



STATE OF NORTH CAROLINA

CRAVEN COMMUNITY COLLEGE

NEW BERN, 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

CRAVEN COMMUNITY COLLEGE

NEW BERN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Craven 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.

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*.

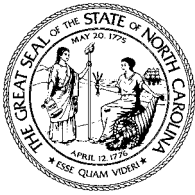
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets.....	11
A-2 Statement of Revenues, Expenses, and Changes in Net Assets.....	13
A-3 Statement of Cash Flows.....	14
Notes to the Financial Statements.....	17
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	33
ORDERING INFORMATION.....	35



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Craven Community College
New Bern, North Carolina

We have audited the accompanying basic financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Craven Community College Foundation, Inc., which represents 4.83 percent, 5.09 percent, and 1.85 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

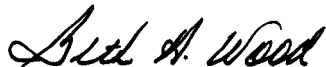
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Craven 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 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 Craven Community College as of June 30, 2012, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 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, CPA
State Auditor

March 6, 2013

Craven Community College Management's Discussion and Analysis

As management of Craven Community College, we offer readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the College's financial statements, which follow this narrative.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to Craven Community College's basic financial statements. The College's basic financial statements consist of three components; 1) Management's Discussion and Analysis, 2) the basic financial statements, and 3) Notes to the Financial Statements.

Basic Financial Statements

The basic financial statements present information for Craven Community College as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (Exhibit A-1) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) presents information showing how the College's net assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (Exhibit A-3) presents information showing how the College's cash changed as a result of current year operations. The Statement of Cash Flows includes the reconciliation of operating loss to net cash used during the year.

The financial statements provide both long-term and short-term information about the College's overall financial status.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements follow the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

Like so many of the colleges within the system, Craven Community College experienced enrollment growth during the recent recession serving the unemployed and underemployed citizens of Craven County and surrounding areas. However, during the 2011-2012 academic year, the College experienced a decline in the Full Time Equivalents (FTE). The College is funded on a three-year average of its FTE. Therefore, declining FTE will have a negative impact on the funding from the State.

- The College's total State budget allocation based on enrollment was \$19,221,637. The initial allocation was immediately reduced by \$1,012,387 through a Management Flexibility Reduction. During the fiscal year, there was also a call back (or reversion) of \$161,909. These reductions brought the College's net budget down to \$18,047,341. The College reported revenues generated from the State Aid of \$13,192,947.71 plus state tuition receipts of \$4,795,588.08.
- The College's total county budget allocation used for operations and maintenance of plant remained steady at \$3,455,130. The county did increase the capital allocation by \$110,000 to address some concerns with aging facilities.

The College's financial statements are prepared on an accrual basis, which means that revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. Depreciation of capital assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed 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, 2012. The data provides readers of this statement information on assets available to continue operations, amounts due to vendors and employees; and the net assets available for operations by the College. The financial statements demonstrate that the financial position of the College has remained strong during the fiscal year 2012 with an overall increase in total net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2012</u>	<u>Restated 2011</u>	<u>Increase (Decrease)</u>
Assets			
Current Assets	\$ 5,643,750.37	\$ 5,231,142.22	\$ 412,608.15
Capital Assets, Net of Depreciation	32,153,144.62	32,499,877.10	(346,732.48)
Other Noncurrent Assets	2,408,379.90	2,113,367.46	295,012.44
Total Assets	<u>40,205,274.89</u>	<u>39,844,386.78</u>	<u>360,888.11</u>
Liabilities			
Current Liabilities	1,204,923.43	1,523,920.96	(318,997.53)
Noncurrent Liabilities	874,184.81	812,732.99	61,451.82
Total Liabilities	<u>2,079,108.24</u>	<u>2,336,653.95</u>	<u>(257,545.71)</u>
Net Assets			
Invested in Capital Assets	32,153,144.62	32,499,877.10	(346,732.48)
Restricted:			
Nonexpendable	1,623,713.52	1,651,748.48	(28,034.96)
Expendable	2,189,843.90	3,449,877.31	(1,260,033.41)
Unrestricted	2,159,464.61	(93,770.06)	2,253,234.67
Total Net Assets	<u>\$ 38,126,166.65</u>	<u>\$ 37,507,732.83</u>	<u>\$ 618,433.82</u>

