

STATE OF NORTH CAROLINA

CARTERET COMMUNITY COLLEGE

MOREHEAD CITY, NORTH CAROLINA

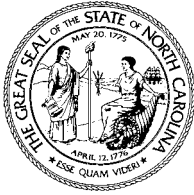
FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
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, Carteret Community College

We have completed a financial statement audit of Carteret Community College for the year ended June 30, 2014, 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.

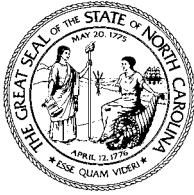
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Carteret Community College
Morehead City, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, 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 Carteret 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 opinions, insofar as they relate to the amounts included for Carteret Community College Foundation, Inc., are 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 Carteret Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 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 Carteret Community College and its discretely presented component unit, as of June 30, 2014, 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 April 21, 2015 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 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.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 21, 2015

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CARTERET COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Carteret Community College is pleased to present the Management's Discussion and Analysis of its financial activities for the fiscal year ended June 30, 2014. It provides an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, and conditions. The reader is encouraged to consider the information presented here in conjunction with the accompanying financial statements and notes to the financial statements to gain a better understanding.

Financial Statement Presentation

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis

	Condensed Statement of Net Position			Percent
	(in thousands)			
	June 30, 2014	June 30, 2013	Increase	
Assets				
Current Assets	\$ 2,186.21	\$ 2,151.31	\$ 34.90	1.62 %
Noncurrent Assets				
Capital Assets, Net of Depreciation	24,490.78	25,003.72	(512.94)	(2.05) %
Other	153.40	169.47	(16.07)	(9.48) %
Total Assets	<u>26,830.39</u>	<u>27,324.50</u>	<u>(494.11)</u>	(1.81) %
Liabilities				
Current Liabilities	400.54	513.89	(113.35)	(22.06) %
Noncurrent Liabilities	606.32	784.95	(178.63)	(22.76) %
Total Liabilities	<u>1,006.86</u>	<u>1,298.84</u>	<u>(291.98)</u>	(22.48) %
Net Position				
Net Investment in Capital Assets	24,292.76	24,744.90	(452.14)	(1.83) %
Restricted	879.73	792.63	87.10	10.99 %
Unrestricted	651.04	488.12	162.92	33.38 %
Total Net Position	<u>\$ 25,823.53</u>	<u>\$ 26,025.66</u>	<u>\$ (202.13)</u>	(0.78) %

Analysis of Assets

Current assets increased by \$35,000 due to an increase in receivables of \$204,267 and a decrease in cash of \$171,401. These changes were primarily the result of completed tornado damage repairs in the amount of \$214,523 that had been paid for but not reimbursed at year-end by the insurance company.

Noncurrent assets decreased by \$529,005 due to the annual depreciation expense of \$651,942 which offset \$142,809 in purchases of equipment.

Analysis of Liabilities

Changes in current liabilities resulted in a net decrease of \$113,350 in fiscal year 2014. This was mainly due to a \$78,239 decrease in unearned revenue as the summer term began on an earlier date than the previous year and fewer summer courses were offered and a decrease of \$81,445 in accounts payable related to supplies and materials at year end.

Long-term liabilities consist of payments for notes payable and accumulated vacation and bonus leave payable. Long term liabilities are classified as current if they are expected to be paid out within the next 12 months, and non-current if the payout will be later than one year. The noncurrent portion of long-term liabilities decreased by \$178,630 primarily due to decreases in accumulated vacation and bonus leave of \$71,432 from employees using more of their vacation hours during the year and employees who ended employment during the year. In addition there was a payment of \$60,796 on the note payable to Branch Banking and Trust for a Guaranteed Energy Savings contract. At June 30, 2014, the total due was \$198,018. This note payable will continue through 2017 with an interest rate of 4.09% on the principal balance.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Capital Assets

