# STATE OF NORTH CAROLINA

## CARTERET COMMUNITY COLLEGE

## MOREHEAD CITY, NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT

### FOR THE YEAR ENDED JUNE 30, 2012


## OFFICE OF THE STATE AUDITOR

## BETH A. WOOD, CPA

## STATE AUDITOR


A Component Unit of the State of North Carolina

# CARTERET COMMUNITY COLLEGE

## MOREHEAD CITY, NORTH CAROLINA

# FINANCIAL STATEMENT AUDIT REPORT

## FOR THE YEAR ENDED JUNE 30, 2012

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

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

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## AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Carteret Community College

We have completed a financial statement audit of Carteret Community College for the year ended June 30, 2012, 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 a deficiency that is 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Carteret Community College
Morehead City, North Carolina

We have audited the accompanying financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Carteret Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Carteret Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Carteret Community College and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

March 15, 2013

Carteret Community College is pleased to present the Management's Discussion and Analysis of its financial activities for the fiscal year ended June 30, 2012. 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 This Annual Report**

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public College and Universities.*

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets are indicators of the improvement or erosion of the College's financial health.

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

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature.

## Financial Analysis

### Analysis of Assets

The 12.62% increase in current assets is primarily due to increased cash balances maintained in institutional funds, additional inventories on-hand at year-end, higher prepaid insurance premiums, and lower accounts receivable due from students. The College applied the summer term financial aid earlier in fiscal 2012. This procedure increased the cash levels and reduced student receivables at the end of the fiscal year. Additionally, current notes receivable from students declined by 48.64% and unrestricted short term investments rose by 0.06% due to interest earned.

The slight decrease in noncurrent assets is the net result of decreases in restricted cash and cash equivalents and the decrease in depreciable capital assets. During difficult economic times depreciable capital assets tend to decline as noncurrent capital assets continue to depreciate at a rate much faster than increases in purchases of capital assets. Restricted receivables due from primary government were down by $528.11 in fiscal year 2012 as repairs for electrical renovations were done to the welding shop in the McGee Building with corresponding reductions in bond money due to the College from the State Higher Education Bonds.

Overall cash and cash equivalents rose by 48.69%. This was the result of a prudent decline in purchases coupled with processing financial aid for students earlier for summer term as compared to the previous year. The ability to disburse funds earlier allowed the College to draw down federal funds in a timely manner resulting in a decrease of 54.10% in net receivables as compared to fiscal year 2011.

The majority of the increase in total net assets results from the increase in current assets described above and a decline in total liabilities as compared to fiscal year 2011. The reduction in liabilities is a direct result of lower salaries payable for the fiscal year 2012. As the College stopped the practice of allowing faculty to spread their earnings over a twelve month versus a ten month period, the amounts owed to employees decreased at year end. Current liabilities decreased by 24.51% overall, with a 51.83% decrease in accounts payable and a 17.04% rise in unearned revenue. The current portion of long term liabilities grew by 1.37% and funds held for others decreased by only $358.96. Noncurrent liabilities decreased 8.88% as expected payments are made annually on the College's energy performance contract.

A net increase of $155,523.41 in unrestricted net assets is comprised of increased revenues from testing fees and self-supporting classes coupled with reduced expenditures from institutional funds. The College did not supplement the salaries of financial aid staff with commissions earned from the bookstore lease or administrative funds earned from federal grants during fiscal year 2012. Restricted net assets increased by 30% because the College moved the restricted portion of grant administration receipts to restricted assets. In addition, the overall fund balance of technology fees increased due to a reduction of expenditures and increased revenues.

**Condensed Statement of Net Assets**
(in thousands)

| | June 30, 2012 | June 30, 2011 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | $ 1,798.95 | $ 1,597.37 | $ 201.58 | 12.62 % |
| Noncurrent Assets | | | | |
| Capital Assets, Net of Depreciation | 25,171.98 | 25,511.74 | (339.76) | (1.33) % |
| Other | 173.03 | 227.87 | (54.84) | (24.07) % |
| Total Assets | 27,143.96 | 27,336.98 | (193.02) | (0.71) % |
| **Liabilities** | | | | |
| Current Liabilities | 423.95 | 561.60 | (137.65) | (24.51) % |
| Noncurrent Liabilities | 778.52 | 854.42 | (75.90) | (8.88) % |
| Total Liabilities | 1,202.47 | 1,416.02 | (213.55) | (15.08) % |
| **Net Assets** | | | | |
| Investment in Capital Assets, Net of Related Debt | 24,854.80 | 25,138.53 | (283.73) | (1.13) % |
| Unrestricted | 442.10 | 286.58 | 155.52 | 54.27 % |
| Restricted | 644.59 | 495.85 | 148.74 | 30.00 % |
| **Total Net Assets** | $ 25,941.49 | $ 25,920.96 | $ 20.53 | 0.08 % |