Current assets include cash and cash equivalents, receivables, inventories, and notes receivable for short-term student loans. Noncurrent assets consist of cash, restricted due from primary government, investments, and capital assets. Capital assets include land, buildings, infrastructure, and equipment. The College's capital assets are recorded at acquisition cost, or fair market value for donations, less depreciation. A capital asset is recorded when the purchase price for an item is \$5,000 or more and has a useful life of more than one year. Depreciation is computed utilizing the straight-line method over estimated useful life of the asset, generally 15 – 75 years for infrastructure, 40 – 100 years for buildings, and 5 – 25 years for equipment.

Current liabilities include amounts due to vendors, payroll compensation, unearned revenue for summer term, and the current portion of compensated absences for vacation leave due to employees. Noncurrent liabilities include the long-term portion of compensated absences for vacation leave due to employees.

Net assets are a measure of the value of all the College's assets less liabilities.

Notable changes in the Condensed Statement of Net Assets include:

- Current assets increased by \$412,608.15 mainly due to the increase in cash and cash equivalents of \$2,367,526.26 and a reduction in receivables of \$1,853,703.01. This is primarily due to the fact that funds for financial aid and direct loans were drawn down from the Department of Education prior to June 30, 2012 but were not in fiscal year 2011. A \$55,814.72 decrease in the amount Due from State of NC Component Units is due to a reduction in the College's Golden LEAF grant.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Other Noncurrent Assets increased by \$295,012.44, mainly due to an increase in Restricted Due from Primary Government of \$300,000.00 for the capital improvement funds for college repairs and renovations. The project to be funded is the renovation of the second floor of the Brock Administration Building.
- Current Liabilities decreased by \$318,997.53 mainly due to the decrease of \$269,747.66 in Funds Held for Others. Funds Held for Others contains multiple agency fund scholarships as well as the federal direct loan accounts (subsidized, unsubsidized and PLUS). In fiscal year, 2011 the funds for federal direct loans were not drawn down from the Department of Education prior to year-end, which resulted in a receivable of \$297,604.49 in fiscal 2011. Unearned revenue decreased by \$236,564.91 due to a change in summer offerings from 2011 to 2012. In 2012 summer term offerings were fully self-supported. Therefore, if the minimum number of students did not register, the class would not be offered. This along with the offering of more mini-semester courses reduced the amount of unearned revenue.
- Net Assets increased by \$618,433.82 primarily due to the increase of \$302,977.32 in Expendable Capital Projects, which consists of the renovation project mentioned above as well as an increase of \$117,476.71 in Restricted Expendable Other Assets due to additional grants. There was an increase of \$582,587.79 in Unrestricted Net Assets primarily due to increased cash, as less was needed to cover restricted account deficits. A decrease in Invested in Capital Assets of \$346,732.48 is directly related to the current year allocation of depreciation expense to the assets already owned by the College. During times where a decline in additions to assets is significant, depreciation expense for assets already owned by the College is not offset by additions and result in a decrease in investment in plant.