	Capital Assets <i>(in thousands)</i>			Percent Change
	June 30, 2014	June 30, 2013	Increase (Decrease)	
Land	\$ 3,143.09	\$ 3,143.09	\$ 0.00	0.00 %
Buildings	24,423.03	24,423.03		0.00 %
Machinery and Equipment	3,380.14	3,287.48	92.66	2.82 %
General Infrastructure	1,713.51	1,713.51		0.00 %
Total	32,659.77	32,567.11	92.66	
Less: Accumulated Depreciation	8,169.00	7,563.39	605.61	8.01 %
Net Capital Assets	\$ 24,490.77	\$ 25,003.72	\$ (512.95)	-2.05 %

The table shows the classifications of the College's capital assets as of June 30, 2014. Machinery and equipment represents the majority of change in capital assets. The increase in this category corresponds to the purchase of new equipment \$142,809 and the disposal of old equipment \$50,149. Accumulated depreciation expenses also increased as yearly depreciation was taken on depreciable assets. The College did not have any capital construction commitments as of June 30, 2014.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<i>(in thousands)</i>			
	June 30, 2014	June 30, 2013	Dollar Change	Percent Change
Operating Revenues:				
Student Tuition and Fees	\$ 1,428.02	\$ 1,607.62	\$ (179.60)	(11.17) %
Other Operating Revenue	239.25	278.71	(39.46)	(14.16) %
Total Operating Revenues	1,667.27	1,886.33	(219.06)	(11.61) %
Operating Expenses:				
Total Operating Expenses	18,363.59	17,912.58	451.01	2.52 %
Operating Loss	(16,696.32)	(16,026.25)	(670.07)	4.18 %
Nonoperating Revenues (Expenses):				
State Aid	8,538.10	8,285.48	252.62	3.05 %
County Appropriations	2,130.95	2,053.00	77.95	3.80 %
Noncapital Grants and Gifts	4,558.60	5,006.19	(447.59)	(8.94) %
Other Nonoperating Revenues (Expenses)	647.55	(23.36)	670.91	(2,872.05) %
Total Net Nonoperating Revenues	15,875.20	15,321.31	553.89	3.62 %
Other Revenues				
Capital Aid, Gifts, and Grants	619.00	677.26	(58.26)	(8.60) %
Total Nonoperating and Other Revenues	16,494.20	15,998.57	495.63	3.10 %
Change in Net Position	(202.12)	(27.68)	(174.44)	630.20 %
Net Position - Beginning of Year	26,025.65	26,053.33	(27.68)	(0.11) %
Net Position - End of Year	\$ 25,823.53	\$ 26,025.65	\$ (202.12)	(0.78) %

Fiscal Year 2013-2014 total revenues are \$18,170,920 and total expenses are \$18,373,031.

Fiscal Year 2012-2013 total revenues are \$17,909,649 and total expenses are \$17,937,334.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Revenues

The decrease in total operating revenues of \$219,064 is attributed mainly to decreases in tuition and fees of \$179,599. The decrease was a result of lower enrollment as compared to the previous year.

Nonoperating revenues increased by \$553,885 overall from the previous year. The main reason for the increase is that Other Nonoperating revenues increased due to receiving insurance proceeds related to the tornado that hit the College in November 2013. The amount of the insurance proceeds for the fiscal year was \$657,681. The College also received \$252,622 in additional State aid based on the average of the prior two years' student enrollment. The above two increases offset the reduction of Noncapital Grants and Gifts of \$447,594 as fewer students received Pell grant funds in the 2014 due to lower enrollment.

The College received \$58,255 less in Capital Aid, Gifts and Grants than the previous year. In the previous year the College had received a land donation with a value of \$26,025 to account for part of the reduction. In addition the College received \$32,230 less in Capital Grants that are Federal Funds passed through the State to the College during the 2013-2014 year when compared to the 2012-2013 year.

