.3 million) and by auxiliary enterprises (\$3.8 million).

Major uses of funds in operating activities were for employee compensation (\$41.6 million), payments to suppliers (\$9.8 million), services (\$5.4 million), and scholarships (\$12.3 million).

The largest inflow of funds used in operations is the aid from the State of North Carolina (\$28.4 million), county appropriations (\$6 million), and noncapital grants - federal student financial aid (\$18.6 million). These are shown as nonoperating revenue per Government Accounting Standard Board (GASB) Statement No. 35. The \$1.3 million cash in flow related to capital financing activities is primarily due to the net inflow of state capital aid (\$4.1 million), county capital aid (\$17.4 million) and the outflow of cash for the acquisition and construction of capital assets (\$20.3 million).

Capital Assets

The College had \$134.2 million invested in capital assets, net of accumulated depreciation as of June 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

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

	2011	2010	Change	% Change
Land and Permanent Easements	\$ 17,346,378	\$ 17,149,520	\$ 196,858	1.15 %
Construction in Progress	28,752,860	6,100,210	22,652,650	371.34 %
Buildings	78,691,723	80,376,659	(1,684,936)	(2.10) %
Machinery and Equipment	5,544,293	4,326,749	1,217,544	28.14 %
General Infrastructure	3,885,976	4,000,951	(114,975)	(2.87) %
Total Capital Assets, Net of Depreciation	<u>\$ 134,221,230</u>	<u>\$ 111,954,089</u>	<u>\$ 22,267,141</u>	19.89 %

Net additions to construction in progress were \$22.7 million as of June 30, 2011 due to the construction activity underway.

Thanks to the voters of New Hanover County who passed the \$164 million bond referendum in November 2008, the College is able to expand its facilities to serve greater number of students who are seeking job training and higher education. Capital projects underway and in the future with the \$164 million bond funds are as follows:

- Construction of 1,200 car parking deck began in July 2010 with an estimated completion date of December 2011.
- Construction of Union Station Building began in December 2010 with an estimated completion date of early 2013.
- Construction of the Fine Arts Center is scheduled to begin early 2012 with an estimated completion date of late 2013.
- Construction of an Advanced and Emerging Technology Center at North Campus is scheduled to begin early 2012 with an estimated completion date of late 2014.

Economic Forecast

Economic recovery is expected to continue at a slower pace due to modest consumer spending and slower than expected economic activity. New Hanover and Pender Counties have an unemployment rate of 9.9%, and 11.8% respectively as of July 2011. Economists expect the unemployment rate to taper downward gradually and as long as unemployment remains high, we expect enrollment also to remain high.

Cape Fear Community College has a two year college transfer program and over 60 technical and vocational programs. This year two new programs, Sustainable Energy Technology and Construction Management Technology, were added in response to the changing technology and industry need. With additional classroom space becoming available soon with the completion of the new buildings, competent management, professors and staff, Cape Fear Community College is in an excellent position to meet the needs of the citizens of New Hanover County and the surrounding areas for years to come.

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Cape Fear Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,724,568.41
Restricted Cash and Cash Equivalents	1,581,853.75
Receivables, Net (Note 3)	730,337.53
Inventories	1,106,586.28
Prepaid Items	<u>167,055.87</u>

Total Current Assets 9,310,401.84

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,514,038.05
Receivables (Note 3)	4,854,490.59
Restricted Due from Primary Government	418,877.60
Capital Assets - Nondepreciable (Note 4)	46,099,238.06
Capital Assets - Depreciable, Net (Note 4)	<u>88,121,992.23</u>

Total Noncurrent Assets 141,008,636.53

Total Assets 150,319,038.37

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	7,424,306.95
Unearned Revenue	339,662.47
Long-Term Liabilities - Current Portion (Note 6)	<u>156,073.37</u>

Total Current Liabilities 7,920,042.79

Noncurrent Liabilities:

Funds Held for Others	1,455,754.67
Long-Term Liabilities (Note 6)	<u>1,152,577.59</u>

Total Noncurrent Liabilities 2,608,332.26

Total Liabilities 10,528,375.05

NET ASSETS

Invested in Capital Assets 134,221,230.29

Restricted for:

Expendable:

Scholarships and Fellowships	14,836.38
Capital Projects	454,623.80
Restricted for Specific Programs	132,393.53
Other	446,753.17

Unrestricted 4,520,826.15

Total Net Assets \$ 139,790,663.32

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, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 10,266,494.31
Sales and Services, Net (Note 9)	3,515,276.30
Other Operating Revenues	277,542.75
	<hr/>
Total Operating Revenues	14,059,313.36
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	41,502,072.96
Supplies and Materials	9,821,238.75
Services	5,381,114.82
Scholarships and Fellowships	12,306,998.44
Utilities	1,548,352.28
Depreciation	3,236,091.36
	<hr/>
Total Operating Expenses	73,795,868.61
	<hr/>
Operating Loss	(59,736,555.25)
	<hr/>

