

STATE OF NORTH CAROLINA

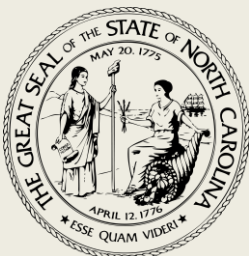
OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



CRAVEN COMMUNITY COLLEGE

NEW BERN, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



NC OSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Craven 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



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

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Craven Community College
New Bern, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Craven Community College, a component unit of the State of North Carolina, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of Craven Community College Foundation, Inc., which represent 5.7 percent, 6.0 percent, and 3.0 percent, respectively, of the assets, net position, and revenues of the College or the Public Radio East and Affiliate, which represent 2.3 percent, 2.1 percent, and 3.4 percent, respectively of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation and Public Radio East, 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 Craven Community College Foundation, Inc., and Public Radio East 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 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 opinion.

Opinion

In our opinion based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Craven Community College, 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 and other auditors 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 March 10, 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 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

March 10, 2015



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Craven Community College, we offer readers of the College's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the College's financial statements, which follow this narrative.

Overview of the Financial Statements

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

Basic Financial Statements

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

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

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

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

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

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

Financial Highlights

As the economy has improved, Craven Community College, like many of the colleges in the State, has experienced declining enrollment during past few years. The College is funded on a three-year average of its full-time equivalents (FTE). Therefore, declining FTE will have a negative impact on the funding from the State.

- Budgeted FTE for 2011-12 was 3,315, 2012-13 was 3,258, and 2013-14 was 3,043.
- The College's total state budget allocation based on enrollment was \$18,527,257. The initial allocation was immediately reduced by \$970,104 through a Management

Flexibility Reduction. This reduction brought the College's net state budget down to \$17,557,153, which is a 4.62% decrease from the prior year.

- The College's total county budget allocation used for operations and maintenance of plant remained steady at \$3,455,130. As a sign of their commitment to assist the College with aging facility issues, the county did increase the capital allocation to \$425,000 from \$300,000 in the prior fiscal year.

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

Condensed 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, 2014. The data provides readers of this statement information on assets available to continue operations, amounts due to vendors and employees; and the net position available for operations by the College. The financial statements demonstrate that the financial position of the College has remained strong during the fiscal year 2014 with an overall increase in total net position.

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Assets			
Current Assets	\$ 8,114,088.12	\$ 7,384,364.21	\$ 729,723.91
Capital Assets, Net	31,250,176.95	31,998,681.50	(748,504.55)
Other Noncurrent Assets	<u>3,707,375.85</u>	<u>2,835,782.89</u>	<u>871,592.96</u>
Total Assets	<u>43,071,640.92</u>	<u>42,218,828.60</u>	<u>852,812.32</u>
Liabilities			
Current Liabilities	1,453,850.30	1,396,791.00	57,059.30
Noncurrent Liabilities	<u>704,284.53</u>	<u>759,928.41</u>	<u>(55,643.88)</u>
Total Liabilities	<u>2,158,134.83</u>	<u>2,156,719.41</u>	<u>1,415.42</u>
Net Position			
Invested in Capital Assets	31,250,176.95	31,998,681.50	(748,504.55)
Restricted:			
Nonexpendable	1,926,206.34	1,810,447.27	115,759.07
Expendable	3,487,287.00	2,379,982.25	1,107,304.75
Unrestricted	<u>4,249,835.80</u>	<u>3,872,998.17</u>	<u>376,837.63</u>
Total Net Position	<u>\$ 40,913,506.09</u>	<u>\$ 40,062,109.19</u>	<u>\$ 851,396.90</u>

Current assets include cash and cash equivalents, receivables, inventories, and notes receivable for short-term student loans. Noncurrent assets consist of cash, restricted due from primary government, investments, and capital assets. Capital assets include land, artwork, construction in progress, buildings, infrastructure, and equipment. The College's capital assets are recorded at acquisition cost, or fair market value for donations, less depreciation. A capital asset is recorded when the purchase price or value of an item is \$5,000 or more and has a useful life of more than one year.