## Analysis of Net Capital Assets

The table below shows the classifications of the College's capital assets as of June 30, 2012. Machinery and equipment represents the majority of change in capital assets. The increase in this category corresponds to the purchase of new equipment and the disposal of old equipment. The College also recognized the donation of the Camp Glenn Building from the county. The donation of the land for the Camp Glenn Building was recognized in a previous fiscal year. Accumulated depreciation expenses also increased as yearly depreciation was taken on depreciable assets. The College did not have any capital construction commitments as of June 30, 2012.

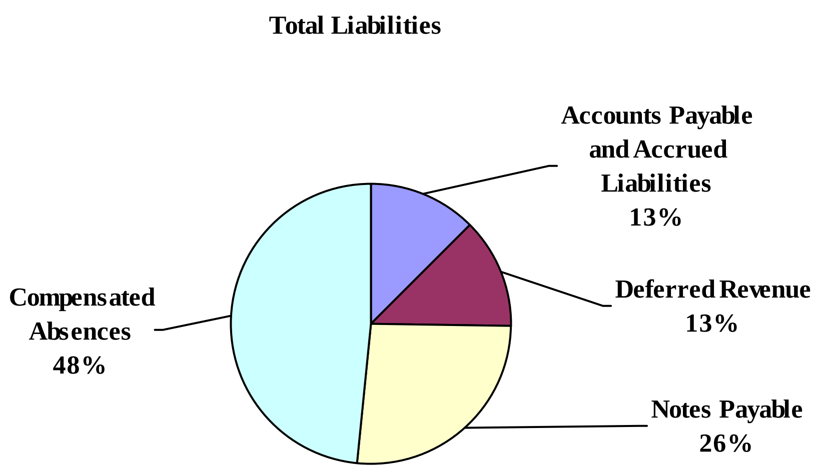
**Condensed Statement of Capital Assets**
*(in thousands)*

| | June 30, 2012 | June 30, 2011 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Capital Assets | | | | |
| Land | $ 3,116.83 | $ 3,116.83 | $ 0.00 | 0.00 % |
| Buildings | 24,423.03 | 24,301.81 | 121.22 | 0.50 % |
| Machinery and Equipment | 2,805.40 | 2,719.09 | 86.31 | 3.17 % |
| General Infrastructure | 1,598.27 | 1,598.27 | 0.00 | 0.00 % |
| Total | 31,943.53 | 31,736.00 | 207.53 | 0.65 % |
| Less: Accumulated Depreciation | 6,771.55 | 6,224.26 | 547.29 | 8.79 % |
| Net Capital Assets | $ 25,171.98 | $ 25,511.74 | $ (339.76) | (1.33) % |

## Analysis of Liabilities

The graph below represents the composition of the total liabilities for the College of $1,190,233.87, which is a 15.95% decrease over the previous year. At June 30, 2012, accruals owed to employees and vendors for purchases and services decreased by 51.83%. Amounts payable to employees declined as the College ceased the practice of allowing faculty to spread their salaries over a twelve month period, while amounts owed to the bookstore provider decreased as a direct result of applying the summer term financial aid in June. Furthermore, unearned revenue rose by 17.04% as the summer term began on a later date than the previous year. Overall, changes to current liabilities resulted in a net decrease of 24.51% in fiscal year 2012.

Long-term liabilities consist of payments for notes payable and accumulated vacation and bonus leave payable. Long term liabilities are classified as current if they are expected to be paid out within the next 12 months, and non-current if the payout will be later than one year. Long-term liabilities decreased by 8.88% overall from the previous year due to decreases in principal balance for notes payable. The note is payable to Branch Banking and Trust for a Guaranteed Energy Savings contract. At June 30, 2012, the total due was $317,178.74. This note payable will continue through 2017 with an interest rate of 4.09% on the principal balance.




## Analysis of Revenues

The decrease in total operating revenues is attributed mostly to the decline in student enrollment. As tuition and fees decreased, so did revenues from bookstore commissions and patron fees. The College's Other Operating Revenues, such as library and parking fines, dropped by 40.49%. These revenues declined with student enrollment. In addition, the early application of summer term financial aid in June caused higher tuition discounts against income categories to avoid reporting duplicated revenues on the financial statements. The only category of operating revenues to increase was due to income from the Wet Clam Storage Sea Grant, a new research grant started in the 2012 fiscal year.

