

# STATE OF NORTH CAROLINA

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

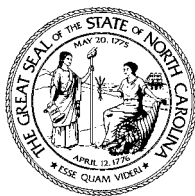
**BOARD OF TRUSTEES**

**BARREN E. NOBLES, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

**DR. TED D. SPRING, PRESIDENT**

**N. CAMELLIA RICE, VICE PRESIDENT FOR BUSINESS AND INSTITUTIONAL SERVICES**



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

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

---

**AUDITOR'S TRANSMITTAL**

---

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

We have completed a financial statement audit of Cape Fear Community College for the year ended June 30, 2013, 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.

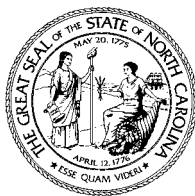
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

## TABLE OF CONTENTS

---

	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	5
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position .....	12
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	13
A-3 Statement of Cash Flows .....	14
Component Unit Exhibits	
B-1 Statement of Financial Position .....	16
B-2 Statement of Activities.....	17
Notes to the Financial Statements .....	19
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> .....	35
ORDERING INFORMATION .....	37



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

STATE OF NORTH CAROLINA

## Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

### INDEPENDENT AUDITOR'S REPORT

---

Board of Trustees  
Cape Fear Community College  
Wilmington, North Carolina

#### Report on the Financial Statements

We have audited the accompanying financial statements of Cape Fear Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Cape Fear Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cape Fear Community College Foundation, Inc., is based solely 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 from material misstatement. The financial statements of Cape Fear Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

---

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Community College and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.


### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014 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, and 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 internal control over financial reporting or on

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

---

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

June 10, 2014

[ This Page Left Blank Intentionally ]



## **CAPE FEAR COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Cape Fear Community College is pleased to present the Management's Discussion and Analysis of its financial activities for the fiscal year ended June 30, 2013. It provides an objective and easily readable analysis of the College's financial activities based on currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

### **Using the Annual Financial Report**

The financial statements present financial information in a form similar to that used by corporations. They focus on the financial condition of the College, the results of operations, and cash flow of the College as a whole.

The College's net position is one indicator of its financial stability. The Statement of Net Position includes all assets and liabilities. The increase or decrease in net position is an indicator of the improvement or erosion of the College's financial condition.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating. With state aid and gifts being classified as nonoperating revenues, most public institutions will report an operating deficit. The utilization of capital assets is reflected in the financial statements as depreciation.