Analysis of Operating Expenses

	2007	2006	<i>(in thousands)</i> Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,288.53	\$ 1,448.11	\$ (159.58)	-11.02%
Noncurrent Assets				
Capital Assets, Net of Depreciation	24,746.96	21,871.02	2,875.94	13.15%
Other	784.42	499.03	285.39	57.19%
Total Assets	<u>26,819.91</u>	<u>23,818.16</u>	<u>3,001.75</u>	12.60%
Liabilities				
Current Liabilities	402.93	305.64	97.29	31.83%
Noncurrent Liabilities	1,057.58	1,072.44	(14.86)	-1.39%
Total Liabilities	<u>1,460.51</u>	<u>1,378.08</u>	<u>82.43</u>	5.98%
Net Assets				
Investment in Capital Assets, Net of Related Debt	24,171.18	21,871.02	2,300.16	10.52%
Unrestricted	110.24	261.92	(151.68)	-57.91%
Restricted	1,077.99	307.15	770.84	250.97%
Total Net Assets	<u>\$ 25,359.41</u>	<u>\$ 22,440.09</u>	<u>\$ 2,919.32</u>	13.01%

Total operating expenditures increased by \$451,011 from the prior year. The main reason was the cost of repairs for the damages caused by the tornado that hit the campus. Those increases are shown in the supplies and materials, along with services. The total cost of the repairs that are related to that event are \$641,523. Scholarships and Fellowships went down because fewer students were eligible for financial aid and the overall student enrollment was down by 2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Forecast

Founded in 1963, Carteret Community College is a comprehensive community college with a main campus in Morehead City, N.C., and satellite classrooms/computer labs at the Western Carteret Library in Cape Carteret, East Carteret High School, Station Club Enterprises and the Newport Correctional Facility.

Carteret serves more than 2,500 curriculum students and more than 6,700 continuing education students each year. The College features a wide range of programs, including university transfer courses, career and occupational offerings, partnerships with four-year universities, specialized workforce training options, developmental studies and basic skills classes. Carteret Community College historically is dependent on enrollment remaining flat and/or growing. Despite this need the College saw a 4.08% decline in the 2014 fall enrollment. This was largely anticipated due to the College's decision to opt out of the Federal Direct Loan program and the rising cost of tuition for students. Tuition has risen 70 percent since 2009. The College is focusing on analyzing the data and identifying areas for change. The College is anticipating better numbers in spring and summer to help offset the effects of the decline in enrollment in the fall term.

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

The General Assembly also provided funding for a \$1,000 salary increase for each state employee plus the amount to cover the fringe benefits. Providing resources for student instruction remains stable and are the College's priority in the allocation of budgeted dollars.

For 2015, the County capital budget increased \$66,210 over 2014 and the county current budget increased \$309,045 to meet the need for supplies, rising insurance and utility expense. The additional funds are also planned to reduce some deferred maintenance and repairs to improve security with additional radios and cameras.

The College is close to completing all of the repairs related to the F2 tornado that hit the College in November of 2013. College personnel in association with outside contractors have worked extremely hard to make the necessary repairs to the campus. The approximate total cost of the tornado damage will be \$1.1 million with repairs spread over two fiscal years. The property insurance will cover all expenses associated with the storm less the \$5,000 deductible.

The College is affirmed by the Southern Association of Colleges and Schools Commissions on Colleges (SACSCOC). SACSCOC affirmation affords the College continued credibility with the community and availability of financial resources from significant funding agencies. The economic outlook is invariably changing, and despite the possible looming budget cuts, Carteret Community College will continue to respond to the community to provide services and education to the population of Carteret County to the extent resources will allow.

Carteret Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 520,315.11
Restricted Cash and Cash Equivalents	461,474.08
Short-Term Investments	376,066.39
Restricted Short-Term Investments	257,060.72
Receivables, Net (Note 3)	461,946.30
Due from State of North Carolina Component Units	179.30
Inventories	29,964.75
Prepaid Items	52,448.10
Notes Receivable, Net (Note 3)	26,756.83
	<hr/>
Total Current Assets	2,186,211.58

Noncurrent Assets:

