



STATE OF NORTH CAROLINA

CARTERET COMMUNITY COLLEGE

MOREHEAD CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

CARTERET COMMUNITY COLLEGE
MOREHEAD CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

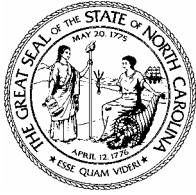
FOR THE YEAR ENDED JUNE 30, 2007

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, 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, 2007, 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. Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

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.

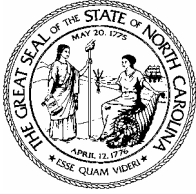
Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 8, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Carteret Community College
Morehead City, North Carolina

We have audited the accompanying financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Carteret Community College's management. 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 financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Carteret Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Carteret Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2008, 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 24, 2008

CARTERET COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Carteret Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007, with fiscal year 2006 financial information presented for comparative purposes. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public College and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues 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 new 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 Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of facilities.

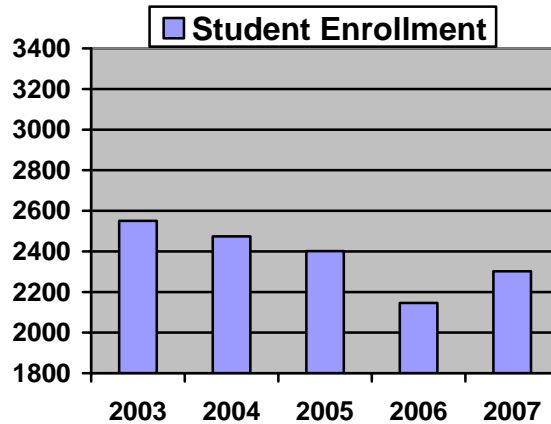
The Statement of Revenues, Expenses, and Changes in Net Assets spotlights both the gross costs and the net costs of College activities, which are supported mainly by State, local, federal, and other revenues. This Statement presents the revenues earned and expenses incurred during the year. Activities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

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

Student enrollment began to decline in the 2003-2004 academic year and continued to decline through 2005-2006 dropping by 10.5% to 2,146 students enrolled during that academic year. However, in 2006-2007, student enrollment rose to 2,302 students representing an increase of 7.27% from the previous year.



Economic conditions such as higher salaries and increased prices for supplies and services resulted in a 4.2% boost in operating expenses for the year. In Fiscal 2007, the College received a five-year Federal Title III grant that will be used to increase the College's student retention rate and institutional effectiveness, as well as aid the College in preparing for its SACS re-accreditation.

During Fiscal 2007, the College reverted \$110,982 of its State appropriation to the North Carolina Community College System.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2007, the College's total net assets decreased by 1.66% mostly due to the effect of depreciation on the College's capital assets. The College's total assets equal \$26.8 million and includes 92% capital assets, 4.1% cash, equivalents, and investments; and 3.1% receivables. Total liabilities of \$1.4 million include 39% notes payable and 40% accrued vacation and bonus leave for personnel.

Current assets decreased by 9.26% due to a reduction in overall net receivables from students and from a Golden Leaf grant. Noncurrent assets decreased by 1.88% due to the disposal of capital assets and depreciation taken during 2007. Other noncurrent assets rose by 52.12% due to an increase in Higher Education bond money due to the College from the State of North Carolina to be used in construction and renovation projects on the campus. Current liabilities increased by 31.83% overall, with a 43.25% increase in accounts payable and an 84.08% increase in unearned revenue. The increase in accounts payable is a result of higher

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

accruals for current construction projects and accruals for summer term payroll and bookstore purchases for summer term. Summer term enrollments increased in 2007 thereby increasing unearned revenue.

	2007	2006	<i>(in thousands)</i> Increase (Decrease)	Percent Change
Assets				
Current Assets	\$ 1,315.15	\$ 1,449.42	\$ (134.27)	(9.26) %
Noncurrent Assets				
Capital Assets, Net of Depreciation	24,746.96	25,220.41	(473.45)	(1.88) %
Other	759.11	499.03	260.08	52.12 %
Total Assets	26,821.22	27,168.86	(347.64)	
Liabilities				
Current Liabilities	402.93	305.64	97.29	31.83 %
Noncurrent Liabilities	1,057.58	1,072.44	(14.86)	(1.39) %
Total Liabilities	1,460.51	1,378.08	82.43	
Net Assets				
Investment in Capital Assets, Net of Related Debt	24,171.18	24,598.94	(427.76)	(1.74) %
Restricted	1,110.51	928.59	181.92	19.59 %
Unrestricted	79.02	263.25	(184.23)	(69.98) %
Total Net Assets	\$ 25,360.71	\$ 25,790.78	\$ (430.07)	