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

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

Notable changes in the Condensed Statement of Net Position include:

- Current assets increased by \$729,723.91 mainly due to the increase in cash and cash equivalents of \$821,453.27 and a decrease in receivables of \$160,922.80. This is primarily due to the increased receipts of \$381,058.07 in instructional technology fees, a \$205,742.37 increase in scholarship and fellowship gifts and collection of \$234,993.18 from the primary government to repay unrestricted funds used to pay capital expenditures in the prior year.
- Other Noncurrent Assets increased by \$871,592.96, mainly due to an increase in restricted cash of \$977,959.16 and endowment investments of \$158,579.44. The College received \$125,000.00 more County Capital Aid than in the previous year and was allowed to transfer \$800,000.00 from county operating funds to capital funds as a result of the reduction in Salaries and Benefits paid for by the County for a future project. The endowment investments managed by BB&T increased in value from \$1.77 million to \$1.93 million.
- Current Liabilities increased by \$57,059.30 mainly due to increases in unearned revenues and funds held for others, and the growth in the Current Portion of Long-Term Liabilities. Long-Term Liabilities-Current Portion is the portion of accrued vacation and bonus leave that the College expects the employee to use within the next fiscal year. Accounts payable and accrued liabilities experienced a decrease for this fiscal year.
- Noncurrent Liabilities decreased by \$55,643.88 due to the resignation and retirement of employees over the past fiscal year who would have been carrying leave balances. This is the portion of the accrued vacation and bonus leave that the College does not expect to pay out within the next fiscal year.
- Restricted Expendable Net Position increased by \$1,107,304.75 mainly due to \$205,742.00 increase in expendable scholarships and fellowships related to favorable market conditions and the \$925,000.00 increase in noncurrent restricted cash in the County Capital Aid fund discussed above that is allocated for renovations of the Brock Administration Building, Orringer Hall and a keyless entry project for all buildings.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 4,036,414.03	\$ 4,049,461.70	\$ (13,047.67)
Sales and Services, Net	265,728.68	240,237.54	25,491.14
Other Operating Revenues	142,124.05	147,312.28	(5,188.23)
Total Operating Revenues	<u>4,444,266.76</u>	<u>4,437,011.52</u>	<u>7,255.24</u>
Operating Expenses:			
Salaries and Benefits	16,802,566.32	17,637,278.04	(834,711.72)
Supplies and Materials	2,069,918.98	1,562,705.31	507,213.67
Services	3,350,964.26	3,040,333.14	310,631.12
Scholarships and Fellowships	5,707,861.69	5,545,982.22	161,879.47
Utilities	937,045.64	983,852.90	(46,807.26)
Depreciation	1,271,410.75	1,270,126.70	1,284.05
Total Operating Expenses	<u>30,139,767.64</u>	<u>30,040,278.31</u>	<u>99,489.33</u>
Operating Loss	(25,695,500.88)	(25,603,266.79)	92,234.09
Nonoperating Revenues			
State Aid	11,994,686.23	12,367,247.05	(372,560.82)
County Appropriations	3,455,130.00	3,455,130.00	
Noncapital Grants	8,724,265.87	9,025,265.76	(300,999.89)
Other Nonoperating Rev	1,060,952.34	687,808.64	373,143.70
Net Nonoperating Revenues	<u>25,235,034.44</u>	<u>25,535,451.45</u>	<u>(300,417.01)</u>
Loss Before Other Revenues	(460,466.44)	(67,815.34)	392,651.10
Other Revenues			
State Capital Aid	627,000.56	1,514,805.19	(887,804.63)
Other Capital Revenues	662,629.98	459,523.34	203,106.64
Additions to Endowments	22,232.80	29,429.35	(7,196.55)
Total Increase in Net Position	851,396.90	1,935,942.54	(1,084,545.64)
Net Position, July 1, 2013	<u>40,062,109.19</u>	<u>38,126,166.65</u>	<u>1,935,942.54</u>
Net Position, June 30, 2014	<u>\$ 40,913,506.09</u>	<u>\$ 40,062,109.19</u>	<u>\$ 851,396.90</u>
Total Revenues	\$ 31,055,856.78	\$ 32,243,773.71	\$ (1,187,916.93)
Total Expenses	<u>30,204,459.88</u>	<u>30,307,831.17</u>	<u>(103,371.29)</u>
Total Increase in Net Position	<u>\$ 851,396.90</u>	<u>\$ 1,935,942.54</u>	<u>\$ (1,084,545.64)</u>