Non-operating revenues increased by 1.09% overall from the previous year. Noncapital grants and gifts declined by 2.72% due to decreased awards for federal aid as the federal government stopped awarding "year round" Pell grant awards to students. This category also declined as both the Life Structure grant and Title III grant ended during fiscal year 2012. Other non-operating expenses decreased by 52.04% because the College experienced a loss on disposal of assets the previous year (FY11) that it did not experience in fiscal 2012.

The 41.23% decrease in State Capital Aid funding is the result of the College receiving additional funds during fiscal year 2011 for the purchase of equipment. This additional funding was not repeated in 2012. County Capital Aid decreased in 2012 because the county reimburses the College as equipment is purchased or capital projects are completed. The College did not work on any construction projects and purchased less equipment during fiscal year 2012 than the previous year. The College did not receive any federal capital aid during fiscal year 2012. However, capital gifts increased significantly as the College recognized the gift of the Camp Glenn Building from the county.

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

*(in thousands)*

| | June 30, 2012 | June 30, 2011 | Dollar Change | Percent |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Student Tuition and Fees | $ 1,485.88 | $ 1,617.26 | $ (131.38) | (8.12) % |
| State and Local Grants and Contracts | 15.12 | 0.00 | 15.12 | 100.00 % |
| Sales and Services | 159.71 | 192.98 | (33.27) | (17.24) % |
| Other Operating Revenue | 10.67 | 17.93 | (7.26) | (40.49) % |
| Total Operating Revenues | 1,671.38 | 1,828.17 | (156.79) | (8.58) % |
| Less Operating Expenses | 18,119.43 | 18,488.70 | (369.27) | (2.00) % |
| Operating Loss | (16,448.05) | (16,660.53) | 212.48 | (1.28) % |
| Nonoperating Revenues (Expenses): | | | | |
| State Aid | 8,126.08 | 7,846.02 | 280.06 | 3.57 % |
| County Appropriations | 2,043.00 | 2,043.00 | 0.00 | 0.00 % |
| Noncapital Grants and Gifts | 5,532.80 | 5,687.35 | (154.55) | (2.72) % |
| Other Nonoperating Revenues | 34.45 | 5.49 | 28.96 | 527.50 % |
| Other Nonoperating Expenses | (14.22) | (29.65) | 15.43 | (52.04) % |
| Total Net Nonoperating Revenues | 15,722.11 | 15,552.21 | 169.90 | 1.09 % |
| State Capital Aid | 463.62 | 788.88 | (325.26) | (41.23) % |
| County Capital Aid | 161.63 | 235.79 | (74.16) | (31.45) % |
| Capital Gifts | 121.22 | 2.75 | 118.47 | 4,308.00 % |
| Increase (Decrease) in Net Assets | $ 20.53 | $ (80.90) | $ 101.43 | 125.38 % |

## Analysis of Operating Expenses

Total operating expenses decreased slightly from the prior year. The largest decrease was in Supplies and Materials as the College sought to purposefully reduce these expenses in response to state budget shortfalls. Lower costs for electric, gas, and water services decreased the College's utilities expense as the College experienced an unusually mild winter season. Depreciation expenses also decreased because the College proactively adjusted the useful lives of assets to better reflect their expected longevity. Scholarships and Fellowships went down as the federal government stopped awarding year-round Pell grants. The category of Salaries and Benefits was the only expense that increased because the College filled vacant positions.

**Comparison of Operating Expenses for FY2012 and FY2011**
*(in thousands)*

| | June 30, 2012 | June 30, 2011 | Increase (Decrease) | Percent Change |
|---|---|---|---|---|
| Salaries and Benefits | $ 11,575.94 | $ 11,368.42 | $ 207.52 | 1.83 % |
| Supplies and Materials | 1,135.90 | 1,425.02 | (289.12) | (20.29) % |
| Services | 1,122.91 | 1,145.72 | (22.81) | (1.99) % |
| Scholarships and Fellowships | 3,228.98 | 3,406.25 | (177.27) | (5.20) % |
| Utilities | 418.54 | 462.32 | (43.78) | (9.47) % |
| Depreciation | 637.16 | 680.97 | (43.81) | (6.43) % |
| Total Operating Expenditures | $ 18,119.43 | $ 18,488.70 | $ (369.27) | (2.00) % |

## Forecast

Since 1963 Carteret Community College has worked hard toward meeting the needs of the students and the communities they serve. The economic forecast of Carteret Community College is dependent on enrollment remaining flat and/or growing. The College's main source of funds is directly tied to a funding model that the State uses based on enrollment figures in the fall and spring terms. Currently the College has seen modest growth in fall enrollment and continues to remain optimistic.