Analysis of Net Capital Assets

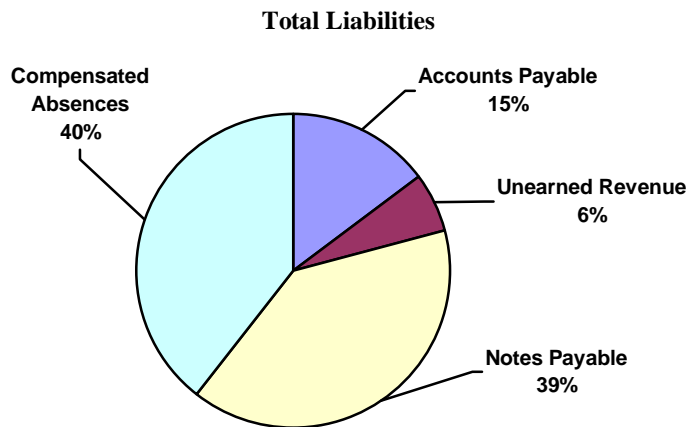
The classifications of the College's capital assets as of June 30, 2007, are illustrated in the table below. This table is prepared using an accrual basis of accounting whereby assets are capitalized and depreciated using the straight-line method over the useful life of the asset. Gross asset values for buildings and machinery and equipment declined slightly due to the write off of assets that have been disposed of and no longer in use. The majority of these assets have been fully depreciated.

	2007	2006	<i>(in thousands)</i> Increase (Decrease)	Percent Change
Capital Assets				
Land	\$ 3,004.60	\$ 3,004.59	\$ 0.01	
Buildings	18,587.10	19,029.44	(442.34)	(0.02) %
Construction in Progress	17.95	17.95		
Machinery & Equipment	2,508.78	2,765.90	(257.12)	(0.09) %
General Infrastructure	5,109.75	5,109.75		
Total	29,228.18	29,927.63	(699.45)	
Less: Accumulated Depreciation	4,481.22	4,707.22	(226.00)	(0.05) %
Net Capital Assets	\$ 24,746.96	\$ 25,220.41	\$ (473.45)	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Liabilities

The graph below represents the composition of the total liabilities for the College of \$1.46 million. Current liabilities consisting of accounts payable, unearned revenue, and the current portions of notes payable and compensated absences, increased by 31.83% and total \$402,930.56. The increase in current liabilities is attributed to an increase in accruals for current construction projects and an increase in unearned revenue for summer term revenue. Long-term liabilities consist of payments for notes payable and compensated absences outside of a year time frame, and long-term liabilities remained relatively stable with a decrease of 1.39% from the previous year. The note payable through Branch Banking and Trust for a guaranteed energy savings contract with Progress Energy Carolinas, Inc. has a total of \$575,786.66 due as of June 30, 2007. This note payable is scheduled to continue through the year 2017 with an interest rate of 4.19% on the principal balance.



Analysis of Revenues

Total operating revenues for the College decreased by \$696,180.00 or 14.65% for fiscal year 2007. State and local grant revenues decreased by 53.01% from the previous year as several grants closed during the year. The Clean Water Management grant completed construction of a sustainable shoreline project during 2006 which also reduced revenue for the grant in 2007. In addition, tuition and fees, net of discounts, rose by 3.90%. This modest improvement resulted from increased student enrollment including a 20% rise in occupational instruction. The College received a Federal Title III grant in 2007 and this resulted in an increase of \$113,987.19 in federal grants and contracts. Nonoperating revenues increased by 7.12% over the previous year and noncapital gifts rose by 60.76% primarily as a result of an increase in donations from the Carteret Community College Foundation, Inc. Investment income also rose by 30.85% due to interest earned on funds deposited with the North Carolina Capital Management Trust Fund, currently accumulating 5.08% interest annually while other nonoperating revenues dropped by \$140,940.00 during 2007. The drop in nonoperating revenue is a result of a combination of a decrease in hurricane damage funds, (the College received hurricane damage funds during 2006 but did not receive these funds in 2007), and a \$74,510.67 loss on capital assets that were disposed of during 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2007	2006	<i>(in thousands)</i> Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	\$ 938.78	\$ 903.58	\$ 35.20	3.90 %
Federal Grants and Contracts	1,968.12	1,854.14	113.98	6.15 %
State and Local Grants and Contracts	514.28	1,094.33	(580.05)	(53.01) %
Sales and Services	610.92	869.75	(258.83)	(29.76) %
Other Revenue	23.64	30.12	(6.48)	(21.50) %
Total Operating Revenues	4,055.74	4,751.92	(696.18)	(14.65) %
Less Operating Expenses	15,773.14	15,131.08	642.06	4.24 %
Operating Loss	(11,717.40)	(10,379.16)	(1,338.24)	
Nonoperating Revenues:				
State Aid	7,838.79	7,260.20	578.59	7.97 %
County Appropriations	1,869.50	1,699.99	169.51	9.97 %
Noncapital Grants	214.61	213.52	1.09	0.51 %
Noncapital Gifts	209.78	130.49	79.29	60.76 %
Investment Income	30.37	23.21	7.16	30.85 %
Interest and Fees on Debt	(24.57)		(24.57)	
Other Nonoperating Revenues (Expenses)	(62.98)	77.96	(140.94)	(180.79) %
Total Nonoperating Revenues	10,075.50	9,405.37	670.13	
State Capital Aid	999.46	393.63	605.83	153.91 %
County Capital Aid	211.37	152.92	58.45	38.22 %
Capital Grants	1.00	10.03	(9.03)	(90.03) %
Decrease in Net Assets	\$ (430.07)	\$ (417.21)	\$ (12.86)	

