



STATE OF NORTH CAROLINA

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, 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, Coastal Carolina Community College

We have completed a financial statement audit of Coastal Carolina 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*.

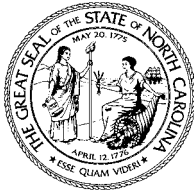
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the accompanying basic financial statements of Coastal Carolina 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 Coastal Carolina Community College Foundation, Inc., the College's blended component unit which represent 12 percent, 13 percent, and 1 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 this entity, 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. 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 opinion.


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 financial position of Coastal Carolina 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

February 6, 2013

COASTAL CAROLINA COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of Coastal Carolina Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2012, with comparative data for the fiscal year ended June 30, 2011. Because Management's Discussion and Analysis is designed to focus on current activities, resulting change, and currently known facts, please read it in conjunction with the College's Financial Statements and Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the College.

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 Colleges 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 are recognized when earned, and expenses are recognized when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the users' 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 combines current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are indicators of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities which are supported mainly 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 appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation expense, 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, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Statement of Cash Flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Financial Highlights

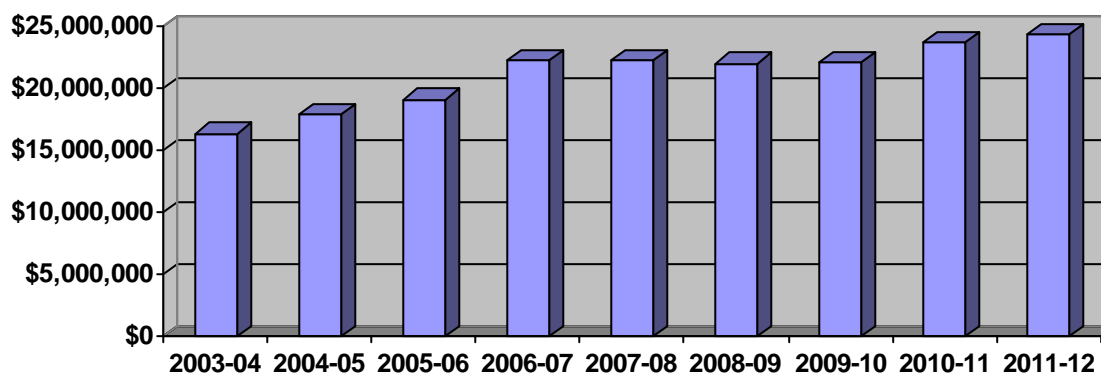
The student informational signage project was completed this fiscal year. The College continued design work for other projects, including the construction of a new maintenance building and a dynamometer shelter. The College also began design of student commons areas (pavilions) and initiated a design contract for the construction of the Faculty Drive extension during this fiscal year.

In response to a special provision of the North Carolina General Assembly, the North Carolina State Board of Community Colleges approved, in 1999, twelve performance measures and standards to enhance accountability in North Carolina community colleges. In 2007, the North Carolina General Assembly approved modifications to the North Carolina Community College Performance Measures and Standards as recommended by the North Carolina State Board of Community Colleges. The modifications reduced the number of measures from twelve to eight. This year the College achieved all eight performance standards, however, performance funding for accomplishing this achievement was not approved as part of this fiscal year's state-budget allotment.

In December 2011, the College reverted 1% of their annual state appropriations to the North Carolina Community College System Office (NCCCSO). This reversion totaled \$241,261. Mandatory management flexibility funds were also due back to the NCCCSO in September 2011 in the amount of \$1,388,738. In addition to the funding received from the State based on a full-time equivalent formula, the College received funding from Onslow County for the maintenance of buildings and infrastructure.