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

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

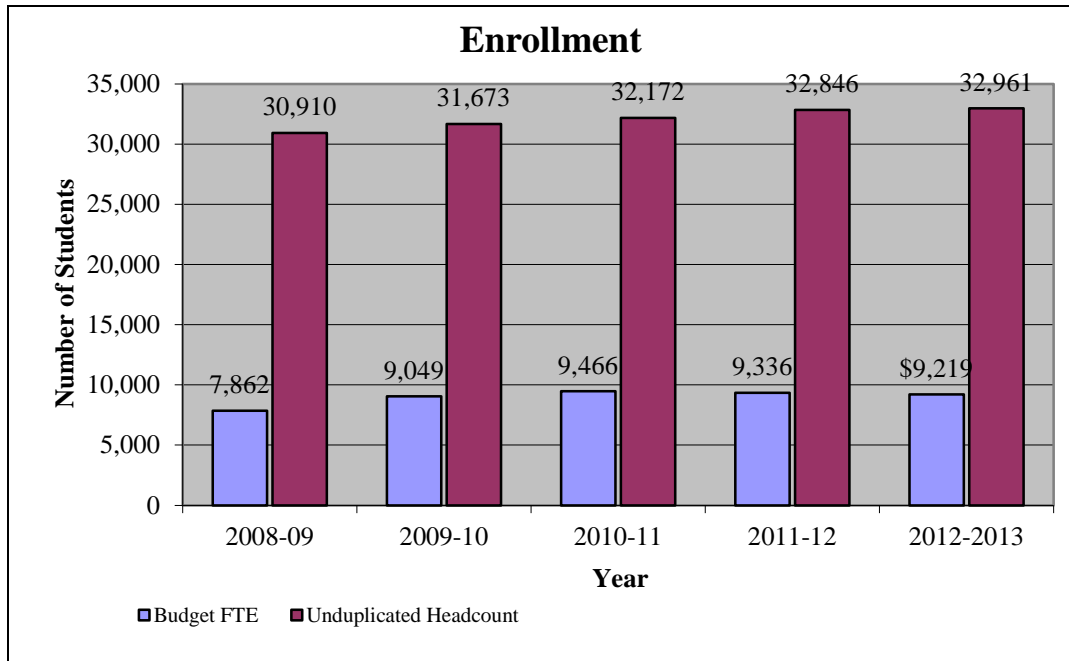
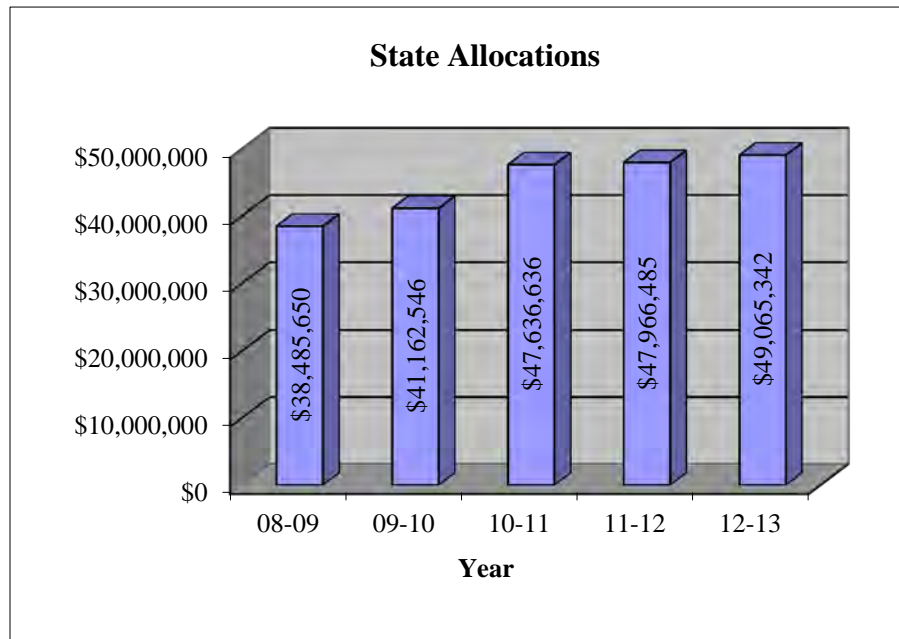
### **Financial Highlights**

The total number of students who attended curriculum and continuing education classes (an unduplicated headcount) increased by 115 to 32,961. However, we should note there was a slight decline in enrollment of curriculum students. This resulted in a decrease of full-time equivalents (FTE) by 117 units or 1.3% during the year when compared to prior year. This is believed to be in line with the decrease in unemployment, hence more students have returned to the work force.

The College's initial state budget allocation based on enrollment was \$51,839,241. The allocation was immediately reduced by \$2,773,899 because of legislative action and along with other actions, resulted in a net allocation of \$49,065,342. Due to the prevailing economic conditions during 2012-13 and the possible reversion of additional state funds, the College exercised prudence in its fiscal management and spent \$47,733,535 of the State's allocation

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

during the year, including \$1.6 million that was transferred from equipment into two capital construction projects (Surf City Campus and Humanities and Fine Arts Building).



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In addition to the funding received from the State, the College received \$7,839,548 from New Hanover County and \$227,500 from Pender County for operations and maintenance of plant and capital outlay. The College received \$20,363,391 in county bond revenue from New Hanover County for construction.

### Financial Analysis

#### Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), liabilities (current and noncurrent), and net position (total assets minus total liabilities) of the College. This statement provides a fiscal snapshot of the College's financial position as of June 30, 2013. The data provides readers of this statement information on assets available to continue operations; amounts due to vendors and lending institutions; and the net position available to the College for operations.