Analysis of Expenses

Total operating expenses for Fiscal 2007 rose by a modest 4.24% or \$642,060.00. The areas of personal services and supplies and materials account for the increased expenses during the year. Personal services increased by \$823,299.66 or 8.56% due to the addition of new personnel, a 6% pay increase, a 2% salary bonus, and a bonus funded through the receipt of a Performance Funding allocation. As fuel prices and prices in general increased throughout the country this year, the College's expenses for supplies and materials increased by 16.37% or \$268,522.43. Outside services expenses decreased by 17.28% during 2007. In addition, scholarships and fellowships and utilities demonstrated small decreases of 3.27% and 7.20%, respectively. The College's depreciation expense for fiscal year 2007 decreased by 13.45% as a direct result of the extension of the useful lives of all capital assets that was mandated by the North Carolina State Controller's Office.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

	<i>(in thousands)</i>			
	2007	2006	Increase (Decrease)	Percent Change
Personal Services	\$ 10,437.47	\$ 9,614.17	\$ 823.30	8.56 %
Supplies and Materials	1,908.95	1,640.43	268.52	16.37 %
Services	1,341.21	1,621.42	(280.21)	(17.28) %
Scholarships and Fellowships	1,006.68	1,040.69	(34.01)	(3.27) %
Utilities	412.57	444.58	(32.01)	(7.20) %
Depreciation	666.26	769.79	(103.53)	(13.45) %
Total Expenses	\$ 15,773.14	\$ 15,131.08	\$ 642.06	

Summary

In 2006, Carteret Community College achieved a Superior rating on its North Carolina Community College Performance Measures. The College is constantly monitoring the needs of the community in an effort to ensure that our programs and services are relevant to those needs and to ensure that we meet the needs of our citizens in the future.

The population in Carteret County is growing older and the aging population is increasing the demand in the county for skilled Allied Health professionals. In Fall 2005, the College added an Associate Degree Nursing program to our existing Licensed Practical Nursing program. With the increase in population, the county is also experiencing an increase in the number of second home owners and both of these demographics are increasing the demand for upscale restaurants and other hospitality services required in a leisure economy. The College's Culinary program graduated its first class in 2006 and all of the graduates who wanted jobs found employment. The Culinary program continues to experience full enrollment and we are exploring additional training for all levels of hospitality service workers.

With billions of dollars of new construction in the works across Carteret County, the College will renovate space in 2007 to provide training in construction technologies. We are upgrading our Welding program and starting Heating, Ventilation and Air Conditioning (HVAC) training. Carteret County is providing an additional \$1.7 million dollars in capital funding to assist with this effort over the coming year. We also plan to add plumbing, electrical and general construction courses to our offerings. As a member of the Marine Science and Education Partnership (MSEP), Carteret Community College will continue to pursue opportunities that will lead to commercial ventures to bring biotechnology jobs to the region.

During 2007, the College focused on expansion of its distance learning opportunities. The development and growth of online instructional programs for the Carteret County Community allows the College to be available for students in all demographics.

The College maintains an "Education for Life" environment where the mission is to be an excellent learning College, an excellent steward of the public trust, an excellent resource for workforce development, and an excellent place to work. Our values include learning for all, service to the community, quality in everything that we do, creativity, integrity, diversity, teamwork, honesty, and commitment.

