State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

Carteret Community College

Morehead City, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2016

A Component Unit of the State of North Carolina

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 Roy Cooper, 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, 2016, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

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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 (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, 2016, 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*.

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 respective financial position of Carteret Community College, and its discretely presented component unit, as of June 30, 2016, and the respective 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 and other required supplementary information, as listed in the table of contents, 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 March 21, 2017 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 21, 2017

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, 2016. 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, deferred outflows, liabilities, and deferred inflows with the difference being reported as net position. 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, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature.

Financial Analysis

Analysis of Assets

Current assets decreased by $106,615 mainly due to a $78,183 decrease in short-term investments which resulted from decreases in self-supporting and bookstore funds.

Capital assets decreased by $371,427 primarily due to the annual depreciation expense of $586,019 which offset purchases of capital assets of $228,033.

Other noncurrent assets increased by $546,852 primarily due to an increase in cash of $289,606 and an increase in due from community college component units of $140,000. The cash increase was primarily due to the receipt of the advance payment of $248,539 for the Duke Energy Welding Path Grant for the purchase of machinery and equipment. The $140,000 is for the recording of a Golden Leaf Automotive Program Grant given to the

Carteret Community College Foundation, Inc., the College's discretely presented component unit. The purpose of the grant is to purchase machinery and equipment for the College's automotive program.

Condensed Statement of Assets
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,285.53	$ 2,392.14	$ (106.61)	-4.46%
Noncurrent Assets				
Capital Assets, Net	23,541.44	23,912.86	(371.42)	-1.55%
Other	688.41	141.56	546.85	386.30%
Total Assets	$ 26,515.38	$ 26,446.56	$ 68.82	0.26%

Analysis of Liabilities

Changes in current liabilities resulted in a net decrease of $47,445 in fiscal year 2016. This was mainly due to a decrease of $47,979 in accounts payable related to supplies and materials at year end.

Long-term liabilities consist of payments for notes payable, compensated absences, and the net pension liability. Long-term liabilities are classified as current if they are expected to be paid out within the next 12 months and noncurrent if the payout will be later than one year. The noncurrent portion of long-term liabilities increased by $921,882 primarily due to increases in the requirement under Governmental Accounting Standards Board (GASB) Statement 68 to disclose the pension liability due net of the pension plan's fiduciary position which increased the long term liability by $1,188,058 at June 30, 2016. Additional information and requirements concerning GASB Statement 68 are provided in note 11 to the financial statements. In addition, there was a payment of $65,970 on the note payable to Branch Banking and Trust for a Guaranteed Energy Savings contract. At June 30, 2016, the total due was $68,179. This note payable will continue through 2017 with an interest rate of 4.09% on the principal balance.

Condensed Statement of Liabilities
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Liabilities				
Current Liabilities	$ 401.28	$ 448.73	$ (47.45)	-10.57%
Long-Term Liabilities	2,214.18	1,292.30	921.88	71.34%
Total Liabilities	$ 2,615.46	$ 1,741.03	$ 874.43	50.22%

Analysis of Net Position

Restricted net position increased $593,786 and is attributable to a $529,614 increase in capital projects due primarily to the Duke Energy Welding Path Grant and capital gift from the College's Foundation previously discussed.

The change in unrestricted net position is primarily attributable to the decrease in deferred inflows related to pensions.

Condensed Statement of Net Position
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Net Position				
Net Investment in Capital Assets	$ 23,472.72	$ 23,778.18	$ (305.46)	-1.28%
Restricted	1,451.39	857.60	593.79	69.24%
Unrestricted	(710.53)	(1,312.92)	602.39	45.88%
Total Net Position	$ 24,213.58	$ 23,322.86	$ 890.72	3.82%

Analysis of Net Capital Assets

The table below shows the classifications of the College's capital assets as of June 30, 2016. Machinery and equipment purchased represents the majority of change in capital assets. The increase in this category corresponds to the purchase of new equipment for $228,033 and the disposal of old equipment in the amount of $97,224. Accumulated depreciation expense also increased as yearly depreciation was taken on depreciable assets. The College did not have any capital construction commitments as of June 30, 2016.