The financial position of the College continues to remain strong due to strong fiscal procedures and sound planning. The College relies heavily on state aid to fund its operations. In addition, Carteret County continues to provide strong financial support for current operations and capital investment in the maintenance of the College's facilities and operations.

For fiscal year 2013, the General Assembly once again enacted a reduction to the state aid budget. Management is allowed the flexibility to determine what budget line items to cut within specific parameters, hence the name "management flexibility reduction" for the decrease in formula allocation. Despite concerns about a 4% increase in the management flexibility reduction and relying on previous year FTE numbers, the College will see a modest growth in the state budget allocation for fiscal 2013.

For 2013, the county capital budget remains the same as in 2012 while the county current budget will increase by $10,000 to help with rising medical and retirement cost for employees. Currently the State has recommended but did not mandate holding back 1% in case of a reversion request and the College has concurred.

As mentioned previously state aid is dependent on enrollment growth and is appropriated in the following fiscal year, so the College must manage even small increments in growth within the current fiscal year without a corresponding increase in funding. To deal with the situation of arrears funding, the College utilizes multiple strategies including:

- Managing excess travel expenditures
- Minimizing Other Cost budgets for departments
- Maintaining cost of supplies and materials through a centralized purchasing process
- Delaying hiring and planning for cost related to attrition
- Monitoring faculty workloads and hiring of part-time adjunct faculty

Carteret County is one of 47 counties out of 100 in North Carolina that saw a decrease in the unemployment rate at the beginning of fiscal 2013. The unemployment rate for Carteret County is 8.2% which is down 2%, according to the North Carolina Department of Commerce Labor and Economic Analysis Division. Economic forecast show a 2.5% - 3% steady rise in recovery forecasted as a slow creep out of the recent recession. The College experienced a flat student enrollment for the 2012 Fall semester. In order to increase student enrollment, the College plans to be more proactive in marketing strategies and focus on student retention.

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***Carteret Community College***
***Statement of Net Assets***
***June 30, 2012*** ***Exhibit A-1***

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 601,491.85 |
| Restricted Cash and Cash Equivalents | | 295,298.19 |
| Short-Term Investments | | 421,273.14 |
| Restricted Short-Term Investments | | 211,496.42 |
| Receivables, Net (Note 3) | | 172,903.18 |
| Due from State of North Carolina Component Units | | 4,656.17 |
| Inventories | | 42,714.07 |
| Prepaid Items | | 46,196.69 |
| Notes Receivable, Net (Note 3) | | 2,921.99 |
| Total Current Assets | | 1,798,951.70 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 71,980.58 |
| Restricted Due from Primary Government | | 101,052.32 |
| Capital Assets - Nondepreciable (Note 4) | | 3,116,835.91 |
| Capital Assets - Depreciable, Net (Note 4) | | 22,055,142.83 |
| Total Noncurrent Assets | | 25,345,011.64 |
| Total Assets | | 27,143,963.34 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities (Note 5) | | 150,413.53 |
| Unearned Revenue | | 152,712.04 |
| Funds Held for Others | | 3,050.00 |
| Long-Term Liabilities - Current Portion (Note 6) | | 117,782.29 |
| Total Current Liabilities | | 423,957.86 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 6) | | 778,521.62 |
| Total Liabilities | | 1,202,479.48 |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | | 24,854,800.00 |
| Restricted for: | | |
| Expendable: | | |
| Scholarships and Fellowships | | 5,470.70 |
| Loans | | 154,151.08 |
| Capital Projects | | 200,586.00 |
| Technology and Other Programs | | 188,015.50 |
| Other | | 96,364.36 |
| Unrestricted | | 442,096.22 |
| Total Net Assets | $ | 25,941,483.86 |

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

***Carteret Community College***
***Statement of Revenues, Expenses, and Changes in Net Assets***
***For the Fiscal Year Ended June 30, 2012*** ***Exhibit A-2***