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

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 9,599,623	\$ 9,115,606	\$ 484,017	5.3%
Noncurrent Assets	4,577,372	5,076,362	(498,990)	-9.8%
Capital Assets, Net	<u>180,153,872</u>	<u>160,207,396</u>	<u>19,946,476</u>	<u>12.5%</u>
<b>Total Assets</b>	<u>194,330,867</u>	<u>174,399,364</u>	<u>19,931,503</u>	<u>11.4%</u>
<b>Liabilities</b>				
Current Liabilities	7,084,958	6,463,943	621,015	9.6%
Noncurrent Liabilities	<u>1,309,667</u>	<u>1,210,466</u>	<u>99,201</u>	<u>8.2%</u>
<b>Total Liabilities</b>	<u>8,394,625</u>	<u>7,674,409</u>	<u>720,216</u>	<u>9.4%</u>
<b>Net Position</b>				
Net Investment in Capital Assets	180,153,872	160,207,396	19,946,476	12.5%
Restricted	4,980,532	5,760,680	(780,148)	-13.5%
Unrestricted	<u>801,838</u>	<u>756,878</u>	<u>44,960</u>	<u>5.9%</u>
<b>Total Net Position</b>	<u>\$ 185,936,242</u>	<u>\$ 166,724,954</u>	<u>\$ 19,211,288</u>	<u>11.5%</u>

- The College's net position increased by \$19.2 million (11.5%) during fiscal year 2013, mainly due to progress made on construction of the Union Station Building (\$14.9 million) and the Humanities and Fine Arts Center (\$4.7 million).
- Net Investment in Capital Assets increased by \$19.9 million (12.5%) due to the construction projects mentioned above.

#### Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position section are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, as well as any other revenues, expenses, gains and losses received or expended by the College.

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

	2013	2012	Change	% Change
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net	\$ 10,472,450	\$ 10,465,900	\$ 6,550	0.1 %
Sales and Services, Net	3,291,323	3,190,017	101,306	3.2 %
Other Operating Revenues	266,499	350,304	-83,805	(23.9) %
Total Operating Revenues	14,030,272	14,006,221	24,051	0.2 %
<b>Operating Expenses:</b>				
Salaries and Benefits	45,604,696	43,355,411	2,249,285	5.2 %
Supplies and Materials	10,424,482	9,257,577	1,166,905	12.6 %
Services	6,245,261	5,729,044	516,217	9.0 %
Scholarships and Fellowships	10,462,750	10,535,565	(72,815)	(0.7) %
Utilities	1,571,491	1,478,569	92,922	6.3 %
Depreciation	3,733,003	3,371,494	361,509	10.7 %
Total Operating Expenses	78,041,683	73,727,660	4,314,023	5.9 %
<b>Operating Loss</b>	(64,011,411)	(59,721,439)	(4,289,972)	7.2 %
<b>Nonoperating Revenues (Expenses):</b>				
State Aid	29,574,718	27,998,360	1,576,358	5.6 %
County Appropriations	6,544,943	6,416,767	128,176	2.0 %
Noncapital Grants and Gifts	21,099,810	20,692,734	407,076	2.0 %
Investment Income	24,998	42,459	(17,461)	(41.1) %
Other Nonoperating Expenses	(104,159)	(91,237)	(12,922)	14.2 %
Net Nonoperating Revenues	57,140,310	55,059,083	2,081,227	3.8 %
<b>Other Revenues:</b>				
State Capital Aid	3,975,662	3,831,529	144,133	3.8 %
County Capital Aid	21,885,496	27,618,351	(5,732,855)	(20.8) %
Capital Grants	221,231	146,767	74,464	50.7 %
Total Revenues	97,357,130	100,753,188	(3,396,058)	(3.4) %
Total Expenses	78,145,842	73,818,897	4,326,945	5.9 %
<b>Increase in Net Position</b>	19,211,288	26,934,291	(7,723,003)	(28.7) %
<b>Net Position- Beginning of Year</b>	166,724,954	139,790,663	26,934,291	19.3 %
<b>Net Position - End of Year</b>	<u>\$ 185,936,242</u>	<u>\$ 166,724,954</u>	<u>\$ 19,211,288</u>	11.5 %

### Analysis of Statement of Revenues, Expenses and Changes in Net Position Comparison

Operating revenues are received for providing goods and services to the various customers and constituencies of the College. The total operating revenues remained almost level from the prior year. In addition to carrying out the mission of the College, operating expenses are used to acquire or produce the goods and services provided in return for the operating

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

revenues. Salaries and benefits were up \$2.2 million due to the addition of a campus police force, salary increases and increased cost of benefits for employees. Supplies and materials increased around \$1.2 million mainly due to additional educational equipment purchased for the new Union Station facility. Nonoperating revenues are revenues received for which goods and services are not provided; i.e., state aid, county appropriations, grants and gifts. The \$2.1 million increase in net nonoperating revenue is attributed to an increase in State Aid of \$1.6 million. Other Revenues decreased \$5.5 million because of the decrease in County Capital Aid of \$5.7 million. County Capital Aid was still significant at \$21.9 million but down from last year mainly because of the completion of the parking deck.

### Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the College's:

- Ability to generate future net cash flows,
- Ability to meet its obligations as they come due, and
- Need for external financing.

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

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>% Change</u>
Cash Provided (Used) by:				
Operating Activities	\$ (59,897,072)	\$ (56,095,022)	\$ (3,802,050)	6.8 %
Noncapital Financing Activities	57,193,229	55,107,861	2,085,368	3.8 %
Capital and Related Financing Activities	2,710,340	1,241,852	1,468,488	118.2 %
Investing Activities	24,998	42,459	(17,461)	(41.1) %
Net Change in Cash	<u>31,495</u>	<u>297,150</u>	<u>(265,655)</u>	(89.4) %
Cash, Beginning of Year	<u>7,661,855</u>	<u>7,364,705</u>	<u>297,150</u>	4.0 %
Cash, Ending of Year	<u>\$ 7,693,350</u>	<u>\$ 7,661,855</u>	<u>\$ 31,495</u>	0.4 %

Major uses of funds in operating activities were for employee compensation (\$45.2 million, up \$2.1 million) and payments to suppliers and service providers (\$18.2 million, up \$1.7 million).

The largest inflow of funds used in operations includes the aid from the State of North Carolina (\$29.6 million), county appropriations (\$6.5 million), and noncapital grants for student financial aid (\$18.7 million). These are shown as nonoperating revenue per Government Accounting Standard Board (GASB) Statement No. 35. The \$2.7 million net cash inflow related to capital and related financing activities is due to the net inflow of state capital aid (\$4 million), county capital aid (\$22.4 million), and the outflow of cash for the acquisition and construction of capital assets (\$23.7 million).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Assets

The College had \$180.2 million invested in capital assets, net of accumulated depreciation as of June 30, 2013.

#### Capital Assets

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

	2013	2012	Change	% Change
Land and Permanent Easements	\$ 17,469,878	\$ 17,346,378	\$ 123,500	0.71 %
Construction in Progress	54,179,972	33,741,587	20,438,385	60.57 %
Buildings, Net	95,862,249	98,620,030	(2,757,781)	(2.80) %
Machinery and Equipment, Net	7,698,512	6,093,487	1,605,025	26.34 %
General Infrastructure, Net	4,943,261	4,405,913	537,348	12.20 %
Total Capital Assets, Net	<u>\$ 180,153,872</u>	<u>\$ 160,207,395</u>	<u>\$ 19,946,477</u>	12.45 %

Net additions to Construction in Progress were \$20.4 million as of June 30, 2013 due to the construction activity of Union Station and the Humanities and Fine Arts Building. Large equipment purchases for the year included a new ship for the Marine Tech Program (\$916k) and various computer and medical equipment for the new Union Station building.

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

- Construction of Union Station Building began in Dec 2010 with a completion date of fall 2013.
- Construction of the Humanities and Fine Arts Center is underway with an estimated completion date of late 2014.
- Construction of an Advanced and Emerging Technology Center at North Campus is scheduled to begin late 2013 with an estimated completion date of July 2015.

The Alston W. Burke Campus at Surf City is an additional capital project outside of the above mentioned bond funds. The 9-month construction project is scheduled to begin early 2014.

### Economic Forecast

North Carolina's economy experienced some of the fastest economic growth in the nation in 2012, growing by 1.76%, above the national average of 1.7%. Driven by gains in the housing market and an upswing in lending, both the national and state economies should continue to grow this year. The unemployment rate for New Hanover County was 8.8% in July 2013 which was .5% better than it was in July 2012. A similar trend was seen in Pender County. The unemployment rate for Pender County was 10.2% in July 2013 which was a 1.1% improvement from July 2012. After a slight decline in enrollment last year the College

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

---

experienced an additional decrease in FTE of 117, the College is taking steps to increase enrollment.