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

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

- Although the General Assembly increased tuition charges by \$2.50 per credit hour for 2013-2014, the increase was offset by the decrease in enrollments. Tuition and Fees decreased by \$13,047.67 while sales and services in the bookstore showed a modest increase of \$25,491.14. Overall, total operating revenues increased slightly by \$7,255.24.
- Salaries and benefits decreased by \$834,711.72 due to retirements and resignations where the duties were reassigned rather than the positions being retained.
- Supplies and Materials increased \$507,213.67 and Services increased by \$310,631.12 due to renovations and repairs across the College campus that did not meet capitalization criteria. These renovations included remodeling the Orringer Auditorium, restructuring the Student Quad area, and refurbishing faculty and staff offices with new furniture.
- Scholarships and Fellowships increased by \$161,879.47 due to higher Pell awards, an increase in state grants, and more scholarships awarded by the Craven Community College Foundation.
- State Aid and State Capital Aid decreased by \$1,260,365.45 due to a decrease in State funding related to declining FTE's and a reduction of funds at the end of the year due to statewide revenue shortfalls.
- Noncapital grants decreased by \$300,999.89 as the College completed the final year of the North Carolina Advanced Manufacturing Alliance grant.

Capital Asset Activity

The College's capital assets decreased by \$748,504.55 during fiscal year 2013 - 2014. This decrease was a direct result of the annual depreciation expense accumulated for the College's assets. The College also received a collection of artwork consisting of wooden, bronze and marble sculptures that can be seen around campus valued at \$176,150.00.

	Capital Assets (net of depreciation)		
	2014	2013	Increase (Decrease)
Land	\$ 596,500.00	\$ 596,500.00	\$ 0.00
CIP	38,706.40		38,706.40
Artwork	176,150.00		176,150.00
Buildings	23,162,643.41	23,897,109.28	(734,465.87)
Machinery and equipment	5,752,401.70	5,922,073.53	(169,671.83)
Infrastructure	1,523,775.44	1,582,998.69	(59,223.25)
Total	\$ 31,250,176.95	\$ 31,998,681.50	\$ (748,504.55)

Economic Factors and Next Year's Budget

The economy of the State of North Carolina has been steadily gaining strength. Economic recovery is expected to continue at a slow pace. For the fiscal year, 2014-2015 the College's state budget allocation is \$18,929,773 with another Management Flexibility Reduction of \$794,858 for a net allocation of \$18,134,915. This is an increase of 3.3%. This increase is not due to an increase in FTE, but an increase in the formula which all colleges receive their state budget allocations based on their budget FTE. However, based on information shared with college Presidents and Trustees at the 2014 NCACCT Leadership Seminar, revenue forecasts for the state are significantly below projections and reversions are possible for the 2014-2015 fiscal year. Along with news of the current revenue shortfall of over \$1,000,000, Governor McCrory and Secretary of Commerce Decker stated that agencies will be required to reduce their budget requests for the next cycle by 2%, for the NC Community College System that will equate to \$20,800,000.

As it is typical during cycles of recession, the College experienced growth in enrollment during the fiscal years 2008-2009, 2009-2010 and 2010-2011. However, as expected the enrollment growth experienced in those years cannot be maintained. Therefore, the College anticipates decreased funding. Management continuously reviews options that they hope will lessen the effects of an anticipated decrease; such as putting more focus on issues such as student retention.

Craven Community College continues to explore external funding sources to enhance programs and services at the College. During the 2013-2014 fiscal year, we were awarded grants totaling \$465,356. TRIO SSS is a five year grant (which is in its fourth year) which focuses on student support services. The North Carolina Advanced Manufacturing Alliance (NCAMA) is a three-year grant (which is in its third year), which focuses on providing fast-track pathways to jobs for North Carolinians in fields such as welding, composites, and computer-integrated machining and electronics. Other grants include NSF Virtual Lab and NSF Scholars in Engineering and Science (SEAS). Craven Community College Foundation is also committed to seeking additional funding to allow more students access to a college education. The Foundation received a substantial gift in the amount of \$176,000 from a supporter's estate and continues to work with major donors to establish endowments and scholarships to benefit our students.

Through planning and cost controls the College will maintain its healthy financial position during fiscally challenging times with minimal impact on services, students and staff. Enrollment trends will continue to be monitored to determine the optimal mix of services offered to continue to provide expanded learning opportunities to students.