| | | |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 8) | $ | 1,485,877.87 |
| State and Local Grants and Contracts | | 15,124.47 |
| Sales and Services | | 159,713.05 |
| Other Operating Revenues | | 10,668.05 |
| Total Operating Revenues | | 1,671,383.44 |
| **EXPENSES** | | |
| Operating Expenses: | | |
| Salaries and Benefits | | 11,575,944.23 |
| Supplies and Materials | | 1,135,903.43 |
| Services | | 1,122,914.37 |
| Scholarships and Fellowships | | 3,228,979.56 |
| Utilities | | 418,536.90 |
| Depreciation | | 637,158.86 |
| Total Operating Expenses | | 18,119,437.35 |
| Operating Loss | | (16,448,053.91) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State Aid | | 8,126,078.99 |
| County Appropriations | | 2,043,000.00 |
| Noncapital Grants - Student Financial Aid | | 4,631,269.92 |
| Noncapital Grants - Other | | 657,221.03 |
| Noncapital Gifts | | 244,307.64 |
| Investment Income | | 580.23 |
| Interest and Fees on Debt | | (14,221.63) |
| Other Nonoperating Revenues | | 33,875.77 |
| Net Nonoperating Revenues | | 15,722,111.95 |
| Loss Before Other Revenues | | (725,941.96) |
| State Capital Aid | | 463,615.55 |
| County Capital Aid | | 161,634.32 |
| Capital Gifts | | 121,219.00 |
| Increase in Net Assets | | 20,526.91 |
| **NET ASSETS** | | |
| Net Assets, July 1, 2011 | | 25,920,956.95 |
| Net Assets, June 30, 2012 | $ | 25,941,483.86 |

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

# *Carteret Community College*
# *Statement of Cash Flows*
# *For the Fiscal Year Ended June 30, 2012*



| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from Customers | $ 1,872,503.12 |
| Payments to Employees and Fringe Benefits | (11,686,949.46) |
| Payments to Vendors and Suppliers | (2,759,332.00) |
| Payments for Scholarships and Fellowships | (3,241,225.17) |
| Loans Issued to Students | (22,600.72) |
| Collection of Loans to Students | 29,274.55 |
| Other Receipts | 36,151.59 |
| Net Cash Used by Operating Activities | (15,772,178.09) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State Aid Received | 8,126,078.99 |
| County Appropriations | 2,043,000.00 |
| Noncapital Grants - Student Financial Aid | 4,631,269.92 |
| Noncapital Grants Received | 665,185.40 |
| Noncapital Gifts | 244,307.64 |
| William D. Ford direct lending receipts | 2,149,113.00 |
| William D. Ford direct lending disbursements | (2,149,113.00) |
| Net Cash Provided by Noncapital Financing Activities | 15,709,841.95 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| State Capital Aid Received | 464,143.66 |
| County Capital Aid | 161,634.32 |
| Acquisition of Capital Assets | (176,180.93) |
| Principal Paid on Capital Debt | (56,029.01) |
| Interest Paid on Capital Debt | (14,221.63) |
| Net Cash Provided by Capital and Related Financing Activities | 379,346.41 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investment Income | 580.23 |
| Purchase of Investments and Related Fees | (359.05) |
| Net Cash Provided by Investing Activities | 221.18 |
| Net Increase in Cash and Cash Equivalents | 317,231.45 |
| Cash and Cash Equivalents, July 1, 2011 | 651,539.17 |
| Cash and Cash Equivalents, June 30, 2012 | $ 968,770.62 |

| | | |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS** | | |
| **TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating Loss | $ | (16,448,053.91) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 637,158.86 |
| Provision for Uncollectible Loans and Write-Offs | | (3,906.18) |
| Miscellaneous Nonoperating Income | | 33,875.77 |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | 169,328.35 |
| Inventories | | (8,907.54) |
| Prepaid Items | | (835.44) |
| Notes Receivable, Net | | 6,673.83 |
| Accounts Payable and Accrued Liabilities | | (161,829.19) |
| Unearned Revenue | | 22,236.46 |
| Funds Held for Others | | 358.96 |
| Compensated Absences | | (18,278.06) |
| Net Cash Used by Operating Activities | $ | (15,772,178.09) |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 601,491.85 |
| Restricted Cash and Cash Equivalents | | 295,298.19 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 71,980.58 |
| Total Cash and Cash Equivalents - June 30, 2012 | $ | 968,770.62 |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES** | | |
| Assets Acquired through a Gift | $ | 121,219.00 |

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

## *Carteret Community College Foundation, Inc.*
## *Statement of Financial Position*
## *June 30, 2012* — *Exhibit B-1*

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash | $ | 141,131 |
| Pledges Receivable/Promises | | 40,000 |
| Donated Boat Inventory | | 38,000 |
| Total Current Assets | | 219,131 |
| Noncurrent Assets: | | |
| Property and Equipment, Net | | 1,146,983 |
| Other Assets, Art Work | | 143,180 |
| Investments | | 1,946,319 |
| Total Noncurrent Assets | | 3,236,482 |
| Total Assets | | 3,455,613 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable | | 24,153 |
| Accrued Expenses | | 1,298 |
| Current Portion of Notes Payable | | 21,671 |
| Total Current Liabilities | | 47,122 |
| Noncurrent Liabilities: | | |
| Notes Payable, Net of Current Portion | | 392,464 |
| Total Liabilities | | 439,586 |
| **NET ASSETS** | | |
| Unrestricted | | 1,323,807 |
| Temporarily Restricted | | 298,503 |
| Permanently Restricted | | 1,393,717 |
| Total Net Assets | $ | 3,016,027 |