Restricted Cash and Cash Equivalents	52,352.36
Restricted Due from Primary Government	101,052.32
Capital Assets - Nondepreciable (Note 4)	3,143,085.91
Capital Assets - Depreciable, Net (Note 4)	21,347,687.76
	<hr/>
Total Noncurrent Assets	24,644,178.35

Total Assets	<hr/> 26,830,389.93
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DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<hr/> 0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	116,074.69
Unearned Revenue	120,075.82
Funds Held for Others	8,607.60
Long-Term Liabilities - Current Portion (Note 6)	155,783.33
	<hr/>
Total Current Liabilities	400,541.44

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 606,317.89
Total Noncurrent Liabilities	<hr/> 606,317.89

Total Liabilities	<hr/> 1,006,859.33
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<hr/> 0.00
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***Carteret Community College
Statement of Net Position
June 30, 2014***

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

NET POSITION

Net Investment in Capital Assets	24,292,755.37
Restricted for:	
Expendable:	
Scholarships and Fellowships	13,494.41
Loans	187,700.52
Capital Projects	176,794.57
Technology and Other Programs	232,788.93
Other	268,953.82
Unrestricted	<u>651,042.98</u>
Total Net Position	<u><u>\$ 25,823,530.60</u></u>

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

***Carteret of Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,428,018.71
State and Local Grants and Contracts	57,945.29
Sales and Services	173,837.40
Other Operating Revenues	7,460.44
	<hr/>
Total Operating Revenues	1,667,261.84
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	11,665,219.58
Supplies and Materials	1,214,078.86
Services	1,779,763.13
Scholarships and Fellowships	2,571,675.16
Utilities	480,909.33
Depreciation	651,942.43
	<hr/>
Total Operating Expenses	18,363,588.49
	<hr/>
Operating Loss	(16,696,326.65)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	8,538,100.10
County Appropriations	2,130,954.96
Noncapital Grants - Student Financial Aid	3,894,924.19
Noncapital Grants	459,013.53
Noncapital Gifts	204,661.27
Investment Income	174.46
Interest and Fees on Debt	(9,454.25)
Other Nonoperating Revenues	656,820.95
	<hr/>
Net Nonoperating Revenues	15,875,195.21
	<hr/>
Loss Before Other Revenues	(821,131.44)
	<hr/>
State Capital Aid	389,674.57
County Capital Aid	223,108.20
Capital Grants	6,225.66
	<hr/>
Decrease in Net Position	(202,123.01)
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NET POSITION

Net Position, July 1, 2013	26,025,653.61
	<hr/>
Net Position, June 30, 2014	\$ 25,823,530.60
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The accompanying notes to the financial statements are an integral part of this statement.

***Carteret of Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014***

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

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,550,100.29
Payments to Employees and Fringe Benefits	(11,739,940.28)
Payments to Vendors and Suppliers	(3,477,956.97)
Payments for Scholarships and Fellowships	(2,571,675.16)
Loans Issued to Students	948.87
Other Receipts	21,624.04
	<hr/>
Net Cash Used by Operating Activities	(16,216,899.21)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,538,100.10
County Appropriations	2,130,954.96
Noncapital Grants - Student Financial Aid	3,900,747.93
Noncapital Grants	450,513.86
Noncapital Gifts	204,661.27
William D. Ford Direct Lending Receipts	6,648.00
William D. Ford Direct Lending Disbursements	(6,648.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	15,224,978.12

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	389,674.57
County Capital Aid	223,108.20
Capital Grants	6,225.66
Proceeds from Insurance on Capital Assets	422,000.00
Acquisition of Capital Assets	(142,809.10)
Principal Paid on Capital Debt	(60,796.39)
Interest Paid on Capital Debt	(9,454.25)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	827,948.69

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	174.46
Purchase of Investments and Related Fees	(65.38)
	<hr/>
Net Cash Provided by Investing Activities	109.08

Net Decrease in Cash and Cash Equivalents	(163,863.32)
Cash and Cash Equivalents, July 1, 2013	1,198,004.87
	<hr/>