Cape Fear Community College is constantly developing new programs, including the 2-year Health Care Business Informatics Program that was just added. Growth at the College has been somewhat limited by space constraints. However, with the opening of Union Station in August 2013 some of these constraints will be alleviated. Union Station is the College's largest academic and administrative facility and will house 36 state-of-the-art nursing classrooms and labs allowing the existing nursing program to double. In the near future we will see the completion of Humanities and Fine Arts Center which will showcase a 1,500 seat performing arts auditorium as well as the Advanced and Emerging Technologies Building. By the end of 2014 the College will be operating a new campus in Surf City. Cape Fear Community College is dedicated to providing the highest quality of instruction and support services and with all of the growth and expansion we are currently experiencing we feel confident that we will succeed.

***Cape Fear Community College***  
***Statement of Net Position***  
***June 30, 2013***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,506,887.86
Restricted Cash and Cash Equivalents	5,147,229.08
Receivables, Net (Note 3)	859,917.38
Inventories	860,195.46
Prepaid Items	225,392.99
Total Current Assets	<u>9,599,622.77</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	39,232.74
Receivables (Note 3)	2,506,561.16
Restricted Due from Primary Government	2,031,577.72
Capital Assets - Nondepreciable (Note 4)	71,649,849.95
Capital Assets - Depreciable, Net (Note 4)	<u>108,504,022.28</u>
Total Noncurrent Assets	<u>184,731,243.85</u>

Total Assets	<u>194,330,866.62</u>
--------------	-----------------------

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<u>0.00</u>
--------------------------------------	-------------

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	6,484,467.61
Unearned Revenue	418,372.34
Funds Held for Others	11,823.49
Long-Term Liabilities - Current Portion (Note 6)	<u>170,294.65</u>
Total Current Liabilities	<u>7,084,958.09</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,309,666.90</u>
Total Noncurrent Liabilities	<u>1,309,666.90</u>
Total Liabilities	<u>8,394,624.99</u>

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<u>0.00</u>
-------------------------------------	-------------

**NET POSITION**

Net Investment in Capital Assets	180,153,872.23
Restricted for:	
Expendable:	
Scholarships and Fellowships	22,205.21
Capital Projects	4,699,181.11
Restricted for Specific Programs	68,208.89
Other	190,936.27
Unrestricted	<u>801,837.92</u>
Total Net Position	<u>\$ 185,936,241.63</u>

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



***Cape Fear Community College  
Statement of Revenues, Expenses, and  
Changes in Net Position  
For the Fiscal Year Ended June 30, 2013***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 10,472,449.69
Sales and Services, Net (Note 9)	3,291,323.50
Other Operating Revenues	266,498.92

Total Operating Revenues	14,030,272.11
--------------------------	---------------

**EXPENSES**

Operating Expenses:

Salaries and Benefits	45,604,695.95
Supplies and Materials	10,424,482.66
Services	6,245,260.91
Scholarships and Fellowships	10,462,750.48
Utilities	1,571,490.74
Depreciation	3,733,002.85

Total Operating Expenses	78,041,683.59
--------------------------	---------------

Operating Loss	(64,011,411.48)
----------------	-----------------

**NONOPERATING REVENUES (EXPENSES)**

State Aid	29,574,718.30
County Appropriations	6,544,943.04
Noncapital Grants - Student Financial Aid	18,654,749.35
Noncapital Grants	1,796,323.04
Noncapital Gifts	648,737.35
Investment Income	24,998.26
Other Nonoperating Expenses	(104,159.52)

Net Nonoperating Revenues	57,140,309.82
---------------------------	---------------

Loss Before Other Revenues	(6,871,101.66)
----------------------------	----------------

State Capital Aid	3,975,661.56
County Capital Aid	21,885,495.70
Capital Grants	221,231.55

Increase in Net Position	19,211,287.15
--------------------------	---------------

**NET POSITION**

Net Position, July 1, 2012	166,724,954.48
----------------------------	----------------

Net Position, June 30, 2013	\$ 185,936,241.63
-----------------------------	-------------------