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

# *Carteret Community College Foundation, Inc.*
# *Statement of Activities*
# *For the Fiscal Year Ended June 30, 2012* — *Exhibit B-2*

| | | |
|---|---|---|
| **CHANGES IN UNRESTRICTED NET ASSETS** | | |
| Support | | |
| Cash Donations | $ | 5,945 |
| Noncash Donations | | 179,527 |
| Special Program Revenue | | 67,327 |
| Boat Contributions (Net of $7,120 in Losses on Boats Sold) | | 140,536 |
| Total Support | | 393,335 |
| Other Revenues | | |
| Real Estate Rental Income | | 62,856 |
| Investment Income | | 17,470 |
| Miscellaneous Income | | 377 |
| Total Other Revenue | | 80,703 |
| Total Net Assets Released from Restrictions | | 172,106 |
| Total Unrestricted Support and Revenues | | 646,144 |
| Expenses | | |
| Program Services | | |
| College Support | | 142,137 |
| Scholarships | | 138,674 |
| Total Program Services | | 280,811 |
| Supporting Services | | |
| Property Management | | 47,839 |
| Boat Program Expenses | | 92,558 |
| Foundation Administration | | 81,569 |
| Fund Raising Expense | | 74,740 |
| Total Supporting Services | | 296,706 |
| Total Expenses | | 577,517 |
| Increase in Unrestricted Net Assets | | 68,627 |
| **CHANGES IN TEMPORARILY RESTRICTED NET ASSETS** | | |
| Miscellaneous Donations | | 88,880 |
| Scholarship Donations | | 92,070 |
| Net Assets Released from Restrictions: | | (181,962) |
| Decrease in Temporarily Restricted Net Assets | | (1,012) |
| **CHANGES IN PERMANENTLY RESTRICTED NET ASSETS** | | |
| Contributions | | |
| Endowment Fund Contributions | | 4,440 |
| Net Assets Released from Restrictions | | 9,856 |
| Increase in Permanently Restricted Net Assets | | 14,296 |
| Increase in Net Assets | | 81,911 |
| Net Assets at Beginning of Year | | 2,934,116 |
| Net Assets at End of Year | $ | 3,016,027 |

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

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Carteret Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation is a legally separate, tax exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board is to consist of 19 - 27 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2012.

During the year ended June 30, 2012, the Foundation distributed $280,811 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Christine Jonas, Controller, Carteret Community College or the Business Office of Carteret Community College Foundation, Inc.

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 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 FASB pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, 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, include 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, and cash on deposit with private bank accounts.

E. **Investments –** This classification includes a mutual fund holding by the College through the North Carolina Capital Management Trust – Cash Portfolio. Investment in the Trust is recorded at cost, which approximates market value held by the College.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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.

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.

I. **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.

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

**K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 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 June 30 plus the leave earned, less the leave taken between July 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 June 30 is retained by employees and transferred into the next fiscal 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.

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

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

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

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

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

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

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

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

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

## NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2012 was $1,880. The carrying amount of the College's deposits in private financial institutions was $966,890.62, and the bank balance was $1,158,288.20.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

**B.** **Investments** - 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed Federal agencies; prime quality commercial paper bearing specified ratings; 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 of custodian.

At June 30, 2012, the College's investments consisted of $632,769.56 in the North Carolina Capital Management Trust – Cash Portfolio. The investment is subject to the following risks:

*Interest Rate Risk:* Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The North Carolina Capital Management Trust – Cash Portfolio has a maturity of approximately 52 days at June 30, 2012.