Capital Assets
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Capital Assets				
Land	$ 3,143.09	$ 3,143.09	$ 0.00	0.00%
Buildings	24,423.03	24,423.03		
Machinery & Equipment	3,561.89	3,431.08	130.81	3.81%
General Infrastructure	1,713.51	1,713.51		
Total	32,841.52	32,710.71	130.81	0.40%
Less: Accumulated Depreciation	9,300.08	8,797.85	502.23	5.71%
Net Capital Assets	$ 23,541.44	$ 23,912.86	$ (371.42)	-1.55%

Analysis of Revenues

The increase in total operating revenues of $271,846 is attributed mainly to increases in net student tuition and fees. The increase in tuition and fees can be attributed to the increase in the hourly tuition rate that occurred in January 2016. The legislature enacted a curriculum tuition increase of $4.00 per credit hour effective for the spring 2016 semester. In addition, the College increased its student activity fee from $14 to $28 per semester for full-time students in fiscal year 2016. There was also a reduction in the amount of student financial aid used for tuition and fees due to declining enrollment.

Nonoperating revenues decreased by $298,680 overall from the previous year. Noncapital grants - student financial aid decreased $318,886 due to fewer students receiving Pell in the 2016 year. State aid increased by $227,353 and county appropriations increased $24,000. Additionally, the College received $251,139 in new grants. Grants included the TRIO –

Student Support Services, First in the World, and Workforce Innovation and Opportunity Act grants. The College also had a decrease in other nonoperating revenues of $578,846. This decrease is due insurance recoveries of $577,793 received in the prior year for damages to the College from a tornado in 2013.

The College received $671,768 more in overall capital funding than in the previous year primarily due to a Duke Energy Welding Path Grant for $248,539 and a $140,000 capital gift from the College's Foundation. Both the grant and gift are restricted for the purchase of machinery and equipment.

Condensed Statement of Revenues, Expenses and Changes in Net Position
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	$ 1,582.45	$ 1,368.69	$ 213.76	15.62%
State and Local Grants and Contracts	9.47	15.08	(5.61)	-37.20%
Sales and Services	164.36	108.96	55.40	50.84%
Other Revenue	15.84	7.54	8.30	110.08%
Total Operating Revenues	1,772.12	1,500.27	271.85	18.12%
Less Operating Expenses	17,284.45	17,664.61	(380.16)	
Operating Loss	(15,512.33)	(16,164.34)	(652.01)	
Nonoperating Revenues (Expenses):				
State Aid	8,423.08	8,195.73	227.35	2.77%
County Appropriations	2,464.00	2,440.00	24.00	0.98%
Noncapital Grants - Student Financial Aid	3,416.38	3,735.26	(318.88)	-8.54%
Noncapital Grants	770.45	519.31	251.14	48.36%
Noncapital Gifts	347.54	254.92	92.62	36.33%
Investment Income	1.44	0.14	1.30	928.57%
Interest and Fees on Debt	(4.28)	(6.92)	2.64	-38.15%
Other Nonoperating Revenues (Expenses)	(7.67)	571.18	(578.85)	-101.34%
Total Net Nonoperating Revenues	15,410.94	15,709.62	(298.68)	-1.90%
State Capital Aid	306.52	68.87	237.65	345.07%
County Capital Aid	271.20	239.17	32.03	13.39%
Capital Grants	274.39	12.30	262.09	2130.81%
Capital Gifts	140.00		140.00	100.00%
Increase (Decrease) in Net Position	$ 890.72	$ (134.38)	$ 1,025.10	-762.84%
Reconciliation of Change in Net Position				
Total Revenues	$ 18,187.11	$ 17,537.15	$ 649.96	3.71%
Less: Total Expenses	17,296.39	17,671.53	(375.14)	-2.12%
Increase (Decrease) in Net Position	$ 890.72	$ (134.38)	$ 1,025.10	-762.84%

Analysis of Operating Expenditures

Total operating expenditures decreased by $380,166 from the prior year. The College took measures to reduce expenses in response to the State's continual budget shortfalls and reduced student enrollment such as not filling vacant positions. The primary factors for the $411,079 increase to supplies and materials resulted from equipment purchases for computers upgrades and software and equipment for the automotive program. Services decreased by $484,196 due primarily from decreased expenditures for repairs to the College for the tornado damage incurred in 2013. Scholarships and fellowships decreased by $103,481 because fewer students were eligible for financial aid.

Comparison of Operating Expenses for FY 2016 and FY 2015
(in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent Change
Salaries and Benefits	$ 11,226.42	$ 11,325.27	$ (98.85)	-0.87%
Supplies and Materials	1,293.19	882.11	411.08	46.60%
Services	1,333.61	1,817.81	(484.20)	-26.64%
Scholarships and Fellowships	2,404.32	2,507.80	(103.48)	-4.13%
Utilities	440.89	486.08	(45.19)	-9.30%
Depreciation	586.02	645.54	(59.52)	-9.22%
Total Expenditures	$ 17,284.45	$ 17,664.61	$ (380.16)	-2.15%

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.