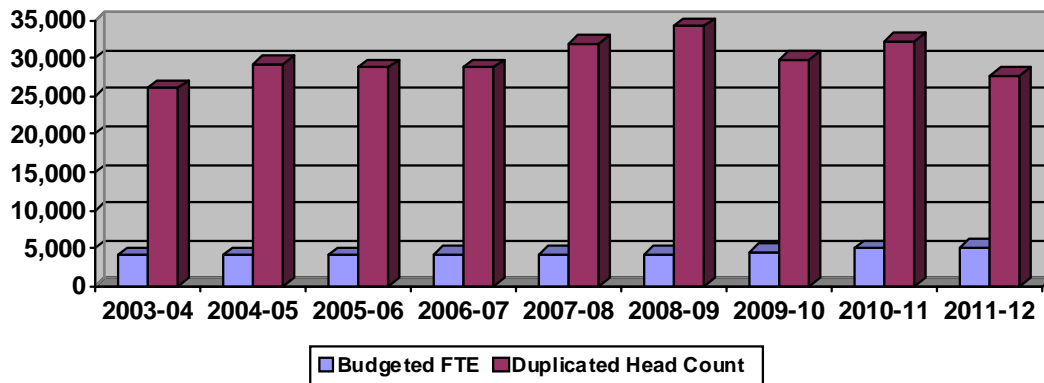
The College's growth continues as seen in budget increases, campus expansion, and student enrollment.

State Appropriations



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Enrollment



Financial Analysis

Analysis of Assets and Net Assets

As of June 30, 2012, the College's total net assets have increased 1.66% from the last fiscal year. The balance of the expendable restricted for specific programs category decreased by 84.30% from the prior year. A large portion of these funds were used to support scholarships for the Military Academic Skills Program. The amount of these scholarships awarded increased dramatically during the fiscal year due to increased program enrollment and the substantial continuing education tuition increase effective for the fall 2011 semester.

Condensed Statement of Net Assets

	June 30, 2012	June 30, 2011	Increase (Decrease)	% Change
Assets				
Current Assets	\$ 7,474,716.11	\$ 7,346,350.49	\$ 128,365.62	1.75%
Noncurrent Assets:				
Capital Assets, Net of Depreciation	28,336,928.31	27,839,084.85	497,843.46	1.79%
Other	3,422,833.24	3,311,870.70	110,962.54	3.35%
Total Assets	39,234,477.66	38,497,306.04	737,171.62	1.91%
Liabilities				
Current Liabilities	1,082,305.24	1,014,242.87	68,062.37	6.71%
Noncurrent Liabilities	575,552.68	519,429.25	56,123.43	10.80%
Total Liabilities	1,657,857.92	1,533,672.12	124,185.80	8.10%
Net Assets				
Investment in Capital Assets	28,336,928.31	27,839,084.85	497,843.46	1.79%
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	2,949,003.36	2,801,909.13	147,094.23	5.25%
Expendable:				
Scholarships and Fellowships	343,214.00	318,266.00	24,948.00	7.84%
Capital Projects	201,665.47	177,402.13	24,263.34	13.68%
Restricted for Specific Programs	31,273.79	199,216.61	(167,942.82)	-84.30%
Other	292,283.85	263,010.63	29,273.22	11.13%
Unrestricted	5,422,250.96	5,364,744.57	57,506.39	1.07%
Total Net Assets	\$ 37,576,619.74	\$ 36,963,633.92	\$ 612,985.82	1.66%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Liabilities

The College had no significant change in current or noncurrent liabilities from the prior fiscal year.

Analysis of Liabilities

	June 30, 2012	June 30, 2011	Increase (Decrease)	% Change
Current Liabilities	\$ 993,885.95	\$ 921,964.63	\$ 71,921.32	7.80%
Long-Term Liabilities - Current Portion	88,419.29	92,278.24	(3,858.95)	-4.18%
Total Current Liabilities	1,082,305.24	1,014,242.87	68,062.37	6.71%
Noncurrent Long-Term Liabilities	575,552.68	519,429.25	56,123.43	10.80%
Total Liabilities	\$ 1,657,857.92	\$ 1,533,672.12	\$ 124,185.80	8.10%

Analysis of Net Capital Assets

The schedule below defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. The year consisted of routine purchases and disposals of equipment. Construction in progress increased by approximately 400% and was primarily due to the continued design of the maintenance building and dynamometer shelter. The College also began design of a new student commons area (pavilions).