*Credit Risk*: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2012, North Carolina Capital Management Trust – Cash Portfolio carried a credit rating of AAAm by Standard and Poor's.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

| | |
|---|---|
| Cash on Hand | $ 1,880.00 |
| Carrying Amount of Deposits with Private Financial Institutions | 966,890.62 |
| Investments in the North Carolina Capital Management Trust - Cash Portfolio | 632,769.56 |
| **Total Deposits and Investments** | $ 1,601,540.18 |
| Current: | |
| Cash and Cash Equivalents | $ 601,491.85 |
| Restricted Cash and Cash Equivalents | 295,298.19 |
| Short-Term Investments | 421,273.14 |
| Restricted Short-Term Investments | 211,496.42 |
| Noncurrent: | |
| Restricted Cash and Cash Equivalents | 71,980.58 |
| **Total** | $ 1,601,540.18 |

**Component Unit** - Investments of the College's discretely presented component unit, Carteret Community College Foundation, Inc., (Foundation) are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

| Investment Type | Carrying Value |
|---|---|
| Money Market Funds | $ 3,826 |
| Equity Stocks | 1,730,518 |
| Fixed Income | 211,975 |
| Total Investments | $ 1,946,319 |

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2012, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 333,280.33 | $ 204,421.97 | $ 128,858.36 |
| Student Sponsors | 24,475.63 | | 24,475.63 |
| Other | 19,569.19 | | 19,569.19 |
| **Total Current Receivables** | $ 377,325.15 | $ 204,421.97 | $ 172,903.18 |
| **Notes Receivable:** | | | |
| **Notes Receivable - Current:** | | | |
| Institutional Student Loan Programs | $ 72,959.90 | $ 70,037.91 | $ 2,921.99 |

## NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

| | Balance July 1, 2011 | Increases | Decreases | Balance June 30, 2012 |
|---|---|---|---|---|
| Capital Assets, Nondepreciable: | | | | |
| Land | $ 3,116,835.91 | $ 0.00 | $ 0.00 | $ 3,116,835.91 |
| **Total Capital Assets, Nondepreciable** | 3,116,835.91 | | | 3,116,835.91 |
| Capital Assets, Depreciable: | | | | |
| Buildings | 24,301,812.20 | 121,219.00 | | 24,423,031.20 |
| Machinery and Equipment | 2,719,086.62 | 176,180.93 | 89,873.65 | 2,805,393.90 |
| General Infrastructure | 1,598,268.44 | | | 1,598,268.44 |
| Total Capital Assets, Depreciable | 28,619,167.26 | 297,399.93 | 89,873.65 | 28,826,693.54 |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 4,802,693.49 | 411,564.97 | | 5,214,258.46 |
| Machinery and Equipment | 1,157,131.04 | 193,148.29 | 89,873.65 | 1,260,405.68 |
| General Infrastructure | 264,440.97 | 32,445.60 | | 296,886.57 |
| Total Accumulated Depreciation | 6,224,265.50 | 637,158.86 | 89,873.65 | 6,771,550.71 |
| **Total Capital Assets, Depreciable, Net** | 22,394,901.76 | (339,758.93) | | 22,055,142.83 |
| **Capital Assets, Net** | $ 25,511,737.67 | $ (339,758.93) | $ 0.00 | $ 25,171,978.74 |

## NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

| | Amount |
|---|---|
| Accounts Payable | $ 146,946.32 |
| Accrued Payroll | 3,467.21 |
| **Total Accounts Payable and Accrued Liabilities** | $ 150,413.53 |

## 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, 2012, is presented as follows:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Current Portion |
|---|---|---|---|---|---|
| Notes Payable | $ 373,207.75 | $ 0.00 | $ 56,029.01 | $ 317,178.74 | $ 58,364.05 |
| Compensated Absences | 597,403.23 | 419,386.02 | 437,664.08 | 579,125.17 | 59,418.24 |
| **Total Long-Term Liabilities** | $ 970,610.98 | $ 419,386.02 | $ 493,693.09 | $ 896,303.91 | $ 117,782.29 |

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

| Purpose | Financial Institution | Interest Rate/ Ranges | Final Maturity Date | Original Amount of Issue | Principal Paid Through June 30, 2012 | Principal Outstanding June 30, 2012 |
|---|---|---|---|---|---|---|
| Energy Performance Contract | BB&T | 4.09% | 06/14/2017 | $ 665,324.17 | $ 348,145.43 | $ 317,178.74 |

The annual requirements to pay principal and interest on notes payable at June 30, 2012, are as follows:

| | Annual Requirements | |
|---|---|---|
| | Notes Payable | |
| Fiscal Year | Principal | Interest |
| 2013 | $ 58,364.05 | $ 11,886.59 |
| 2014 | 60,796.39 | 9,454.25 |
| 2015 | 63,330.13 | 6,920.51 |
| 2016 | 65,969.43 | 4,281.21 |
| 2017 | 68,718.74 | 1,531.90 |
| **Total Requirements** | $ 317,178.74 | $ 34,074.46 |

## NOTE 7 - OPERATING LEASE OBLIGATION

The College entered into an operating lease for building rentals. Future minimum lease payments under noncancelable operating lease consist of the following at June 30, 2012:

| Fiscal Year | Amount |
|---|---|
| 2013 | $ 64,676 |
| 2014 | 65,040 |
| **Total Minimum Lease Payments** | $ 129,716 |

Rental expense for the operating lease during the year was $62,856.