The College serves more than 1,900 curriculum students and more than 4,000 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.

Student enrollment continued the downward trend with a 3.23% decline in the 2015 fall term. The College is focusing on analyzing the data and identifying areas for improvement. The College is anticipating better numbers in the fall 2016 enrollment due to a strengthening state economy as well as increased dual enrollment of Carteret County high school students.

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.

Carteret Community College has been allocated $2,674,685 from the passage of the Connect NC Bond Act initiative. These bonds are to be used to support various infrastructure improvements across the State, including new construction and repairs and renovations at community colleges. Carteret Community College's Board of Trustees has approved plans for a new Hospitality/Culinary Arts facility. The Carteret County Board of Commissioners is supporting this project with additional funding of $2,178,620 and the Carteret Community College Foundation, Inc. is donating property to the College with an estimated value of $791,000. With an estimated spring 2019 completion date, this will be a 15,000 square foot state-of-the-art hospitality/culinary arts facility.

The College remains extremely optimistic about the future and believes it will continue to respond to the community to provide services and education to the population of Carteret County and be an integral part of our service region.

FINANCIAL STATEMENTS

Carteret Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2016 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	793,279.32
Restricted Cash and Cash Equivalents		586,275.47
Short-Term Investments		312,859.45
Restricted Short-Term Investments		204,524.77
Receivables, Net (Note 4)		270,982.39
Inventories		26,668.38
Prepaid Items		71,406.78
Notes Receivable, Net (Note 4)		19,532.76
Total Current Assets		2,285,529.32
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		330,110.95
Restricted Due from Primary Government		101,050.00
Restricted Due from Community College Component Unit		140,000.00
Restricted Investments		117,248.69
Capital Assets - Nondepreciable (Note 5)		3,143,085.91
Capital Assets - Depreciable, Net (Note 5)		20,398,350.95
Total Noncurrent Assets		24,229,846.50
Total Assets		26,515,375.82
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		715,820.61
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		144,585.11
Unearned Revenue		108,916.62
Funds Held for Others		6,786.18
Long-Term Liabilities - Current Portion (Note 7)		140,993.89
Total Current Liabilities		401,281.80
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		2,214,176.91
Total Liabilities		2,615,458.71
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		402,158.00

NET POSITION

Net Investment in Capital Assets	23,472,718.12
Restricted for:	
Expendable:	
Loans	172,577.95
Capital Projects	684,467.11
Restricted for Specific Programs	268,462.18
Other	325,883.53
Unrestricted	(710,529.17)
Total Net Position	$ 24,213,579.72

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

Carteret Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,582,450.77
State and Local Grants and Contracts		9,469.54
Sales and Services		164,356.23
Other Operating Revenues		15,844.76
Total Operating Revenues		1,772,121.30
EXPENSES		
Operating Expenses:		
Salaries and Benefits		11,226,421.74
Supplies and Materials		1,293,189.34
Services		1,333,609.69
Scholarships and Fellowships		2,404,316.64
Utilities		440,890.42
Depreciation		586,018.80
Total Operating Expenses		17,284,446.63
Operating Loss		(15,512,325.33)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,423,084.22
County Appropriations		2,464,000.00
Noncapital Grants - Student Financial Aid		3,416,377.83
Noncapital Grants		770,452.09
Noncapital Gifts		347,537.84
Investment Income		1,437.54
Interest and Fees on Debt		(4,281.21)
Other Nonoperating Expenses		(7,669.83)
Net Nonoperating Revenues		15,410,938.48
Loss Before Other Revenues		(101,386.85)
State Capital Aid		306,519.14
County Capital Aid		271,197.06
Capital Grants		274,385.96
Capital Gifts		140,000.00
Increase in Net Position		890,715.31
NET POSITION		
Net Position, July 1, 2015		23,322,864.41
Net Position, June 30, 2016	$	24,213,579.72