Cash and Cash Equivalents, June 30, 2014	\$ 1,034,141.55
	<hr/> <hr/>

Carteret Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (16,696,326.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	651,942.43
Nonoperating Other Income	2,949.68
Changes in Assets and Liabilities:	
Receivables, Net	(23,466.75)
Inventories	(4,162.66)
Prepaid Items	16,779.75
Notes Receivable, Net	948.87
Accounts Payable and Accrued Liabilities	(18,111.42)
Unearned Revenue	(78,239.63)
Funds Held for Others	3,219.19
Compensated Absences	(72,432.02)
Net Cash Used by Operating Activities	<u><u>\$ (16,216,899.21)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 520,315.11
Restricted Cash and Cash Equivalents	461,474.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>52,352.36</u>
Total Cash and Cash Equivalents - June 30, 2014	<u><u>\$ 1,034,141.55</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 235,680.64
Loss on Disposal of Capital Assets	(3,809.37)

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

Carteret Community College Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

ASSETS

Current Assets:

Cash	\$ 273,863
Investments	1,018,710
Pledges Receivables/Promises	25,000
Donated Boat Inventory	95,336
	<hr/>
Total Current Assets	1,412,909

Noncurrent Assets:

Property and Equipment, Net	1,150,832
Other Assets, Art Work	143,180
Investments	1,490,690
	<hr/>
Total Noncurrent Assets	2,784,702

Total Assets	<hr/> \$ 4,197,611 <hr/>
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LIABILITIES

Current Liabilities:

Accounts Payable	1,973
Accrued Expenses	1,009
Notes Payable	23,357
	<hr/>
Total Current Liabilities	26,339

Noncurrent Liabilities:

Notes Payable	348,936
	<hr/>
Total Liabilities	375,275

NET ASSETS

Unrestricted	1,934,580
Temporarily Restricted	397,066
Permanently Restricted	1,490,690
	<hr/>

Total Net Assets	<hr/> \$ 3,822,336 <hr/>
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The accompanying notes to the financial statements are an integral part of this statement.

Carteret Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support		
Cash Donations	\$	7,604
Noncash Donations		26,227
Boat Contributions, Net		148,101
Special Program Revenues		130,604
		<u>312,536</u>
Total Support		
		312,536
Other Revenues		
Real Estate Rental Income		65,040
Investment Income		373,578
Miscellaneous Income		988
		<u>439,606</u>
Total Other Revenues		
		439,606
Total Net Assets Released from Restrictions		<u>116,474</u>
		116,474
Total Unrestricted Support and Other Revenues		<u>868,616</u>
		868,616
Expenses		
Program Services		
College Support		96,633
Scholarships		100,419
		<u>197,052</u>
Total Program Services		
		197,052
Supporting Services		
Property Management		40,419
Boat Program Expenses		96,823
Foundation Administration		93,174
Fund Raising Expense		96,184
		<u>326,600</u>
Total Supporting Services		
		326,600
Total Expenses		<u>523,652</u>
		523,652
Increase in Unrestricted Net Assets		<u>344,964</u>
		344,964
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Miscellaneous Donations		62,758
Scholarship Donations		57,719
Transfers to Foundation General Scholarship Endowment		(14,143)
Net Assets Released from Restrictions		(116,474)
		<u>(10,140)</u>
Decrease in Temporarily Restricted Net Assets		
		(10,140)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		
Endowment Fund Contributions		75,081
Transfer to Foundation General Scholarship Endowment		14,143
		<u>89,224</u>
Increase in Permanently Restricted Net Assets		
		89,224
Increase in Net Assets		424,048
Net Assets at Beginning of Year		<u>3,398,288</u>
		3,398,288
Net Assets at End of Year	\$	<u>3,822,336</u>

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

CARTERET COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. See below for further discussion of the College's component unit.