## NOTE 8 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|
| **Operating Revenues:** | | | | |
| **Student Tuition and Fees** | $ 3,033,080.30 | $ 1,500,303.16 | $ 46,899.27 | $ 1,485,877.87 |

## NOTE 9 - 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 | $ 6,446,767.84 | $ 630,805.33 | $ 232,158.83 | $ 0.00 | $ 0.00 | $ 0.00 | $ 7,309,732.00 |
| Research | 4,294.50 | 10,764.97 | 65.00 | | | | 15,124.47 |
| Public Service | | | 750.00 | | | | 750.00 |
| Academic Support | 1,179,243.80 | 76,496.12 | 37,034.95 | | | | 1,292,774.87 |
| Student Services | 1,050,295.39 | 38,218.79 | 107,242.90 | | | | 1,195,757.08 |
| Institutional Support | 1,938,454.31 | 123,590.13 | 256,064.82 | | | | 2,318,109.26 |
| Operations and Maintenance of Plant | 900,869.53 | 243,773.94 | 462,550.31 | | 418,536.90 | | 2,025,730.68 |
| Student Financial Aid | 0.00 | 5,706.96 | 9,127.89 | 3,228,979.56 | | | 3,243,814.41 |
| Auxiliary Enterprises | 56,018.86 | 6,547.19 | 17,919.67 | | | | 80,485.72 |
| Depreciation | | | | | | 637,158.86 | 637,158.86 |
| **Total Operating Expenses** | $ 11,575,944.23 | $ 1,135,903.43 | $ 1,122,914.37 | $ 3,228,979.56 | $ 418,536.90 | $ 637,158.86 | $ 18,119,437.35 |

## NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $9,472,481.19, of which $7,530,103.76 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $560,239.72 and $451,806.09, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were $560,239.72, $364,854.49, and $266,961.92, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**B. Deferred Compensation and Supplemental Retirement Income Plans**

Internal Revenue Code 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 $27,402 for the year ended June 30, 2012.

Internal Revenue Code 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 $152,327 for the year ended June 30, 2012.

## NOTE 11 - 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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were $376,505.19, $362,634.28, and $336,506.62, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

**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 by the General Assembly. For the fiscal year ended June 30, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were $39,156.54, $38,483.64, and $38,885.21, 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible.

Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. 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. Losses for employees paid from County and Institutional funds are covered under a blanket policy for employee dishonesty and fraud with a private insurance company with coverage of $3,000,000 per occurrence and a $10,000 deductible.

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 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.

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Office of the State Auditor

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State Auditor

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

Board of Trustees
Carteret Community College
Morehead City, North Carolina

We have audited the financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 15, 2013. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Carteret Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Governmental Auditing Standards*.

## Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective 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.

## 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)

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. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

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 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

Beth A. Wood, CPA
State Auditor

March 15, 2013

## Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent a deficiency in internal control.

### DEFICIENCY IN CONTROLS OVER SYSTEM ACCESS RIGHTS

The College granted information system access rights to an employee that were beyond those needed to perform her duties. As a result, there was an increased risk of error or fraud occurring without detection.

The Vice President of Finance and Administrative Services had the director of network technologies give her update access to the financial accounting system, thus allowing her to make changes to financial data without review or approval by another staff member. As the final reviewer of the College's financial transactions, the Vice President should not also have the ability to update financial information. Furthermore, employees should not be granted changes to system access rights without his or her supervisor approving the changes.

We found 23 instances where the Vice President accessed the financial accounting system with the ability to edit data. Although we did not find actual errors or fraud, the fact that the Vice President can get additional access rights beyond those needed for her role and at her own discretion is a deficiency in internal control. It also provides her with a means to override the controls that have been established over daily transactions and processes.

*Recommendation*: The College should strengthen internal control over system access. System users should not be allowed to request changes to their access rights without the approval of a supervisor or another employee with an appropriate level of authority. In addition, employees with review and approval responsibility should not be allowed to enter or edit the information they are responsible for approving unless sufficient compensating monitoring controls are in place to detect errors or fraud.

*College's Response*: We have no disagreement with your concerns and have made adjustments in internal controls to assure it will not happen again.

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 572 audit hours at an approximate cost of $41,184. The cost represents 0.15% of the College's total assets and 0.23% of total expenses subjected to audit.