NONOPERATING REVENUES

State Aid	28,364,948.92
County Appropriations	6,027,478.00
Noncapital Grants - Federal Student Financial Aid	18,639,264.51
Noncapital Grants	2,317,148.08
Noncapital Gifts	611,554.20
Investment Income	50,899.70
Other Nonoperating Expenses	(115,507.14)
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Net Nonoperating Revenues	55,895,786.27
	<hr/>
Loss Before Other Revenues	(3,840,768.98)
	<hr/>
State Capital Aid	3,780,909.97
County Capital Aid	21,903,775.61
Capital Grants	91,499.82
	<hr/>
Increase in Net Assets	21,935,416.42
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NET ASSETS

Net Assets, July 1, 2010	117,855,246.90
	<hr/>
Net Assets, June 30, 2011	\$ 139,790,663.32
	<hr/> <hr/>

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, 2011***

***Exhibit A-3
Page 1 of 2***

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 13,973,717.15
Payments to Employees and Fringe Benefits	(41,642,201.05)
Payments to Vendors and Suppliers	(16,334,921.77)
Payments for Scholarships and Fellowships	(12,306,998.44)
Other Payments	(56,433.35)
	<u>(56,366,837.46)</u>
Net Cash Used by Operating Activities	<u>(56,366,837.46)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	28,364,948.92
County Appropriations	6,027,478.00
Noncapital Grants - Federal Student Financial Aid	18,639,264.51
Noncapital Grants Received	2,317,148.08
Noncapital Gifts Received	611,554.20
William D. Ford Direct Lending Receipts	16,096,406.00
William D. Ford Direct Lending Disbursements	(16,096,406.00)
	<u>55,960,393.71</u>
Net Cash Provided by Noncapital Financing Activities	<u>55,960,393.71</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	4,118,995.94
County Capital Aid	17,399,233.31
Capital Grants Received	91,499.82
Acquisition and Construction of Capital Assets	(20,282,412.51)
	<u>1,327,316.56</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,327,316.56</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>50,899.70</u>
Cash Provided by Investing Activities	<u>50,899.70</u>
Net Increase in Cash and Cash Equivalents	971,772.51
Cash and Cash Equivalents, July 1, 2010	<u>7,848,687.70</u>
Cash and Cash Equivalents, June 30, 2011	<u>\$ 8,820,460.21</u>

***Cape Fear Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011***

Exhibit A-3

Page 2 of 2

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

Operating Loss	\$ (59,736,555.25)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	3,236,091.36
Miscellaneous Nonoperating Income	6,542.17
Changes in Assets and Liabilities:	
Receivables, Net	(264,908.16)
Inventories	(106,230.84)
Prepaid Items	(6,058.58)
Accounts Payable and Accrued Liabilities	298,942.61
Unearned Revenue	179,311.95
Funds Held for Others	(62,975.52)
Pollution Remediation Payable	(6,632.69)
Compensated Absences	95,635.49
	<u>95,635.49</u>
Net Cash Used by Operating Activities	<u>\$ (56,366,837.46)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 5,724,568.41
Restricted Cash and Cash Equivalents	1,581,853.75
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,514,038.05</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 8,820,460.21</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	5,834,926.49
Increase in Receivables Related to Nonoperating Income	4,504,542.30
Capital Asset Write-Offs	383,579.78

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, 2011

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)

- 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 appropriations, 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, 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 infrastructure, 10 to 100 years for buildings, and 2 to 30 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money 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 \$15,690.00, and deposits in private financial institutions with a carrying value of \$1,172,753.30 and a bank balance of \$3,742,882.34.

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, 2011, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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; specified bills of exchange; certain savings certificates; 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$7,632,016.91 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 1.9 years as of June 30, 2011. 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.osc.nc.gov/> 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 681,668.50	\$ 178,846.90	\$ 502,821.60
Accounts	192,043.53		192,043.53
Intergovernmental	24,653.54		24,653.54
Other	10,818.86		10,818.86
Total Current Receivables	\$ 909,184.43	\$ 178,846.90	\$ 730,337.53
Noncurrent Receivables:			
Intergovernmental	\$ 4,854,490.59	\$ 0.00	\$ 4,854,490.59