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

The purpose of this statement is to present the revenues received and expenses paid by the College, both operating and nonoperating. The College receives the majority of its funding from appropriations, which are recorded as nonoperating revenue and results in an operating loss on the statements. Such operating loss is normal for public institutions where depreciation is recognized and presented as an operating expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	June 30, 2012	June 30, 2011	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	4,583,324.39	4,432,805.69	150,518.70
Sales and Services, Net	238,061.61	248,273.83	(10,212.22)
Other Operating Revenues	106,496.28	156,838.56	(50,342.28)
Total Operating Revenues	<u>4,927,882.28</u>	<u>4,837,918.08</u>	<u>89,964.20</u>
Operating Expenses:			
Salaries and Benefits	17,583,641.30	17,788,534.48	(204,893.18)
Supplies and Materials	1,929,896.89	2,447,199.00	(517,302.11)
Services	3,359,901.51	3,081,359.98	278,541.53
Scholarships and Fellowships	6,090,973.30	6,289,401.86	(198,428.56)
Utilities	920,395.31	854,202.44	66,192.87
Depreciation	1,247,817.20	1,286,774.74	(38,957.54)
Total Operating Expenses	<u>31,132,625.51</u>	<u>31,747,472.50</u>	<u>(614,846.99)</u>
Operating Loss	(26,204,743.23)	(26,909,554.42)	704,811.19
Nonoperating Revenues			
State Aid	11,956,226.91	12,279,721.90	(323,494.99)
County Appropriations	3,455,130.00	3,455,130.00	0.00
Noncapital Grants	8,960,269.71	8,362,411.79	597,857.92
Other Nonoperating Rev	869,160.14	1,116,162.19	(247,002.05)
Net Nonoperating Revenues	<u>25,240,786.76</u>	<u>25,213,425.88</u>	<u>27,360.88</u>
Loss Before Other Revenues	(963,956.47)	(1,696,128.54)	732,172.07
Other Revenues			
State Capital Aid	1,236,720.80	1,218,695.39	18,025.41
Other Capital Revenues	246,689.77	137,998.67	108,691.10
Additions to Endowments	98,979.72	52,726.53	46,253.19
Total Decrease in Net Assets	618,433.82	(286,707.95)	905,141.77
Net assets, July 1 , 2011	<u>37,507,732.83</u>	<u>37,794,440.78</u>	<u>(286,707.95)</u>
Net assets, June 30, 2012	<u>\$ 38,126,166.65</u>	<u>\$ 37,507,732.83</u>	<u>\$ 618,433.82</u>

Operating revenues are received for providing goods and services to various customers and constituencies of the College. Operating expenses are used to acquire or produce resources required to provide for the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided such as state and county aid, grants, and gifts.

Notable changes in the Condensed Statement of Revenues, Expenses, and Changes in Net Assets include:

- Tuition increased \$10 per credit hour for 2011-2012 per the General Assembly. In-state tuition increased from \$56.50 to \$66.50 per credit hour and out-of-state tuition increased from \$248.50 to \$258.50 per credit hour. This increase in tuition can explain the \$150,518.70 increase in Student Tuition and Fees, Net, even though the College experienced a decline in FTE of 249.08 from 3,161.23 to 2,912.15.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Salaries and Benefits experienced a decrease of \$204,893.18, which is due to the decrease in enrollment, which influences the number of courses offered. With fewer courses being offered, there are fewer adjunct faculty hired thus reducing the expense.
- Supplies and Materials decreased \$517,302.11 due to declining FTE, which resulted in less supplies and equipment being purchased. The College also transferred equipment allocation of \$300,000.00 to a Capital Improvement account for repairs and renovations. These funds are to be expended in fiscal year 2012-2013. Typically, these funds would have been used to purchase equipment for the College. However, with the transfer of these funds, money available to purchase equipment in 2012 was reduced, therefore decreasing the overall expense for 2012.
- Scholarships and Fellowships decreased by \$198,428.56 due to the Department of Education eliminating the Year-Round Pell for this academic year. There were stricter Satisfactory Academic Progress (SAP) regulations put in place by the Department of Education, which resulted in more students losing their financial aid eligibility. The College also had a decrease in Curriculum FTE.
- State Aid decreased due to declining FTE and call back funds during the year.
- Noncapital Grants increased by \$597,857.92. Although a portion of this relates to student financial aid and the Pell Grant Program, which decreased by \$129,652.85 from \$7,220,458.54 to \$7,090,805.69, the College secured other grants (such as the NC Advanced Manufacturing Alliance grant) resulting in a \$727,510.77 increase in other nonoperating grants from \$1,141,953.25 to \$1,869,464.02.
- Other Nonoperating Revenues decreased by \$247,002.05 mainly due to the decrease in Investment Income of \$292,453.80.