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

Requests for Information

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



FINANCIAL STATEMENTS

Craven Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,270,208.26
Restricted Cash and Cash Equivalents	2,125,587.13
Receivables, Net (Note 4)	474,767.62
Inventories	225,431.76
Prepaid Items	15,822.78
Notes Receivable, Net (Note 4)	2,270.57

Total Current Assets	8,114,088.12
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,406,189.29
Restricted Due from Primary Government	374,475.06
Restricted Investments	1,926,107.34
Other Investments	604.16
Capital Assets - Nondepreciable (Note 5)	811,356.40
Capital Assets - Depreciable, Net (Note 5)	30,438,820.55

Total Noncurrent Assets	34,957,552.80
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Total Assets	43,071,640.92
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DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	816,297.24
Due to State of North Carolina Component Units	3,968.05
Unearned Revenue	357,044.85
Funds Held for Others	94,414.43
Long-Term Liabilities - Current Portion (Note 7)	182,125.73

Total Current Liabilities	1,453,850.30
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	704,284.53
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Total Noncurrent Liabilities	704,284.53
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Total Liabilities	2,158,134.83
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	0.00
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Craven Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Investment in Capital Assets	31,250,176.95
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,926,206.34
Expendable:	
Scholarships and Fellowships	379,016.99
Loans	43,350.02
Capital Projects	1,572,137.86
Use by Public Radio East	368,018.17
Cosmetology Program	204,481.71
Instructional Technology Programs	692,414.84
Other	227,867.41
Unrestricted	<u>4,249,835.80</u>
Total Net Position	<u>\$ 40,913,506.09</u>

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

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

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 4,036,414.03
Sales and Services, Net (Note 8)	265,728.68
Other Operating Revenues	142,124.05
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Total Operating Revenues	4,444,266.76
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EXPENSES

Operating Expenses:	
Salaries and Benefits	16,802,566.32
Supplies and Materials	2,069,918.98
Services	3,350,964.26
Scholarships and Fellowships	5,707,861.69
Utilities	937,045.64
Depreciation	1,271,410.75
	<hr/>
Total Operating Expenses	30,139,767.64
	<hr/>
Operating Loss	(25,695,500.88)
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NONOPERATING REVENUES (EXPENSES)

State Aid	11,994,686.23
County Appropriations	3,455,130.00
Noncapital Grants - Student Financial Aid	7,670,759.79
Noncapital Grants	1,053,506.08
Noncapital Gifts	846,761.40
Investment Income (Net of Investment Expense of \$5,454.26)	278,883.18
Other Nonoperating Expenses	(64,692.24)
	<hr/>
Net Nonoperating Revenues	25,235,034.44
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Loss Before Other Revenues	(460,466.44)
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State Capital Aid	627,000.56
County Capital Aid	425,000.00
Capital Grants	50,749.98
Capital Gifts	186,880.00
Additions to Endowments	22,232.80
	<hr/>
Increase in Net Position	851,396.90
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NET POSITION

Net Position, July 1, 2013	40,062,109.19
	<hr/>
Net Position, June 30, 2014	\$ 40,913,506.09
	<hr/> <hr/>

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

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

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,390,665.79
Payments to Employees and Fringe Benefits	(16,962,547.67)
Payments to Vendors and Suppliers	(6,398,817.69)
Payments for Scholarships and Fellowships	(5,698,203.50)
Loans Issued to Students	(8,312.32)
Collection of Loans to Students	8,014.82
Other Receipts	26,071.95
	<hr/>
Net Cash Used by Operating Activities	(24,643,128.62)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,994,686.23
County Appropriations	3,455,130.00
Noncapital Grants - Student Financial Aid	7,664,671.35
Noncapital Grants	1,274,211.49
Noncapital Gifts and Endowments	932,214.50
William D. Ford Direct Lending Receipts	3,511,603.00
William D. Ford Direct Lending Disbursements	(3,511,603.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	25,320,913.57

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	861,993.74
County Capital Aid	425,000.00
Capital Grants	80,245.98
Acquisition and Construction of Capital Assets	(366,372.44)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,000,867.28

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	198,966.18
Investment Income	79,917.00
Purchase of Investments and Related Fees	(158,122.98)
	<hr/>
Net Cash Provided by Investing Activities	120,760.20

Net Increase in Cash and Cash Equivalents	1,799,412.43
Cash and Cash Equivalents, July 1, 2013	7,002,572.25
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 8,801,984.68