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 17,149,520.28	\$ 196,857.46	\$ 0.00	\$ 17,346,377.74
Construction in Progress	6,100,210.47	23,008,500.03	355,850.18	28,752,860.32
Total Capital Assets, Nondepreciable	23,249,730.75	23,205,357.49	355,850.18	46,099,238.06
Capital Assets, Depreciable:				
Buildings	99,246,986.66	645,710.56		99,892,697.22
Machinery and Equipment	9,160,977.84	2,013,671.79	383,579.78	10,791,069.85
General Infrastructure	5,450,732.29	116,391.44		5,567,123.73
Total Capital Assets, Depreciable	113,858,696.79	2,775,773.79	383,579.78	116,250,890.80
Less Accumulated Depreciation for:				
Buildings	18,870,327.23	2,330,646.81		21,200,974.04
Machinery and Equipment	4,834,229.35	674,077.87	261,530.47	5,246,776.75
General Infrastructure	1,449,781.10	231,366.68		1,681,147.78
Total Accumulated Depreciation	25,154,337.68	3,236,091.36	261,530.47	28,128,898.57
Total Capital Assets, Depreciable, Net	88,704,359.11	(460,317.57)	122,049.31	88,121,992.23
Capital Assets, Net	\$ 111,954,089.86	\$ 22,745,039.92	\$ 477,899.49	\$ 134,221,230.29

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 5,698,871.43
Accrued Payroll	744,899.29
Contract Retainage	980,536.23
Total Accounts Payable and Accrued Liabilities	\$ 7,424,306.95

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 for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	\$ 1,169,648.16	\$ 976,552.31	\$ 880,916.82	\$ 1,265,283.65	\$ 148,073.37
Pollution Remediation Payable	50,000.00		6,632.69	43,367.31	8,000.00
Total Long-Term Liabilities	\$ 1,219,648.16	\$ 976,552.31	\$ 887,549.51	\$ 1,308,650.96	\$ 156,073.37

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 cleanup 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 \$43,367.31. 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, 2011:

Fiscal Year	Amount
2012	\$ 128,583.12
2013	116,121.72
2014	46,462.84
2015	20,091.42
Total Minimum Lease Payments	\$ 311,259.10

Rental expense for all operating leases during the year was \$128,721.87.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011:

Fiscal Year	Amount
2012	\$ 14,607.00
2013	14,607.00
2014	14,607.00
2015	14,607.00
2016	14,607.00
Total Minimum Lease Revenues	\$ 73,035.00

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

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
Operating Revenues:				
Student Tuition and Fees	<u>\$ 16,082,746.49</u>	<u>\$ 5,771,929.90</u>	<u>\$ 44,322.28</u>	<u>\$ 10,266,494.31</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Daycare	\$ 450,932.83	\$ 0.00	\$ 0.00	\$ 450,932.83
Vending	200,318.42			200,318.42
Bookstore	5,245,235.87	2,482,013.27		2,763,222.60
Parking	52,770.26			52,770.26
Other	48,032.19			48,032.19
Total Sales and Services	<u>\$ 5,997,289.57</u>	<u>\$ 2,482,013.27</u>	<u>\$ 0.00</u>	<u>\$ 3,515,276.30</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 26,869,958.72	\$ 3,830,108.47	\$ 1,049,814.84	\$ 0.00	\$ 0.00	\$ 0.00	\$ 31,749,882.03
Academic Support	4,505,594.34	351,049.23	156,802.40				5,013,445.97
Student Services	2,682,658.74	148,356.43	275,160.62				3,106,175.79
Institutional Support	4,954,400.02	307,623.58	1,785,324.11				7,047,347.71
Operations and Maintenance of Plant	1,890,576.44	646,682.02	1,532,268.31		1,548,352.28		5,617,879.05
Student Financial Aid			6,485.00	12,306,998.44			12,313,483.44
Auxiliary Enterprises	598,884.70	4,537,419.02	575,259.54				5,711,563.26
Depreciation						3,236,091.36	3,236,091.36
Total Operating Expenses	<u>\$ 41,502,072.96</u>	<u>\$ 9,821,238.75</u>	<u>\$ 5,381,114.82</u>	<u>\$ 12,306,998.44</u>	<u>\$ 1,548,352.28</u>	<u>\$ 3,236,091.36</u>	<u>\$ 73,795,868.61</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$33,593,057.80, of which \$27,154,852.13 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,338,734.21 and \$1,629,291.13, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$1,338,734.21, \$888,817.39, and \$820,400.94, 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.nc.gov/> 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$44,383.16 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$352,538.62 for the year ended June 30, 2011.

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 \$163,721.00 for the year ended June 30, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$1,330,587.75, \$1,120,358.05, and \$1,001,084.48, 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.osc.nc.gov/> 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$141,205.23, \$129,463.60, and \$126,966.81, respectively. 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, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 discretely presented component unit 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$41,369,706.76 and on other purchases were \$141,618.17 at June 30, 2011.

NOTE 15 - CAPE FEAR COMMUNITY 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, except for support from the Foundation. This support approximated \$41,686.14 for the year ended June 30, 2011.

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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**

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, 2011, and have issued our report thereon dated November 15, 2011.

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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

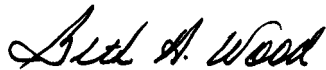
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

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

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, 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

November 15, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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
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