Capital Asset Activity

The College's capital assets remained stable through 2011 – 2012 with a slight decrease of \$346,732.48. Machinery and equipment had a net increase of \$467,256.38. Items acquired include a 1962 Cherokee Piper airplane, emergency notification system, security system, 15 passenger van, and various instructional and computer equipment. Although the net amount of depreciable assets increased by \$698,916.86, the accumulated depreciation also increased by a net \$1,045,649.34, which results in a net decrease.

	Capital Assets (net of depreciation)		
	2012	2011	Increase (Decrease)
Land	\$ 596,500.00	\$ 596,500.00	\$ 0.00
Buildings	24,631,575.15	25,366,041.02	(734,465.87)
Machinery and equipment	5,262,547.70	4,795,291.32	467,256.38
Infrastructure	1,662,521.77	1,742,044.80	(79,523.03)
Total	<u>\$ 32,153,144.62</u>	<u>\$ 32,499,877.14</u>	<u>\$ (346,732.52)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

The economy of the State of North Carolina is expected to remain flat; therefore, the state may face difficulty in maintaining current funding levels. Economic recovery is expected to continue at a slow pace. For the fiscal year, 2012-2013 the College's state budget allocation is \$19,457,112.00 with another Management Flexibility Reduction of \$1,049,078.00. The budget allocation formula is based on the higher of the FTE earned in the most recent year or the average of the last three years. We realize that with the decline in enrollment, there will be a decrease in state funding.

As it is typical during cycles of recession, the College experienced growth in enrollment during the fiscal years 2008-2009, 2009-2010 and 2010-2011. However, as expected the enrollment growth experienced in those years cannot be maintained. Therefore, the College anticipates decreased funding. Management is reviewing several options that they hope will lessen the effects of the anticipated decrease; such as putting more focus on our military population by creating a Military Affairs Center and implementing a new advising model.

Craven Community College continues to explore external funding sources to enhance programs and services at the College. During the year under review, we were awarded grants totaling \$2,106,094. Trio SSS is a five year grant which focuses on student support services. The North Carolina Advanced Manufacturing Alliance (NCAMA) is a three-year grant, which focuses on providing fast-track pathways to jobs for North Carolinians in fields such as welding, composites, and computer-integrated machining and electronics. Funding for the establishment of the Early College East at Havelock and will provide technical training in STEM basic skills related to the aerospace industry.

Thorough planning and cost controls the College will maintain its healthy financial position through the current economic downturn with minimal impact on services, students and staff. Enrollment trends will continue to be monitored to determine the optimal mix of services offered to continue to provide expanded learning opportunities to students.

With emphases on community engagement and economic development, Craven Community College actively collaborates with a variety of other organizations working to achieve broad-based economic development.

Requests for Information

This report is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Cindy A. Patterson, Director of Financial Services and Purchasing, Craven Community College, 800 College Court, New Bern, NC 28562. The College's website is www.cravenc.edu.

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Craven Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,950,938.18
Restricted Cash and Cash Equivalents	1,865,769.44
Receivables, Net (Note 4)	330,616.85
Due from State of North Carolina Component Units	319,214.62
Inventories	172,999.88
Notes Receivable, Net (Note 4)	4,211.40

Total Current Assets	5,643,750.37
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	492,363.09
Restricted Due from Primary Government	364,363.26
Restricted Investments	1,550,566.81
Other Investments	1,086.74
Capital Assets - Nondepreciable (Note 5)	596,500.00
Capital Assets - Depreciable, Net (Note 5)	31,556,644.62

Total Noncurrent Assets	34,561,524.52
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Total Assets	40,205,274.89
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	790,562.06
Unearned Revenue	285,029.94
Funds Held for Others	94,992.74
Long-Term Liabilities - Current Portion (Note 7)	34,338.69