Craven 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	\$ (25,695,500.88)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,271,410.75
Provision for Uncollectible Loans and Write-Offs	(472.35)
Changes in Assets and Liabilities:	
Receivables, Net	(116,916.90)
Inventories	(56,703.81)
Prepaid Items	(11,719.78)
Notes Receivable, Net	(297.50)
Accounts Payable and Accrued Liabilities	(98,327.57)
Due to Primary Government	(897.45)
Due to State of North Carolina Component Units	3,130.73
Unearned Revenue	69,892.19
Funds Held for Others	26,071.95
Compensated Absences	(32,798.00)
	<u>(24,643,128.62)</u>
Net Cash Used by Operating Activities	<u>\$ (24,643,128.62)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 5,270,208.26
Restricted Cash and Cash Equivalents	2,125,587.13
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,406,189.29</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 8,801,984.68</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 34,346.00
Assets Acquired through a Gift	186,880.00
Change in Fair Value of Investments	204,420.44
Increase in Receivables Related to Nonoperating Income	19,026.71
Loss on Disposal of Capital Assets	(64,692.24)

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



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component units for which the College's Board of Trustees is financially accountable. The College's component units are blended in the College's financial statements.

Blended Component Units - Although legally separate, Craven Community College Foundation, Inc. (Foundation) and Public Radio East and Affiliate (Radio) are reported as if they were part of the College. Craven Community College Foundation, Inc. is governed by a 25-member board consisting of 4 ex officio directors and 21 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Public Radio East and Affiliate is governed by a 20-member board consisting of 2 ex officio directors and 18 elected directors. The Radio's purpose is to serve the education and cultural needs of Eastern North Carolina. Because the elected directors of both the Foundation and the Radio are appointed by the members of the Craven Community College Board of Trustees and their sole purpose is to benefit Craven Community College, their financial statements have been blended with those of the College.

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

Condensed combining information regarding blended component units is provided in Note 14.

- 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.

Non-exchange 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. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 40 to 100 years for buildings, and 5 to 25 years for equipment.

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

The Congleton artwork collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

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

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

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

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

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

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

Restricted Net 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. Both restricted and unrestricted net position include 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 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.

- 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 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.

- 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2014 was \$1,750.00. The carrying amount of the College's deposits not with the State Treasurer was \$62,833.24 and the bank balance was \$360,416.96.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental

unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$8,737,401.44, 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 1.3 years as of June 30, 2014. 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.

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

Investments of the College’s component units, Craven Community College Foundation, Inc, and Public Radio East and Affiliate are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, for the College’s investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments	
Investment Type	Fair Value
Mutual Funds	\$ 1,926,107.34
Other	604.16
Total Investments	\$ 1,926,711.50

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	\$ 1,750.00
Carrying Amount of Deposits with Private Financial Institutions	62,833.24
Investments in the Short-Term Investment Fund	8,737,401.44
Other Investments	<u>1,926,711.50</u>
Total Deposits and Investments	<u>\$ 10,728,696.18</u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 5,270,208.26
Restricted Cash and Cash Equivalents	2,125,587.13
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>1,406,189.29</u>
Total Deposits	<u>8,801,984.68</u>
Investments	
Noncurrent:	
Endowment Investments	1,926,107.34
Other Investments	<u>604.16</u>
Total Investments	<u>1,926,711.50</u>
Total Deposits and Investments	<u>\$ 10,728,696.18</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College’s endowment funds are both separately invested and pooled. The College has endowment assets that are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. The remainder of the endowment funds is separately invested with Branch Banking & Trust Company. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. The College’s endowment donor agreements prohibit spending of nonexpendable balances that are not eligible for expenditure.