Discretely Presented Component Unit - Carteret Community College Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

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

The Foundation is a private nonprofit organization that reports its financial results under 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 features. No modifications

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the Foundation distributed \$234,052 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Controller at Carteret Community College or the Business Office of Carteret Community College Foundation, Inc.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** - This classification includes a mutual fund holding by the College through the North Carolina Capital Management Trust - Cash Portfolio. Investment in the Trust is recorded at cost, which approximates market value held by the College.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. Net Position - The College's net position are classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. Additionally, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of capital assets or related debt are also included in this component of net position.

Restricted Net Position - Expendable - Expendable restricted net position include 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. Both restricted and unrestricted net position includes consideration of deferred inflows and outflows of resources.

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 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain Federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute 47-77* 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, 2014 was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$1,880.00. The carrying amount of the College's deposits not with the State Treasurer was \$1,032,261.55, and the bank balance was \$1,196,046.30.

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, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments

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.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed Federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2014, the College's investments consisted of \$633,127.11 in the North Carolina Capital Management Trust – Cash Portfolio. The investment is subject to the following risks:

Interest Rate Risk: Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The North Carolina Capital Management Trust – Cash Portfolio has a maturity of approximately 53 days at June 30, 2014.

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, 2014, North Carolina Capital Management Trust – Cash Portfolio carried a credit rating of AAAM by Standard and Poor's.

Component Unit - Investments of the College's discretely presented component unit, Carteret 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	Value
Money Market Funds	\$ 15,481
Equity Stocks	2,265,720
Fixed Income	228,199
	<hr/>
Total Investments	<u>\$ 2,509,400</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$ 1,880.00
Carrying Amount of Deposits with Private Financial Institutions	1,032,261.55
Investments in the North Carolina Capital Management Trust -	<u>633,127.11</u>
Total Deposits and Investments	<u><u>\$ 1,667,268.66</u></u>
Current:	
Cash and Cash Equivalents	\$ 520,315.11
Restricted Cash and Cash Equivalents	461,474.08
Short-Term Investments	376,066.39
Restricted Short-Term Investments	257,060.72
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>52,352.36</u>
Total	<u><u>\$ 1,667,268.66</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 555,198.13	\$ 364,475.28	\$ 190,722.85
Student Sponsors	5,819.98		5,819.98
Intergovernmental	49,574.42	4,396.42	45,178.00
Insurance	214,522.78		214,522.78
Other	<u>5,702.69</u>		<u>5,702.69</u>
Total Current Receivables	<u><u>\$ 830,818.00</u></u>	<u><u>\$ 368,871.70</u></u>	<u><u>\$ 461,946.30</u></u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 67,127.01</u>	<u>\$ 40,370.18</u>	<u>\$ 26,756.83</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 3,143,085.91	\$ 0.00	\$ 0.00	\$ 3,143,085.91
Total Capital Assets, Nondepreciable	<u>3,143,085.91</u>			<u>3,143,085.91</u>
Capital Assets, Depreciable:				
Buildings	24,423,031.20			24,423,031.20
Machinery and Equipment	3,287,484.19	142,809.10	50,149.41	3,380,143.88
General Infrastructure	1,713,507.43			1,713,507.43
Total Capital Assets, Depreciable	<u>29,424,022.82</u>	<u>142,809.10</u>	<u>50,149.41</u>	<u>29,516,682.51</u>
Less Accumulated Depreciation for:				
Buildings	5,621,840.02	407,581.56		6,029,421.58
Machinery and Equipment	1,607,177.06	205,166.11	46,340.04	1,766,003.13
General Infrastructure	334,375.28	39,194.76		373,570.04
Total Accumulated Depreciation	<u>7,563,392.36</u>	<u>651,942.43</u>	<u>46,340.04</u>	<u>8,168,994.75</u>
Total Capital Assets, Depreciable, Net	<u>21,860,630.46</u>	<u>(509,133.33)</u>	<u>3,809.37</u>	<u>21,347,687.76</u>
Capital Assets, Net	<u>\$ 25,003,716.37</u>	<u>\$ (509,133.33)</u>	<u>\$ 3,809.37</u>	<u>\$ 24,490,773.67</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 110,330.19
Accrued Payroll	<u>5,744.50</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 116,074.69</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, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Notes Payable	\$ 258,814.69	\$ 0.00	\$ 60,796.39	\$ 198,018.30	\$ 63,330.13
Compensated Absences	636,514.94	397,063.56	469,495.58	564,082.92	92,453.20
Total Long-Term Liabilities	<u>\$ 895,329.63</u>	<u>\$ 397,063.56</u>	<u>\$ 530,291.97</u>	<u>\$ 762,101.22</u>	<u>\$ 155,783.33</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2014	Principal Outstanding June 30, 2014
Energy Performance Contract	BB&T	4.09%	06/14/2017	\$ 665,324.17	\$ 467,305.87	\$ 198,018.30