Total Current Liabilities	1,204,923.43
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	874,184.81
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Total Liabilities	2,079,108.24
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Craven Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1
Page 2 of 2

NET ASSETS

Invested in Capital Assets	32,153,144.62
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,581,150.81
Other	42,562.71
Expendable:	
Scholarships and Fellowships	168,933.86
Loans	43,002.06
Capital Projects	690,617.32
Use by Public Radio East	368,208.27
Instructional Technology Programs	447,264.18
Robotics Training Program	147,476.00
Other	324,342.21
Unrestricted	<u>2,159,464.61</u>
Total Net Assets	<u>\$ 38,126,166.65</u>

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

***Craven 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)	\$ 4,583,324.39
Sales and Services	238,061.61
Other Operating Revenues	106,496.28
	<hr/>
Total Operating Revenues	4,927,882.28
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EXPENSES

Operating Expenses:	
Salaries and Benefits	17,583,641.30
Supplies and Materials	1,929,896.89
Services	3,359,901.51
Scholarships and Fellowships	6,090,973.30
Utilities	920,395.31
Depreciation	1,247,817.20
	<hr/>
Total Operating Expenses	31,132,625.51
	<hr/>
Operating Loss	(26,204,743.23)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	11,956,226.91
County Appropriations	3,455,130.00
Noncapital Grants - Student Financial Aid	7,090,805.69
Other Noncapital Grants	1,869,464.02
Noncapital Gifts	920,909.62
Investment Income	(28,650.80)
Other Nonoperating Expenses	(23,098.68)
	<hr/>
Net Nonoperating Revenues	25,240,786.76
	<hr/>

Loss Before Other Revenues	(963,956.47)
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State Capital Aid	1,236,720.80
County Capital Aid	210,000.00
Capital Grants	13,539.77
Capital Gifts	23,150.00
Additions to Endowments	98,979.72
	<hr/>
Increase in Net Assets	618,433.82

NET ASSETS

Net Assets, July 1, 2011	<hr/> 37,507,732.83
Net Assets, June 30, 2012	<hr/> <hr/> \$ 38,126,166.65

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

Craven Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,097,152.09
Payments to Employees and Fringe Benefits	(17,438,404.10)
Payments to Vendors and Suppliers	(6,066,020.09)
Payments for Scholarships and Fellowships	(5,904,614.26)
Loans Issued to Students	(18,520.10)
Collection of Loans to Students	23,176.89
Other Payments	(232,634.20)
	<hr/>
Net Cash Used by Operating Activities	(24,539,863.77)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,956,226.91
County Appropriations	3,455,130.00
Noncapital Grants - Student Financial Aid	8,537,869.13
Noncapital Grants Received	1,749,090.12
Noncapital Gifts and Endowments Received	1,010,623.40
William D. Ford Direct Lending Receipts	3,720,109.50
William D. Ford Direct Lending Disbursements	(3,720,109.50)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	26,708,939.56

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	936,720.80
County Capital Aid	210,000.00
Capital Grants Received	13,539.77
Acquisition and Construction of Capital Assets	(938,146.86)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	222,113.71

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	154,131.83
Investment Income	68,599.03
Purchase of Investments and Related Fees	(194,231.90)
	<hr/>
Net Cash Provided by Investing Activities	28,498.96

Net Increase in Cash and Cash Equivalents	2,419,688.46
Cash and Cash Equivalents, July 1, 2011	2,889,382.25
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 5,309,070.71

Craven Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (26,204,743.23)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,247,817.20
Provision for Uncollectible Loans and Write-Offs	3,495.46
Miscellaneous Nonoperating Income	37,113.46
Changes in Assets and Liabilities:	
Receivables, Net	592,094.13
Inventories	35,851.63
Prepaid Items	1,396.50
Notes Receivable, Net	4,656.79
Accounts Payable and Accrued Liabilities	190,009.11
Due to Primary Government	(11,361.32)
Unearned Revenue	(236,564.91)
Funds Held for Others	(269,747.66)
Compensated Absences	70,119.07
	<u>70,119.07</u>
Net Cash Used by Operating Activities	<u>\$ (24,539,863.77)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,950,938.18
Restricted Cash and Cash Equivalents	1,865,769.44
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	492,363.09
	<u>492,363.09</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 5,309,070.71</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 23,150.00
Change in Fair Value of Investments	(89,885.04)
Increase in Receivables Related to Nonoperating Income	485,454.56

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

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**CRAVEN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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. Craven 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 units for which the College's Board of Trustees is financially accountable. The College's component units are blended in the College's financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College.