Investment return of the College’s endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College’s endowment funds are based on an adopted spending policy which limits

spending up to 6% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the income for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2014, net appreciation of \$196,130.52 was available to be spent, of which \$196,130.52 was classified in net position as restricted: nonexpendable: scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 246,262.27	\$ 92,565.27	\$ 153,697.00
Student Sponsors	183,262.88	2,073.50	181,189.38
Intergovernmental	43,885.65		43,885.65
Pledges	102,670.68	9,757.02	92,913.66
Other	<u>3,081.93</u>		<u>3,081.93</u>
Total Current Receivables	<u>\$ 579,163.41</u>	<u>\$ 104,395.79</u>	<u>\$ 474,767.62</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 3,677.97</u>	<u>\$ 1,407.40</u>	<u>\$ 2,270.57</u>

NOTE 5 - 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	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Art, Literature, and Artifacts		176,150.00		176,150.00
Construction in Progress		38,706.40		38,706.40
Total Capital Assets, Nondepreciable	596,500.00	214,856.40		811,356.40
Capital Assets, Depreciable:				
Buildings	34,715,725.87			34,715,725.87
Machinery and Equipment	9,466,601.45	372,742.04	253,432.27	9,585,911.22
General Infrastructure	2,485,125.30			2,485,125.30
Total Capital Assets, Depreciable	46,667,452.62	372,742.04	253,432.27	46,786,762.39
Less Accumulated Depreciation for:				
Buildings	10,818,616.59	734,465.87		11,553,082.46
Machinery and Equipment	3,544,527.92	477,721.63	188,740.03	3,833,509.52
General Infrastructure	902,126.61	59,223.25		961,349.86
Total Accumulated Depreciation	15,265,271.12	1,271,410.75	188,740.03	16,347,941.84
Total Capital Assets, Depreciable, Net	31,402,181.50	(898,668.71)	64,692.24	30,438,820.55
Capital Assets, Net	\$ 31,998,681.50	\$ (683,812.31)	\$ 64,692.24	\$ 31,250,176.95

NOTE 6 - 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	\$ 347,207.94
Accrued Payroll	434,743.30
Contracts Payable	34,346.00
Total Current Accounts Payable and Accrued Liabilities	\$ 816,297.24

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 919,208.26	\$ 675,433.15	\$ 708,231.15	\$ 886,410.26	\$ 182,125.73

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	\$ 5,990,897.48	\$ 1,999,057.62	\$ (44,574.17)	\$ 4,036,414.03
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 184,356.62	\$ 0.00	\$ 175.44	\$ 184,181.18
Other	81,547.08		(0.42)	81,547.50
Total Sales and Services	\$ 265,903.70	\$ 0.00	\$ 175.02	\$ 265,728.68

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	\$ 8,307,217.32	\$ 939,145.99	\$ 437,089.55	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,683,452.86
Public Service	519,786.52	22,786.50	459,393.35		52,695.73		1,054,662.10
Academic Support	1,823,502.32	108,865.18	106,307.10				2,038,674.60
Student Services	1,618,271.35	67,977.48	147,588.21				1,833,837.04
Institutional Support	3,554,295.25	688,786.06	1,085,219.36				5,328,300.67
Operations and Maintenance of Plant	979,493.56	182,144.76	1,030,088.69		884,349.91		3,076,076.92
Student Financial Aid			10,227.30	5,707,861.69			5,718,088.99
Auxiliary Enterprises		60,213.01	75,050.70				135,263.71
Depreciation						1,271,410.75	1,271,410.75
Total Operating Expenses	<u>\$ 16,802,566.32</u>	<u>\$ 2,069,918.98</u>	<u>\$ 3,350,964.26</u>	<u>\$ 5,707,861.69</u>	<u>\$ 937,045.64</u>	<u>\$ 1,271,410.75</u>	<u>\$ 30,139,767.64</u>

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 \$13,357,650.85, of which \$10,460,136.59 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$908,985.87 and \$627,608.20 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 \$908,985.87, \$922,753.09, and \$810,359.50, 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.

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 \$564,847.38, \$587,105.80, and \$544,408.30, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 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 \$46,024.60, \$48,740.86, and \$56,618.46, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The 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 private insurance policy.

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

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

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

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 has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$ 270,666.00 at June 30, 2014. The College did not have significant commitments for other purchases at June 30, 2014.