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

***Cape Fear Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 13,849,695.40
Payments to Employees and Fringe Benefits	(45,232,092.86)
Payments to Vendors and Suppliers	(18,200,765.87)
Payments for Scholarships and Fellowships	(10,462,750.48)
Other Receipts	148,842.12
Net Cash Used by Operating Activities	<u>(59,897,071.69)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	29,574,718.30
County Appropriations	6,544,943.04
Noncapital Grants - Student Financial Aid	18,628,506.70
Noncapital Grants Received	1,796,323.04
Noncapital Gifts Received	648,737.35
William D. Ford Direct Lending Receipts	16,365,600.00
William D. Ford Direct Lending Disbursements	<u>(16,365,600.00)</u>
Net Cash Provided by Noncapital Financing Activities	<u>57,193,228.43</u>

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

State Capital Aid Received	3,967,286.44
County Capital Aid	22,370,813.55
Capital Grants Received	221,231.55
Proceeds from Sale of Capital Assets	11,661.00
Acquisition and Construction of Capital Assets	<u>(23,860,652.56)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>2,710,339.98</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>24,998.26</u>
Net Cash Provided by Investing Activities	<u>24,998.26</u>

Net Increase in Cash and Cash Equivalents	31,494.98
Cash and Cash Equivalents, July 1, 2012	<u>7,661,854.70</u>
Cash and Cash Equivalents, June 30, 2013	<u><u>\$ 7,693,349.68</u></u>

***Cape Fear Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2013***

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

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

Operating Loss	\$ (64,011,411.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	3,733,002.85
Miscellaneous Nonoperating Income	137,018.63
Changes in Assets and Liabilities:	
Receivables, Net	(239,149.98)
Inventories	(157,281.83)
Prepaid Items	(7,799.62)
Accounts Payable and Accrued Liabilities	446,178.77
Unearned Revenue	58,573.27
Funds Held for Others	11,823.49
Pollution Remediation Payable	(18,570.85)
Compensated Absences	150,545.06
Net Cash Used by Operating Activities	<u><u>\$ (59,897,071.69)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,506,887.86
Restricted Cash and Cash Equivalents	5,147,229.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>39,232.74</u>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 7,693,349.68</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 4,750,776.42
Increase in Receivables Related to Nonoperating Income	8,375.12
Loss on Disposal of Capital Assets	(241,178.15)

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

***Cape Fear Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2013***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	1,786,511
Investments		4,444,825
Cash Surrender Value of Life Insurance		126,209
Pledges Receivable		46,659
		<hr/>
Total Assets		6,404,204

**LIABILITIES**

Accounts Payable and Accrued Expenses		<hr/> 0
		<hr/>
Total Liabilities		0

**NET ASSETS**

Unrestricted		629,447
Temporarily Restricted		1,414,029
Permanently Restricted		4,360,728
		<hr/>
Total Net Assets	\$	6,404,204

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

***Cape Fear Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2013***

***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 491,723	\$ 128,475	\$ 463,013	\$ 1,083,211
Gifts in Kind	73,234			73,234
Donated Facilities and Support	516,405			516,405
Return on Investments:				
Interest and Dividends	1,997	88,273		90,270
Net Unrealized and Realized Gains	1,074	360,271		361,345
Change in value of life insurance		(33,731)		(33,731)
Total Support and Revenues	1,084,433	543,288	463,013	2,090,734
Net Assets Released from Restrictions	110,376	(119,000)	8,624	
Total Support and Revenues and Net Assets Released from Restrictions	1,194,809	424,288	471,637	2,090,734
<b>EXPENSES</b>				
Program Services:				
Educational Support	769,704			769,704
Supporting Services:				
Management and General	120,194			120,194
Fund Raising	300,027			300,027
Total Expenses	1,189,925			1,189,925
Change in Net Assets	4,884	424,288	471,637	900,809
Net Assets at Beginning of Year	624,563	989,741	3,889,091	5,503,395
Net Assets at End of Year	\$ 629,447	\$ 1,414,029	\$ 4,360,728	\$ 6,404,204

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

[ This Page Left Blank Intentionally ]

**CAPE FEAR COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

---

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Cape Fear Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

**Discretely Presented Component Unit** - Cape Fear Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation Board consists of 25 members and 3 ex-officio members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed \$504,138 in cash and \$73,234 in donated property to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Cape Fear Community College Foundation, Inc., 411 N. Front Street, Wilmington, NC 28401.

- 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.

- 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 (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale are valued at cost using first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences and pollution remediation payables that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

leave carried forward described above and is not subject to conversion to sick leave.