Blended Component Units - Although legally separate, Craven Community College Foundation, Inc. and Public Radio East Foundation are reported as if they were part of the College. Craven Community College Foundation, Inc. is governed by a 25-member board consisting of 4 ex officio directors and 21 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Public Radio East Foundation is governed by a 21-member board consisting of all elected directors. The Foundation's purpose is to perform the functions of and to carry out the purposes of Public Radio East, a public radio station that is operated as part of Craven Community College. Because the elected directors of both Foundations are appointed by the members of the Craven Community College Board of Trustees and the Foundations' sole purpose is to benefit Craven Community College, their financial statements have been blended with those of the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements for each Foundation may be obtained from the College Controller's Office, 800 College Court, New Bern, NC 28562, or by calling (252) 638-7304. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using last invoice cost.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost 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 15 to 75 years for general infrastructure, 40 to 100 years for buildings, and 5 to 25 years for equipment.

The College does not capitalize the Godwin Library collection. This collection adheres to the College's policy to maintain for public exhibition, education, or research; protect, keep unencumbered, care for, and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

resources whose use is limited by external parties or statute, and restricted investments.

- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities consists of compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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.

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

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

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 by the College.

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 \$1,750.00. The carrying amount of the College's deposits not with the State Treasurer was \$52,782.82, and the bank balance was \$900,563.96.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,254,537.89, 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 1.5 years as of June 30, 2012. 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the state of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments of the College's blended component units, Craven Community College Foundation, Inc. and Public Radio East 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.

The following table presents the fair value of investments by type.

Investment Type	Fair Value
Other Securities	
Mutual Funds	\$ 1,550,566.81
Other	1,086.74
Total Investments	\$ 1,551,653.55

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	\$ 1,750.00
Carrying Amount of Deposits with Private Financial Institutions	52,782.82
Investments in the Short-Term Investment Fund	5,254,537.89
Other Investments	1,551,653.55
Total Deposits and Investments	\$ 6,860,724.26
Current:	
Cash and Cash Equivalents	\$ 2,950,938.18
Restricted Cash and Cash Equivalents	1,865,769.44
Noncurrent:	
Restricted Cash and Cash Equivalents	492,363.09
Restricted Investments	1,550,566.81
Other Investments	1,086.74
Total	\$ 6,860,724.26

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are both separately invested and pooled. The College has endowment assets that are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. The remainder of the endowment funds is separately invested with Branch Banking & Trust Company and is presented in the noncurrent assets as restricted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investments. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. The College’s endowment donor agreements prohibit spending of nonexpendable balances that are not eligible for expenditure.