The annual requirements to pay principal and interest on notes payable at June 30, 2014, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2015	\$ 63,330.13	\$ 6,920.51
2016	65,969.43	4,281.21
2017	68,718.74	1,531.90
Total Requirements	\$ 198,018.30	\$ 12,733.62

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College's operating leases for building rentals expired at June 30, 2014. The College is currently on a month to month lease of \$5,420.00 per month. As of June 30, 2014 that lease agreement has not been renewed.

Rental expense for all operating leases during the year was \$65,040.00.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,879,421.54	\$ 1,368,566.95	\$ 82,835.88	\$ 1,428,018.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,577,836.51	\$ 694,919.75	\$ 275,332.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,548,088.51
Academic Support	1,036,542.86	45,343.24	16,671.05				1,098,557.15
Student Services	1,046,730.80	22,347.64	85,475.52				1,154,553.96
Institutional Support	2,066,713.56	78,392.85	506,428.09				2,651,534.50
Operations and Maintenance of Plant	881,809.33	361,058.05	855,317.39		480,909.33		2,579,094.10
Student Financial Aid	1,920.00	7,398.21	7,353.12	2,571,675.16			2,588,346.49
Auxiliary Enterprises	53,666.52	4,619.12	33,185.71				91,471.35
Depreciation						651,942.43	651,942.43
Total Operating Expenses	\$ 11,665,219.58	\$ 1,214,078.86	\$ 1,779,763.13	\$ 2,571,675.16	\$ 480,909.33	\$ 651,942.43	\$ 18,363,588.49

NOTE 10 - PENSION PLANS

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 (TSERS) 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 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$10,041,373.90, of which \$7,421,688.46 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$644,944.73 and \$445,301.31, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$644,944.73 \$624,125.04, and \$560,239.72, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by 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 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$400,771.18, \$397,102.36, and \$376,505.19 respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, 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, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$32,655.43, \$32,966.99, and \$39,156.54 respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Losses for employees paid from County and Institutional funds are covered under a blanket policy for employee dishonesty and fraud with a private insurance company with coverage of \$3,000,000 per occurrence and a \$10,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the state of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

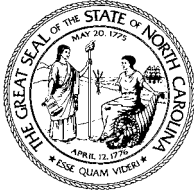
NOTE 13 - COMMITMENTS

The College had commitments on repair projects related to tornado damage. Outstanding commitments on these were \$447,910.15 at June 30, 2014.

NOTE 14 - TORNADO DAMAGE

On November 26, 2013 a tornado hit the College campus. The tornado damaged five buildings, college automobiles and various improvements across the campus. Total estimated cost of the damage was approximately \$1.1 million dollars. Insurance will cover all of the damage except for the \$5,000.00 deductible. At June 30, 2014, the College had spent \$641,522.78 on repairs and had been reimbursed by insurance proceeds in the amount of \$422,000.00. The remaining amount of repairs was submitted for reimbursement to the insurance company at June 30, 2014 and was included as a receivable at year-end.

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

Board of Trustees
Carteret Community College
Morehead City, North Carolina

We have audited, 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 Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 21, 2015. Our report includes a reference to other auditors who audited the financial statements of Carteret Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Carteret 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 Carteret 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(s) 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 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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

April 21, 2015

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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For additional information contact:

Bill Holmes

Director of External Affairs