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

**K. Net Position** - The College's net position is classified as follows:

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

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

**Unrestricted Net Position** - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

**L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

**M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, and (2) sales and services of auxiliary enterprises. 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.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

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. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$16,890, and deposits in private financial institutions with a carrying value of \$2,146,187.42 and a bank balance of \$3,148,554.76.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in 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, 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$5,530,272.26 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Component Unit** - Investments of the College's discretely presented component unit, the Cape Fear 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	Fair Value
Mutual Funds:	
Large Blend	\$ 1,870,039
Bond Markets	1,296,565
Multi-Alternative	131,825
Emerging Markets	168,007
World Stocks	406,761
Commodities	123,297
Global Real Estate	207,795
Small Blend	240,536
<b>Total Investments</b>	<b>\$ 4,444,825</b>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 541,455.99	\$ 171,126.40	\$ 370,329.59
Student Sponsors	52,583.74	339.00	52,244.74
Accounts	294,628.41		294,628.41
Intergovernmental	141,487.51		141,487.51
Other	1,227.13		1,227.13
<b>Total Current Receivables</b>	<b>\$ 1,031,382.78</b>	<b>\$ 171,465.40</b>	<b>\$ 859,917.38</b>
<b>Noncurrent Receivables:</b>			
Intergovernmental	\$ 2,506,561.16	\$ 0.00	\$ 2,506,561.16

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 17,346,377.74	\$ 246,900.00	\$ 123,400.00	\$ 17,469,877.74
Construction in Progress	33,741,587.38	20,438,384.83		54,179,972.21
<b>Total Capital Assets, Nondepreciable</b>	<u>51,087,965.12</u>	<u>20,685,284.83</u>	<u>123,400.00</u>	<u>71,649,849.95</u>
Capital Assets, Depreciable:				
Buildings	122,222,694.26	14,379.03		122,237,073.29
Machinery and Equipment	11,808,202.20	2,448,991.18	557,405.21	13,699,788.17
General Infrastructure	6,335,346.54	783,663.32		7,119,009.86
<b>Total Capital Assets, Depreciable</b>	<u>140,366,243.00</u>	<u>3,247,033.53</u>	<u>557,405.21</u>	<u>143,055,871.32</u>
Less Accumulated Depreciation for:				
Buildings	23,602,663.84	2,772,159.91		26,374,823.75
Machinery and Equipment	5,714,715.14	714,527.35	427,966.06	6,001,276.43
General Infrastructure	1,929,433.27	246,315.59		2,175,748.86
<b>Total Accumulated Depreciation</b>	<u>31,246,812.25</u>	<u>3,733,002.85</u>	<u>427,966.06</u>	<u>34,551,849.04</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>109,119,430.75</u>	<u>(485,969.32)</u>	<u>129,439.15</u>	<u>108,504,022.28</u>
<b>Capital Assets, Net</b>	<u>\$ 160,207,395.87</u>	<u>\$ 20,199,315.51</u>	<u>\$ 252,839.15</u>	<u>\$ 180,153,872.23</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 3,313,476.23
Accrued Payroll	1,112,271.99
Contract Retainage	2,058,719.39
<b>Total</b>	<u>\$ 6,484,467.61</u>

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 1,304,620.03	\$ 1,060,783.52	\$ 910,238.46	\$ 1,455,165.09	\$ 161,294.65
Pollution Remediation Payable	43,367.31		18,570.85	24,796.46	9,000.00
<b>Total Long-Term Liabilities</b>	<u>\$ 1,347,987.34</u>	<u>\$ 1,060,783.52</u>	<u>\$ 928,809.31</u>	<u>\$ 1,479,961.55</u>	<u>\$ 170,294.65</u>

---

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**B. Pollution Remediation Payable** - The College has recognized a pollution remediation liability for monitoring a site that was contaminated by the flammable material used to train firefighters. The cleanup has been completed and was jointly done by New Hanover County, the City of Wilmington, the US Air Force and Cape Fear Community College. The College paid a total of \$499,739 being its one fourth share of the cleanup, the last installment being paid on 11/11/2003. The liability recorded is for monitoring costs. The amount of the estimated liability is \$24,796.46 and was calculated based on payments made to Environmental Protection Agency for monitoring. This liability is subject to potential changes due to the fluctuation in the number of hours required for monitoring and the variance in personnel costs of the monitoring staff.

### NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 171,061.80
2015	171,249.40
2016	140,049.40
2017	57,823.20
2018	21,269.52
<b>Total Minimum Lease Payments</b>	<b>\$ 561,453.32</b>

Rental expense for all operating leases during the year was \$165,889.

### NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenue under non-cancelable operating leases related to wireless broadband services consists of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 14,607.00
2015	14,607.00
2016	14,607.00
<b>Total Minimum Lease Revenue</b>	<b>\$ 43,821.00</b>

Rental revenue for operating lease during the year was \$14,607.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles *	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 17,595,764.95	\$ 7,103,081.57	\$ 20,233.69	\$ 10,472,449.69
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Daycare	\$ 430,156.12	\$ 0.00	\$ 0.00	\$ 430,156.12
Vending	176,087.31			176,087.31
Bookstore	5,192,786.50	2,688,231.22		2,504,555.28
Parking	54,442.00			54,442.00
Other	126,082.79			126,082.79
<b>Total Sales and Services</b>	\$ 5,979,554.72	\$ 2,688,231.22	\$ 0.00	\$ 3,291,323.50

\* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

### 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	\$ 29,106,348.61	\$ 5,350,010.02	\$ 1,131,043.27	\$ 0.00	\$ 0.00	\$ 0.00	\$ 35,587,401.90
Academic Support	4,937,992.60	158,312.42	206,705.16				5,303,010.18
Student Services	3,017,642.15	151,470.79	226,986.43				3,396,099.37
Institutional Support	5,352,541.37	348,330.11	2,129,409.74				7,830,281.22
Operations and Maintenance of Plant	2,120,201.24	684,842.02	1,832,458.47		1,571,490.74		6,208,992.47
Student Financial Aid				10,462,750.48			10,462,750.48
Auxiliary Enterprises	1,069,969.98	3,731,517.30	718,657.84				5,520,145.12
Depreciation						3,733,002.85	3,733,002.85
<b>Total Operating Expenses</b>	\$ 45,604,695.95	\$ 10,424,482.66	\$ 6,245,260.91	\$ 10,462,750.48	\$ 1,571,490.74	\$ 3,733,002.85	\$ 78,041,683.59

### 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 or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$36,044,475.46, of which \$28,419,759.09 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$2,367,365.93 and \$1,705,185.55, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$2,367,365.93, \$2,063,786.04, and \$1,338,734.21, respectively.

The TSERS 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.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Community College Presidents may join the Program instead of the Teachers' and State Employees' Retirement System. The Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements. Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2013, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The College assumes no liability other than its contribution.

For the current fiscal year, the College had a total payroll of \$36,044,475.46, of which \$176,254.39 was covered under the Optional Retirement Program. Total employer and employee contributions for pension benefits for the year were \$12,055.80 and \$10,575.26 respectively.

**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 \$43,022.02 for the year ended June 30, 2013.

Internal Revenue Code Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to \$341,095.02 for the year ended June 30, 2013.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 administrators are AXA Equitable and Verity Investments. No costs are incurred by the College. The voluntary contributions by employees amounted to \$181,205 for the year ended June 30, 2013.

### 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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$1,515,588.71, \$1,386,952.98, and \$1,330,587.75, respectively. The

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$125,822.46, \$144,243.11, and \$141,205.23, 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.

## 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 the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

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

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

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

(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.

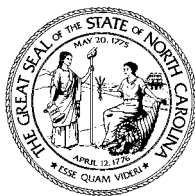
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$74,908,498.21 and on other purchases were \$767,448.59 at June 30, 2013.



Beth A. Wood, CPA  
State Auditor

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

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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

---

Board of Trustees  
Cape Fear Community College  
Wilmington, North Carolina

We have audited, in accordance with the 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, the financial statements of Cape Fear Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 10, 2014. Our report includes a reference to other auditors who audited the financial statements of the Cape Fear Community College Foundation Inc., as described in our report on the College's financial statements. The financial statements of the Cape Fear Community College Foundation Inc. were not audited in accordance with Government Auditing Standards, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Cape Fear Community College Foundation Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

**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)**

---

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

June 10, 2014



## ORDERING INFORMATION

---

Copies of this report 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

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513