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

Carteret Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,760,227.99
Payments to Employees and Fringe Benefits	(11,922,642.91)
Payments to Vendors and Suppliers	(3,110,237.01)
Payments for Scholarships and Fellowships	(2,406,248.60)
Loans Issued to Students	(14,436.04)
Collection of Loans to Students	19,404.05
Other Receipts	3,662.04
Net Cash Used by Operating Activities	(15,670,270.48)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,423,084.22
County Appropriations	2,464,000.00
Noncapital Grants - Student Financial Aid	3,412,049.39
Noncapital Grants	777,859.19
Noncapital Gifts	347,537.84
Cash Provided by Noncapital Financing Activities	15,424,530.64
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	306,521.46
County Capital Aid	277,326.88
Capital Grants	274,385.96
Proceeds from Sale of Capital Assets	2,824.36
Acquisition of Capital Assets	(228,032.87)
Principal Paid on Capital Debt	(65,969.43)
Interest Paid on Capital Debt	(4,281.21)
Net Cash Provided by Capital and Related Financing Activities	562,775.15
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	1,437.54
Purchase of Investments and Related Fees	(1,391.20)
Net Cash Provided by Investing Activities	46.34
Net Increase in Cash and Cash Equivalents	317,081.65
Cash and Cash Equivalents, July 1, 2015	1,392,584.09
Cash and Cash Equivalents, June 30, 2016	$ 1,709,665.74

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (15,512,325.33)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	586,018.80
Provision for Uncollectible Loans and Write-Offs	(8,839.00)
Pension Expense	174,290.00
Miscellaneous Pension Adjustment	709.00
Nonoperating Other Income	2,946.79
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	(2,585.02)
Inventories	(6,023.50)
Prepaid Items	21,504.04
Notes Receivable, Net	4,968.01
Accounts Payable and Accrued Liabilities	(47,978.52)
Unearned Revenue	(11,240.25)
Funds Held for Others	715.25
Deferred Outflows for Contributions Subsequent to the Measurement Date	(683,282.58)
Compensated Absences	(189,148.17)
Net Cash Used by Operating Activities	$ (15,670,270.48)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 793,279.32
Restricted Cash and Cash Equivalents	586,275.47
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	330,110.95
Total Cash and Cash Equivalents - June 30, 2016	$ 1,709,665.74

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$ 140,000.00
Loss on Disposal of Capital Assets	(10,616.62)

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, 2016 *Exhibit B-1*

ASSETS		
Current Assets		
Cash	$	250,776
Investments		987,332
Unconditional Promises to Give		112,000
Accounts Receivable		7,420
Donated Boat Inventory		104,130
Total Current Assets		1,461,658
Noncurrent Assets		
Property and Equipment, Net		1,497,433
Other Assets, Art Works		143,180
Endowment Fund		1,721,601
Total Noncurrent Assets		3,362,214
Total Assets	$	4,823,872
LIABILITIES		
Current Liabilities		
Accounts Payable	$	155,456
Current Portion of Long-Term Debt		42,138
Total Current Liabilities		197,594
Noncurrent Liabilities		
Notes Payable, Net of Current Portion		570,099
Total Liabilities		767,693
NET ASSETS		
Unrestricted		1,997,468
Temporarily Restricted		337,110
Permanently Restricted		1,721,601
Total Net Assets		4,056,179
Total Liabilities and Net Assets	$	4,823,872

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, 2016 *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS	
Support	
Cash Donations	$ 7,793
Noncash Donations	19,437
Boat Contributions, Net of Gains or Losses	157,760
Special Program Revenues	141,764
Total Support	326,754
Other Revenues	
Real Estate Rental Income	89,040
Investment Loss	(31,836)
Miscellaneous Income	509
Total Other Revenues	57,713
Net Assets Released from Restrictions	350,896
Total Unrestricted Revenues and Gains	735,363
Expenses:	
Program Services	
College Support	309,533
Scholarships	135,447
Total Program Services	444,980
Supporting Services	
Property Management	70,878
Foundation Administration	109,585
Boat Program Expenses	102,041
Fundraising Expenses	62,971
Total Supporting Services	345,475
Total Expenses	790,455
Decrease in Unrestricted Net Assets	(55,092)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Miscellaneous Donations	206,173
Scholarship Donations	55,957
Net Assets Released from Restrictions:	(350,896)
Decrease in Temporarily Restricted Net Assets	(88,766)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Endowment Fund Contributions	25,311
Increase in Permanently Restricted Net Assets	25,311
Total Decrease in Net Assets	(118,547)
Net Assets at Beginning of Year	4,174,726
Net Assets at End of Year	$ 4,056,179

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. Carteret Community College (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, tax-exempt, 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 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 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 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, 2016, the Foundation distributed $268,267.95 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 fair market value held by the College. Additional information regarding the fair value measurement of investments is disclosed in Note 3.