Investment return of the College’s endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College’s endowment funds are based on an adopted spending policy which limits spending up to 6% of the endowment principal’s market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the income for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2012, there was no net appreciation available to be spent.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 238,045.64	\$ 112,928.14	\$ 125,117.50
Student Sponsors	41,526.04		41,526.04
Accounts	28,854.28	119.30	28,734.98
Intergovernmental	28,027.11		28,027.11
Pledges	108,906.82	10,542.94	98,363.88
Other	10,088.22	1,240.88	8,847.34
Total Current Receivables	<u>\$ 455,448.11</u>	<u>\$ 124,831.26</u>	<u>\$ 330,616.85</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 7,706.86</u>	<u>\$ 3,495.46</u>	<u>\$ 4,211.40</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - 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	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Total Capital Assets, Nondepreciable	596,500.00	0.00	0.00	596,500.00
Capital Assets, Depreciable:				
Buildings	34,715,725.87			34,715,725.87
Machinery and Equipment	7,903,258.99	901,084.68	202,167.82	8,602,175.85
General Infrastructure	2,485,125.30			2,485,125.30
Total Capital Assets, Depreciable	45,104,110.16	901,084.68	202,167.82	45,803,027.02
Less Accumulated Depreciation for:				
Buildings	9,349,684.85	734,465.87		10,084,150.72
Machinery and Equipment	3,107,967.67	433,828.30	202,167.82	3,339,628.15
General Infrastructure	743,080.50	79,523.03		822,603.53
Total Accumulated Depreciation	13,200,733.02	1,247,817.20	202,167.82	14,246,382.40
Total Capital Assets, Depreciable, Net	31,903,377.14	(346,732.52)	0.00	31,556,644.62
Capital Assets, Net	\$ 32,499,877.14	\$ (346,732.52)	\$ 0.00	\$ 32,153,144.62

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 176,625.38
Accrued Payroll	613,936.68
Total Accounts Payable and Accrued Liabilities	\$ 790,562.06

NOTE 7 - 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
Compensated Absences	\$ 838,404.43	\$ 417,768.74	\$ 347,649.67	\$ 908,523.50	\$ 34,338.69

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 6,451,150.85	\$ 1,791,676.61	\$ 76,149.85	\$ 4,583,324.39

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	\$ 9,278,723.90	\$ 1,167,787.48	\$ 447,138.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,893,649.69
Public Service	586,336.49	15,528.64	409,253.33		44,414.40		1,055,532.86
Academic Support	2,036,100.57	79,990.79	72,789.67				2,188,881.03
Student Services	1,487,247.34	89,172.87	180,351.22				1,756,771.43
Institutional Support	3,183,975.92	408,924.38	1,297,462.29	29,940.74			4,920,303.33
Operations and Maintenance of Plant	1,011,257.08	168,092.18	844,434.66		875,980.91		2,899,764.83
Student Financial Aid			23,408.90	6,061,032.56			6,084,441.46
Independent Operations		400.55	85,063.13				85,463.68
Depreciation						1,247,817.20	1,247,817.20
Total Operating Expenses	\$ 17,583,641.30	\$ 1,929,896.89	\$ 3,359,901.51	\$ 6,090,973.30	\$ 920,395.31	\$ 1,247,817.20	\$ 31,132,625.51

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$14,022,127.46 of which \$10,888,166.01 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$810,079.55 and \$ 653,289.96, 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 \$810,079.55, \$550,319.19, and \$365,056.09, 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 \$16,773.04 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$137,642.86 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 \$544,408.30, \$546,991.46, and \$460,154.73, respectively. The College assumes no liability for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$56,618.46, \$58,048.07, and \$53,173.44, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 contracts with private insurance companies. 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.

Liability insurance for College-owned vehicles is covered by contracts with private insurance companies. Coverage limit is \$1,000,000 each accident for bodily injury and property damage and \$2,000 each person for medical payments.

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 private insurance policy.

Professional liability insurance of \$2,000,000.00 per claim and \$5,000,000.00 aggregate is provided to students participating in certain programs. Coverage is under a private insurance policy. Faculty of those programs are covered under the College's private insurance policy.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.



Beth A. Wood, CPA
State Auditor

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Office of the 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
Craven Community College
New Bern, North Carolina

We have audited the financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2012 and have issued our report thereon dated March 6, 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 Craven Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Craven Community College Foundation, Inc., were not audited in accordance with *Government 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.

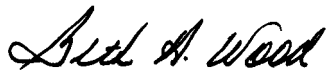
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify 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.

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

March 6, 2013

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: 919/807-764

This audit required 752 audit hours at an approximate cost of \$54,144. The cost represents 0.135% of the College's total assets and 0.174% of total expenses subjected to audit.