	June 30, 2012	June 30, 2011	Increase	% Change
Capital Assets:				
Land and Permanent Easements	\$ 823,349.75	\$ 823,349.75	\$ 0.00	0.00
Construction in Progress	294,855.15	59,022.21	235,832.94	399.57%
Buildings	27,996,105.89	27,996,105.89		
Machinery and Equipment	4,417,894.07	3,694,049.79	723,844.28	19.59%
General Infrastructure	12,460,417.45	11,868,628.45	591,789.00	4.99%
Total	45,992,622.31	44,441,156.09	1,551,466.22	3.49%
Less: Accumulated Depreciation	(17,655,694.00)	(16,602,071.24)	1,053,622.76	6.35%
Capital Assets, Net	\$ 28,336,928.31	\$ 27,839,084.85	\$ 497,843.46	1.79%

Analysis of Revenues

The College experienced a 4.07% overall decrease in net nonoperating revenues from the prior fiscal year. The decrease in investment income of 88.43% was due to the declining performance of the College Foundation's investment portfolio. In addition, the loss on disposal of capital assets \$37,588.24 this fiscal year as compared to \$654.18 in the previous year, resulting in a 5,45.86% increase in other nonoperating expenses was due to machinery and equipment disposals. The College's county capital appropriations increased by 41.10%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

primarily due to a substantial increase in funding from the county for capital projects during the fiscal year. The county funds that were not spent at fiscal year end have been carried forward to cover these ongoing expenses in the next fiscal year.

	June 30, 2012	June 30, 2011 (as Restated)	Increase (Decrease)	% Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 6,118,482.33	\$ 5,720,408.06	\$ 398,074.27	6.96%
Sales and Services and Other, Net	2,047,960.19	2,055,100.02	(7,139.83)	-0.35%
Total Operating Revenues	8,166,442.52	7,775,508.08	390,934.44	5.03%
Less Operating Expenses	39,237,457.24	38,836,453.40	401,003.84	1.03%
Operating Loss	(31,071,014.72)	(31,060,945.32)	10,069.40	0.03%
Nonoperating Revenues:				
State Aid	13,905,648.25	13,891,550.99	14,097.26	0.10%
County Appropriations	3,732,721.19	3,418,258.77	314,462.42	9.20%
Noncapital Grants - Student Financial Aid	10,797,565.95	11,471,245.39	(673,679.44)	-5.87%
Noncapital Gifts and Grants	585,821.13	830,467.71	(244,646.58)	-29.46%
Investment Income, Net	79,302.28	685,655.93	(606,353.65)	-88.43%
Other Nonoperating Expenses	(37,588.24)	(654.18)	(36,934.06)	5645.86%
Net Nonoperating Revenues	29,063,470.56	30,296,524.61	(1,233,054.05)	-4.07%
Other Revenues:				
State Capital Aid	1,464,335.31	1,409,560.70	54,774.61	3.89%
County Capital Appropriations	963,361.81	682,741.23	280,620.58	41.10%
Capital Grants	82,829.86	108,974.78	(26,144.92)	-23.99%
Additions to Endowments	110,003.00	100,444.00	9,559.00	9.52%
Total Nonoperating and Other Revenues	31,684,000.54	32,598,245.32	(914,244.78)	-2.80%
Increase in Net Assets	612,985.82	1,537,300.00	(924,314.18)	-60.13%
Net Assets July 1	36,963,633.92	35,426,333.92	1,537,300.00	4.34%
Net Assets June 30	\$ 37,576,619.74	\$ 36,963,633.92	\$ 612,985.82	1.66%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Analysis of Expenses

The College experienced a 1.03% overall increase in operating expenses from the prior fiscal year. Salaries and benefits, which comprise the largest category of operating expenses, remained relatively consistent with the prior fiscal year, with only a 4.56% increase. This category includes salary and benefit expenses, retirement contributions, and employer tax amounts. Scholarships and fellowships decreased by 11.44%. The majority of this decrease can be attributed to a \$694,605.68 decrease in federal student financial aid awarded.