F. Receivables - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

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 include net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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 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 is classified as follows:

Net Investment in Capital Assets - This represents the College's total investment in capital assets, net of outstanding liabilities related to those capital assets.

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 positions include consideration of deferred outflows and inflows 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, (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 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 as approved by the County Commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2016 was $1,980.00. The carrying amount of the College's deposits not with the State Treasurer was $1,707,685.74, and the bank balance was $1,818,820.92.

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, 2016, 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.

At June 30, 2016, the College's investments consisted of $634,632.91 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 36 days at June 30, 2016.

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, 2016, 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., (Foundation) are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type		Fair Value
Money Market Funds	$	23,620
Equity Stocks		2,533,422
Fixed Income		151,891
Total Investments	$	2,708,933

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016 is as follows:

Cash on Hand	$	1,980.00
Carrying Amount of Deposits with Private Financial Institutions		1,707,685.74
Investments in the North Carolina Capital Management Trust		634,632.91
Total Deposits and Investments	$	2,344,298.65
Deposits		
Current:		
Cash and Cash Equivalents	$	793,279.32
Restricted Cash and Cash Equivalents		586,275.47
Noncurrent:		
Restricted Cash and Cash Equivalents		330,110.95
Total Deposits		1,709,665.74
Investments		
Current:		
Short-Term Investments		312,859.45
Restricted Short-Term Investments		204,524.77
Noncurrent:		
Restricted Investments		117,248.69
Total Investments		634,632.91
Total Deposits and Investments	$	2,344,298.65

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

North Carolina Capital Management Trust - At year-end, all of the College's investments valued at $634,932.91 were held in the North Carolina Capital Management Trust – Cash Portfolio which is measured at the Net Asset Value (NAV) per share (or its equivalent). This fund seeks to obtain as high a level of current income as is consistent with the preservation of capital and liquidity and to maintain a constant NAV of $1.00 per share. Management of the fund normally invests at least 99.5% of the fund's total in cash, U.S. Government securities and/or repurchase agreements that are collateralized fully.

Component Unit - The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. The Foundation carries its real estate investments at the fair market value as of the dates the investments were donated to the Foundation.

The Foundation follows FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As required by ASC 820, the following table presents by level within the fair value hierarchy the Foundation investment assets at fair value, as of June 30, 2016. The Foundation carries its real estate investments at the fair market value as of the dates the investments were donated to the College.

The Foundation's investments are detailed as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	6/30/2016	Level 1	Level 2	Level 3
Description				
Money Market Funds	$ 23,620	$ 23,620	$ 0	$ 0
Equity Stocks	2,533,422	2,533,422		
Fixed Income	151,891	151,891		
Total Investments	$ 2,708,933	$ 2,708,933	$ 0	$ 0

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 561,785.75	$ 438,068.81	$ 123,716.94
Student Sponsors	22,863.36		22,863.36
Intergovernmental	170,750.48	57,954.81	112,795.67
Other	11,606.42		11,606.42
Total Current Receivables	$ 767,006.01	$ 496,023.62	$ 270,982.39
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Program	$ 70,851.58	$ 51,318.82	$ 19,532.76

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 3,143,085.91	$ 0.00	$ 0.00	$ 3,143,085.91
Total Capital Assets, Nondepreciable	3,143,085.91	0.00	0.00	3,143,085.91
Capital Assets, Depreciable:				
Buildings	24,423,031.20			24,423,031.20
Machinery and Equipment	3,431,087.69	228,032.87	97,223.72	3,561,896.84
General Infrastructure	1,713,507.43			1,713,507.43
Total Capital Assets, Depreciable	29,567,626.32	228,032.87	97,223.72	29,698,435.47
Less Accumulated Depreciation for:				
Buildings	6,437,000.74	407,579.16		6,844,579.90
Machinery and Equipment	1,948,085.08	139,247.04	83,782.74	2,003,549.38
General Infrastructure	412,762.64	39,192.60		451,955.24
Total Accumulated Depreciation	8,797,848.46	586,018.80	83,782.74	9,300,084.52
Total Capital Assets, Depreciable, Net	20,769,777.86	(357,985.93)	13,440.98	20,398,350.95
Capital Assets, Net	$ 23,912,863.77	$ (357,985.93)	$ 13,440.98	$ 23,541,436.86

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 133,077.52
Accrued Payroll	11,507.59
Total Accounts Payable and Accrued Liabilities	$ 144,585.11