NOTE 14 - BLENDED COMPONENT UNITS

Condensed combining information for the College's blended component units for the year ended June 30, 2014, is presented as follows:

***Condensed Statement of Net Position
June 30, 2014***

	<u>College</u>	<u>CCC Foundation</u>	<u>PRE and Affiliate</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current Assets	\$ 7,097,851	\$ 517,493	\$ 556,483	\$ (57,739)	\$ 8,114,088
Capital Assets	30,807,471		442,706		31,250,177
Other Noncurrent Assets	1,722,826	1,926,811		57,739	3,707,376
Total Assets	<u>39,628,148</u>	<u>2,444,304</u>	<u>999,189</u>		<u>43,071,641</u>
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
LIABILITIES					
Current Liabilities	1,386,357	95	67,398		1,453,850
Noncurrent Liabilities	640,302		63,983		704,285
Total Liabilities	<u>2,026,659</u>	<u>95</u>	<u>131,381</u>		<u>2,158,135</u>
Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET POSITION					
Investment in Capital Assets	30,807,471		442,706		31,250,177
Restricted - Nonexpendable	322,855	1,603,351			1,926,206
Restricted - Expendable	2,639,410	705,932	141,945		3,487,287
Unrestricted	3,831,753	134,926	283,157		4,249,836
Total Net Position	<u>\$ 37,601,489</u>	<u>\$ 2,444,209</u>	<u>\$ 867,808</u>	<u>\$ 0</u>	<u>\$ 40,913,506</u>

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

	College	CCC Foundation	PRE and Affiliate	Eliminations	Total
OPERATING REVENUES					
Student tuition and fees, net	\$ 3,991,759	\$ 0	\$ 0	\$ 44,655	\$ 4,036,414
Sales and services, net	265,729				265,729
Other Operating Revenues	28,618	147,808	1,565,681	(1,599,983)	142,124
Total Operating Revenues	<u>4,286,106</u>	<u>147,808</u>	<u>1,565,681</u>	<u>(1,555,328)</u>	<u>4,444,267</u>
OPERATING EXPENSES					
Operating Expenses	26,991,252	374,309	1,529,295	(26,499)	28,868,357
Depreciation	1,244,912			26,499	1,271,411
Total Operating Expenses	<u>28,236,164</u>	<u>374,309</u>	<u>1,529,295</u>	<u></u>	<u>30,139,768</u>
Operating Loss	<u>(23,950,058)</u>	<u>(226,501)</u>	<u>36,386</u>	<u>(1,555,328)</u>	<u>(25,695,501)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment Income	27,410	249,929	1,544		278,883
State Aid	11,994,686				11,994,686
County Aid	3,455,130				3,455,130
Noncapital Gifts		465,888		380,873	846,761
Noncapital Grants	8,200,141	108,000		416,125	8,724,266
Other nonoperating expenses	(64,692)	(179,715)		179,715	(64,692)
Net Nonoperating Revenues	<u>23,612,675</u>	<u>644,102</u>	<u>1,544</u>	<u>976,713</u>	<u>25,235,034</u>
Capital Contributions	1,102,751			186,880	1,289,631
Transfers	174,623			(174,623)	
Additions to Endowments		17,282		4,951	22,233
Increase (Decrease) in Net Position	939,991	434,883	37,930	(561,407)	851,397
NET POSITION					
Net Position, July 1, 2013	36,661,498	2,009,326	829,878	561,407	40,062,109
Net Position, June 30, 2014	<u>\$ 37,601,489</u>	<u>\$ 2,444,209</u>	<u>\$ 867,808</u>	<u>\$ 0</u>	<u>\$ 40,913,506</u>

**Condensed Statement of Cash Flows
June 30, 2014**

	College	CCC Foundation	PRE and Affiliate	Total
Net Cash Used by Operating Activities	\$ (24,435,171)	\$ (267,210)	\$ 59,252	\$ (24,643,129)
Net Cash Provided by Noncapital Financing Activities	24,926,740	394,174		25,320,914
Net Cash Provided by Capital and Related Financing Activities	982,101	29,496	(10,730)	1,000,867
Net Cash Provided by Investing Activities	10,586	108,631	1,544	120,761
Net Increase in Cash and Cash Equivalents	1,484,256	265,091	50,066	1,799,413
Cash and Cash Equivalents, July 1, 2013	6,335,914	249,990	416,668	7,002,572
Cash and Cash Equivalents, June 30, 2014	<u>\$ 7,820,170</u>	<u>\$ 515,081</u>	<u>\$ 466,734</u>	<u>\$ 8,801,985</u>

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Craven Community College
New Bern, North Carolina

We have audited, 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 Craven Community College, a component unit of the State of North Carolina, 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 March 10, 2015. The financial statements of Craven Community College Foundation, Inc. and Public Radio East and Affiliate, the Colleges blended component units, 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 blended component units.

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 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

March 10, 2015

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