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Salaries and Benefits	\$ 22,707,748.18	\$ 21,716,664.11	\$ 991,084.07	4.56%
Supplies and Materials	5,230,118.94	5,024,037.66	206,081.28	4.10%
Services	2,613,132.24	2,498,596.54	114,535.70	4.58%
Scholarships and Fellowships	6,866,374.00	7,753,671.74	(887,297.74)	-11.44%
Utilities	692,972.41	722,716.99	(29,744.58)	-4.12%
Depreciation	1,127,111.47	1,120,766.36	6,345.11	0.57%
Total Operating Expenses	<u>\$ 39,237,457.24</u>	<u>\$ 38,836,453.40</u>	<u>\$ 401,003.84</u>	1.03%

Economic Forecast

For the 2011-2012 fiscal year approximately 39% of the College's total revenue was funded by the State of North Carolina and approximately 12% was funded by Onslow County. Budget reversions totaled 1%. The College's full-time equivalent (FTE) enrollment increased in curriculum, occupational extension, and basic skills by approximately .20%, 20%, and .50% respectively.

Although state funding for the College has actually decreased, increased budget flexibility allows the transfer of funds as needs arise. Consequently, there are no plans to increase workloads, cap enrollment, or implement a reduction in force.

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

Coastal Carolina Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,577,968.05
Restricted Cash and Cash Equivalents	304,940.32
Short-Term Investments	973,885.00
Restricted Short-Term Investments	430,987.00
Receivables, Net (Note 4)	703,826.92
Inventories	292,876.74
Prepaid Items	190,232.08

Total Current Assets	<u>7,474,716.11</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	82,454.44
Restricted Due from Primary Government	103,198.80
Restricted Investments	2,927,540.00
Other Investments	309,640.00
Capital Assets - Nondepreciable (Note 5)	1,118,204.90
Capital Assets - Depreciable, Net (Note 5)	<u>27,218,723.41</u>

Total Noncurrent Assets	<u>31,759,761.55</u>
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Total Assets	<u>39,234,477.66</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	594,542.42
Unearned Revenue	357,538.36
Funds Held for Others	41,805.17
Long-Term Liabilities - Current Portion (Note 7)	<u>88,419.29</u>

Total Current Liabilities	<u>1,082,305.24</u>
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Noncurrent Liabilities:

Funds Held for Others	30,141.80
Long-Term Liabilities (Note 7)	<u>545,410.88</u>

Total Noncurrent Liabilities	<u>575,552.68</u>
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Total Liabilities	<u>1,657,857.92</u>
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NET ASSETS

Invested in Capital Assets	28,336,928.31
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	2,949,003.36
Expendable:	
Scholarships and Fellowships	343,214.00
Capital Projects	201,665.47
Restricted for Specific Programs	31,273.79
Other	292,283.85

Unrestricted	<u>5,422,250.96</u>
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Total Net Assets	<u>\$ 37,576,619.74</u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Coastal Carolina 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 9)	\$ 6,118,482.33
Sales and Services, Net (Note 9)	1,963,525.64
Other Operating Revenues	84,434.55

Total Operating Revenues	<u>8,166,442.52</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	22,707,748.18
Supplies and Materials	5,230,118.94
Services	2,613,132.24
Scholarships and Fellowships	6,866,374.00
Utilities	692,972.41
Depreciation	1,127,111.47

Total Operating Expenses	<u>39,237,457.24</u>
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Operating Loss	<u>(31,071,014.72)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	13,905,648.25
County Appropriations	3,732,721.19
Noncapital Grants - Student Financial Aid	10,797,565.95
Noncapital Grants	409,477.79
Noncapital Gifts	176,343.34
Investment Income, Net	79,302.28
Other Nonoperating Expenses	(37,588.24)