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, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Notes Payable	$ 134,688.17	$ 0.00	$ 65,969.43	$ 68,718.74	$ 68,718.74
Net Pension Liability	559,831.00	1,188,058.00		1,747,889.00	
Compensated Absences	727,711.23	398,212.08	587,360.25	538,563.06	72,275.15
Total Long-Term Liabilities	$ 1,422,230.40	$ 1,586,270.08	$ 653,329.68	$ 2,355,170.80	$ 140,993.89

Additional information regarding the net pension liability is included in Note 11.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Energy Performance Contract	BB&T	4.09%	06/14/2017	$ 665,324.17	$ 596,605.43	$ 68,718.74

The annual requirements to pay principal and interest on notes payable at June 30, 2016, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2017	$ 68,718.74	$ 1,531.90

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for buildings. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 89,040.00
2018	89,040.00
Total Minimum Lease Payments	$ 178,080.00

Rental expense for all operating leases during the year was $89,040.00

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 2,713,688.62	$ 1,171,624.03	$ (40,386.18)	$ 1,582,450.77

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 6,388,543.34	$ 716,034.17	$ 291,355.29	$ 0.00	$ 0.00	$ 0.00	$ 7,395,932.80
Academic Support	991,247.74	73,273.37	16,324.62				1,080,845.73
Student Services	1,303,452.50	57,076.08	60,900.12				1,421,428.70
Institutional Support	1,558,536.10	152,169.05	568,666.46				2,279,371.61
Operations and Maintenance of Plant	975,936.15	262,670.20	360,983.15		440,890.42		2,040,479.92
Student Financial Aid	6,977.28	29,937.70	2,079.27	2,404,316.64			2,443,310.89
Auxiliary Enterprises	1,728.63	2,028.77	33,300.78				37,058.18
Depreciation						586,018.80	586,018.80
Total Operating Expenses	$ 11,226,421.74	$ 1,293,189.34	$ 1,333,609.69	$ 2,404,316.64	$ 440,890.42	$ 586,018.80	$ 17,284,446.63

NOTE 11 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were $683,282.58, and employee contributions were $448,054.15 for the year ended June 30, 2016.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of $1,747,889.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was 0.04743%, which was a decrease of 0.00032 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate	1% Increase (8.25%)
$ 5,260,665.00	$ 1,747,889.00	$ (1,233,106.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of $174,290.00. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 198,735.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		189,369.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	32,538.03	14,054.00
Contributions Subsequent to the Measurement Date	683,282.58	
Total	$ 715,820.61	$ 402,158.00

The amount of $683,282.58 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	$ (223,611.00)
2018	(223,611.00)
2019	(215,370.00)
2020	292,972.03
Total	$ (369,619.97)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (TSERS). 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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $418,183.88, $395,021.76, and $400,771.18, 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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $30,617.03, $29,500.71, and $32,655.43, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 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.

4. Statewide Workers' Compensation Program

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.

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

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

Carteret Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years ***Exhibit C-1***

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.04743%	0.04775%	0.04960%
Proportionate Share of TSERS Collective Net Pension Liability	$ 1,747,889.00	$ 559,831.00	$ 3,011,225.00
Covered-Employee Payroll	$ 7,195,296.23	$ 7,421,688.46	$ 7,492,497.42
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.29%	7.54%	40.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Carteret Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit C-2***

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 683,282.58	$ 658,369.61	$ 644,944.73	$ 624,125.04	$ 560,239.72
Contributions in Relation to the Contractually Determined Contribution	683,282.58	658,369.61	644,944.73	624,125.04	560,239.72
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 7,467,569.23	$ 7,195,296.23	$ 7,421,688.46	$ 7,492,497.42	$ 7,530,103.76
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 364,854.49	$ 266,961.92	$ 262,686.61	$ 238,340.45	$ 194,837.17
Contributions in Relation to the Contractually Determined Contribution	364,854.49	266,961.92	262,686.61	238,340.45	194,837.17
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 7,400,699.51	$ 7,477,924.81	$ 7,818,053.95	$ 7,814,440.98	$ 7,324,705.54
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Carteret Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report* , the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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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 (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, 2016, 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 21, 2017. 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 opinions 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.

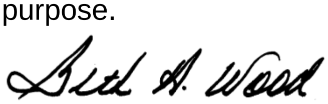
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 21, 2017

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For additional information contact:
Bill Holmes
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919-807-7513

This audit required 302 audit hours at an approximate cost of $31,106.00.