Net Nonoperating Revenues	<u>29,063,470.56</u>
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Loss Before Other Revenues	<u>(2,007,544.16)</u>
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State Capital Aid	1,464,335.31
County Capital Aid	963,361.81
Capital Grants	82,829.86
Additions to Endowments	110,003.00

Increase in Net Assets	<u>612,985.82</u>
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NET ASSETS

Net Assets, July 1, 2011	<u>36,963,633.92</u>
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Net Assets, June 30, 2012	<u><u>\$ 37,576,619.74</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Coastal Carolina 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	\$ 8,204,333.02
Payments to Employees and Fringe Benefits	(22,666,445.65)
Payments to Vendors and Suppliers	(8,532,731.45)
Payments for Scholarships and Fellowships	(6,866,374.00)
Collection of Loans to Students	34,208.00
Other Receipts	5,507.54
	<hr/>
Net Cash Used by Operating Activities	(29,821,502.54)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	13,905,648.25
County Appropriations	3,732,721.19
Noncapital Grants - Student Financial Aid	10,797,565.95
Noncapital Grants Received	494,227.08
Noncapital Gifts and Endowments Received	286,346.34
William D. Ford Direct Lending Receipts	1,224,068.00
William D. Ford Direct Lending Disbursements	(1,224,068.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	29,216,508.81

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

State Capital Aid Received	1,464,335.31
County Capital Aid	963,361.81
Capital Grants Received	82,829.86
Acquisition and Construction of Capital Assets	(1,662,543.17)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	847,983.81

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	2,914,498.00
Investment Income	188,439.28
Purchase of Investments and Related Fees	(3,076,727.00)
	<hr/>
Net Cash Provided by Investing Activities	26,210.28

Net Increase in Cash and Cash Equivalents	269,200.36
Cash and Cash Equivalents, July 1, 2011	4,696,162.45
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 4,965,362.81

Coastal Carolina 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	\$ (31,071,014.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,127,111.47
Changes in Assets and Liabilities:	
Receivables, Net	(28,726.07)
Inventories	18,797.32
Prepaid Items	(26,064.34)
Notes Receivable	34,208.00
Accounts Payable and Accrued Liabilities	(1,036.98)
Unearned Revenue	70,266.57
Funds Held for Others	1,857.54
Compensated Absences	53,098.67
Net Cash Used by Operating Activities	<u><u>\$ (29,821,502.54)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,577,968.05
Restricted Cash and Cash Equivalents	304,940.32
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>82,454.44</u>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 4,965,362.81</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ (176,009.00)
Capital Asset Write-Offs	111,076.95

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

COASTAL CAROLINA 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. Coastal Carolina 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 blended in the College's financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if they were part of the College.

Blended Component Unit - Although legally separate, Coastal Carolina Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 24-member board consisting of two ex officio directors and 22 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. Because the elected directors of the Foundation are appointed by the members of the Coastal Carolina Community College Board of Trustees and the Foundation's sole purpose is to benefit Coastal Carolina Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 444 Western Boulevard, Jacksonville, NC 28546, or by calling (910)-938-6218. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, savings accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. 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 decrease in the fair value of investments is recognized as a component of investment income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- 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 and merchandise for resale, are valued at cost using the first-in, first-out 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 15 to 75 years for general infrastructure, 10 to 100 years for buildings, and 5 to 25 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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as The College Store and Coastal Café. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- P. 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 \$11,260. The carrying amount of the College's deposits not with the State Treasurer was \$2,164,478.80, and the bank balance was \$4,197,378.49.

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 and real estate 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 and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,789,624.01, 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 component unit, the Coastal Carolina Community College Foundation, Inc., 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 and investments subject to interest rate risk at June 30, 2012, for the College's investments. 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.

Investments

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	6 to 10
Debt Securities			
Money Market Mutual Funds	\$ 93,665	\$ 93,665	\$ 0
Domestic Corporate Bond Mutual Funds	1,452,752		1,452,752
Foreign Government Bond Mutual Funds	425,938		425,938
Total Debt Securities	1,972,355	<u>\$ 93,665</u>	<u>\$ 1,878,690</u>
Other Securities			
Commodity Funds	399,806		
Absolute Return Mutual Funds	428,336		
Domestic Stock Mutual Funds	1,317,367		
Foreign Stock Mutual Funds	214,548		
Investments in Real Estate	309,640		
Total Investments	<u>\$ 4,642,052</u>		

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, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	BBB Baa	BB/Ba and below	Unrated
Money Market Mutual Funds	\$ 93,665	\$ 0	\$ 0	\$ 0	\$ 0	\$ 93,665
Domestic Corporate Bond Mutual Funds	1,452,752		1,109,224		343,528	
Foreign Government Bond Mutual Funds	425,938			425,938		
Commodity Funds	399,806	399,806				

Rating Agency: First Citizens provided the above credit ratings based on the average credit quality of the underlying fund holdings. Ratings apply to the underlying portfolio of debt securities held by the fund and are rated by an independent rating agency, such as Standard and Poor's, Moody's, and/or Fitch. If the ratings provided by the rating agencies differ for a particular fund, the lower rating is utilized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The underlying investments were subject to foreign currency risk based on investments in several foreign countries. The College's exposure to foreign currency risk for their investments is as follows:

Investment	Fair Value (U.S. Dollars)
Foreign Government Bond Mutual Funds	\$ 425,938
Foreign Stock Mutual Funds	214,548
Total	\$ 640,486

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	\$ 11,260.00
Carrying Amount of Deposits with Private Financial Institutions	2,164,478.80
Investments in the Short-Term Investment Fund	2,789,624.01
Other Investments	4,642,052.00
Total Deposits and Investments	\$ 9,607,414.81
Current:	
Cash and Cash Equivalents	\$ 4,577,968.05
Restricted Cash and Cash Equivalents	304,940.32
Short-Term Investments	973,885.00
Restricted Short-Term Investments	430,987.00
Noncurrent:	
Restricted Cash and Cash Equivalents	82,454.44
Restricted Investments	2,927,540.00
Other Investments	309,640.00
Total	\$ 9,607,414.81

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. 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, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

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 allows up to 100% of the endowment income each year for the sole purpose of funding student scholarships. At June 30, 2012, endowment net assets of \$430,987 were available to be spent, all of which were classified as restricted in net assets and were restricted for specific purposes.

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	\$ 449,293.94	\$ 105,576.16	\$ 343,717.78
Student Sponsors	209,672.82		209,672.82
Accounts	119,899.39		119,899.39
Intergovernmental	26,802.93		26,802.93
Other	3,734.00		3,734.00
Total Current Receivables	<u><u>\$ 809,403.08</u></u>	<u><u>\$ 105,576.16</u></u>	<u><u>\$ 703,826.92</u></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 and Permanent Easements	\$ 823,349.75	\$ 0.00	\$ 0.00	\$ 823,349.75
Construction in Progress	59,022.21	827,621.94	591,789.00	294,855.15
Total Capital Assets, Nondepreciable	882,371.96	827,621.94	591,789.00	1,118,204.90
Capital Assets, Depreciable:				
Buildings	27,996,105.89			27,996,105.89
Machinery and Equipment	3,694,049.79	834,921.23	111,076.95	4,417,894.07
General Infrastructure	11,868,628.45	591,789.00		12,460,417.45
Total Capital Assets, Depreciable	43,558,784.13	1,426,710.23	111,076.95	44,874,417.41
Less Accumulated Depreciation for:				
Buildings	13,400,382.98	635,265.05		14,035,648.03
Machinery and Equipment	1,652,294.74	266,444.40	73,488.71	1,845,250.43
General Infrastructure	1,549,393.52	225,402.02		1,774,795.54
Total Accumulated Depreciation	16,602,071.24	1,127,111.47	73,488.71	17,655,694.00
Total Capital Assets, Depreciable, Net	26,956,712.89	299,598.76	37,588.24	27,218,723.41
Capital Assets, Net	\$ 27,839,084.85	\$ 1,127,220.70	\$ 629,377.24	\$ 28,336,928.31

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 114,193.61
Accrued Payroll	480,348.81
Total Accounts Payable and Accrued Liabilities	\$ 594,542.42

NOTE 7 - 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	\$ 580,731.50	\$ 586,538.82	\$ 533,440.15	\$ 633,830.17	\$ 88,419.29

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 140,511.28
2014	104,608.31
Total Minimum Lease Payments	\$ 245,119.59

Rental expense for all operating leases during the year was \$146,227.24.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Change in Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 9,066,705.35</u>	<u>\$ 0.00</u>	<u>\$ 2,930,620.65</u>	<u>\$ 17,602.37</u>	<u>\$ 6,118,482.33</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 344,129.40	\$ 8,793.11	\$ 0.00	\$ 0.00	\$ 335,336.29
Bookstore	3,014,193.21	6,821.32	1,534,156.09		1,473,215.80
Vending	62,948.55				62,948.55
Sales and Services of Education and Related Activities	<u>92,025.00</u>				<u>92,025.00</u>
Total Sales and Services	<u>\$ 3,513,296.16</u>	<u>\$ 15,614.43</u>	<u>\$ 1,534,156.09</u>	<u>\$ 0.00</u>	<u>\$ 1,963,525.64</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,688,952.15	\$ 1,447,956.64	\$ 515,804.69	\$ 294,059.36	\$ 0.00	\$ 0.00	\$ 16,946,772.84
Academic Support	2,682,379.42	98,788.71	101,446.20				2,882,614.33
Student Services	1,539,981.37	80,363.58	237,901.51	53,118.77			1,911,365.23
Institutional Support	2,510,091.86	288,221.14	702,106.65	8,548.87			3,508,968.52
Operations and Maintenance of Plant	1,072,614.34	589,426.83	1,008,285.90	650.00	692,972.41		3,363,949.48
Student Financial Aid				6,509,997.00			6,509,997.00
Auxiliary Enterprises	213,729.04	2,725,362.04	47,587.29				2,986,678.37
Depreciation						1,127,111.47	1,127,111.47
Total Operating Expenses	\$ 22,707,748.18	\$ 5,230,118.94	\$ 2,613,132.24	\$ 6,866,374.00	\$ 692,972.41	\$ 1,127,111.47	\$ 39,237,457.24

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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 \$18,174,529.19, of which \$13,709,999.66 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,020,023.97 and \$822,599.98, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$1,020,023.97, \$664,317.50, and \$474,994.82, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Supplemental Retirement Income Plans** - 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. The voluntary contributions by employees amounted to \$272,091.40 for the year ended June 30, 2012.

Internal Revenue Code Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrator is Prudential Retirement. No costs are incurred by the College. The voluntary contributions by employees amounted to \$44,371.98 for the year ended June 30, 2012.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$685,499.98, \$660,275.00, and \$598,732.96, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$71,291.99, \$70,070.00, and \$69,186.92, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The college is protected from losses from employee dishonesty for employees paid from county and institutional funds by contracts with private insurance companies.

The College purchased other authorized coverage from private insurance companies. Other insurance purchased by the College includes general liability insurance with coverage of \$2,000,000 for bodily injury and property damage, excess liability coverage of \$6,000,000, and boiler, machinery, and equipment insurance with limits of \$76,183,385.

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.

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$46,502.85 and on other purchases were \$137,542.77 at June 30, 2012.

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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
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina 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 February 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 Coastal Carolina Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

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

February 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: 919/807-7647

This audit required 285 audit hours at an approximate cost of \$20,520. The cost represents .05% of the College's total assets and .05% of total expenses subjected to audit.