Carteret Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 71,628.88
Restricted Cash and Cash Equivalents	214,561.33
Short-Term Investments	531,955.55
Restricted Short-Term Investments	62,126.33
Receivables, Net (Note 3)	215,191.45
Due from State of North Carolina Component Units	82,125.00
Inventories	117,590.08
Prepaid Items	17,484.29
Notes Receivable, Net (Note 3)	2,481.99
	<hr/>
Total Current Assets	1,315,144.90

Noncurrent Assets:

Restricted Cash and Cash Equivalents	218,873.06
Restricted Due from Primary Government	540,232.05
Capital Assets - Nondepreciable (Note 4)	3,022,542.17
Capital Assets - Depreciable, Net (Note 4)	21,724,421.01
	<hr/>
Total Noncurrent Assets	25,506,068.29

Total Assets	<hr/> <hr/> 26,821,213.19
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	214,350.92
Unearned Revenue	90,149.64
Funds Held for Others	4,428.04
Long-Term Liabilities - Current Portion (Note 6)	94,001.96
	<hr/>
Total Current Liabilities	402,930.56

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,057,575.61
	<hr/>

Total Liabilities	<hr/> <hr/> 1,460,506.17
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	24,171,176.52
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Restricted for:

Expendable:

Scholarships and Fellowships	125,001.52
Loans	136,843.98
Capital Projects	769,318.57
Restricted for Specific Programs	12,772.23
Other	66,569.23

Unrestricted	79,024.97
	<hr/>

Total Net Assets	<hr/> <hr/> \$ 25,360,707.02
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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 Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 938,776.92
Federal Grants and Contracts	1,968,124.40
State and Local Grants and Contracts	514,277.67
Sales and Services, Net (Note 8)	610,921.65
Other Operating Revenues	23,638.53
	<hr/>
Total Operating Revenues	4,055,739.17
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	10,437,474.42
Supplies and Materials	1,908,948.34
Services	1,341,204.78
Scholarships and Fellowships	1,006,682.00
Utilities	412,573.37
Depreciation	666,259.13
	<hr/>
Total Operating Expenses	15,773,142.04
	<hr/>
Operating Loss	(11,717,402.87)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	7,838,786.14
County Appropriations	1,869,500.04
Noncapital Grants	214,608.05
Noncapital Gifts	209,779.95
Investment Income	30,377.70
Interest and Fees on Debt	(24,568.04)
Other Nonoperating Expenses	(62,984.94)
	<hr/>
Net Nonoperating Revenues	10,075,498.90
	<hr/>
Loss Before Other Revenues	(1,641,903.97)
	<hr/>
State Capital Aid	999,460.04
County Capital Aid	211,368.45
Capital Grants	1,000.00
	<hr/>
Decrease in Net Assets	(430,075.48)
	<hr/>

NET ASSETS

Net Assets, July 1, 2006, as Restated (Note 13)	25,790,782.50
	<hr/>
Net Assets, June 30, 2007	\$ 25,360,707.02
	<hr/> <hr/>

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

***Cartert Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,303,402.39
Payments to Employees and Fringe Benefits	(10,431,391.61)
Payments to Vendors and Suppliers	(3,610,060.60)
Payments for Scholarships and Fellowships	(1,006,682.00)
Loans Issued to Students	(16,495.63)
Collection of Loans to Students	28,219.88
Other Receipts	9,640.41
	<hr/>
Net Cash Used by Operating Activities	(10,723,367.16)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,838,786.14
County Appropriations	1,869,500.04
Noncapital Grants Received	209,395.87
Noncapital Gifts Received	209,779.95
	<hr/>
Cash Provided by Noncapital Financing Activities	10,127,462.00

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	718,297.66
County Capital Aid	211,368.45
Capital Grants Received	1,000.00
Proceeds from Sale of Capital Assets	4,811.31
Proceeds from Insurance on Capital Assets	63.85
Acquisition and Construction of Capital Assets	(267,318.02)
Principal Paid on Capital Debt and Leases	(45,682.60)
Interest Paid on Capital Debt and Leases	(24,568.04)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	597,972.61

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	30,377.70
Purchase of Investments and Related Fees	(29,709.20)
	<hr/>
Net Cash Provided by Investing Activities	668.50

Net Increase in Cash and Cash Equivalents	2,735.95
Cash and Cash Equivalents, July 1, 2006	502,327.32
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 505,063.27

***Carteret Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

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

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

Operating Loss	\$ (11,717,402.87)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	666,259.13
Provision for Uncollectible Loans and Write-Offs	1,359.34
Miscellaneous Nonoperating Income	6,650.57
Changes in Assets and Liabilities:	
Receivables, Net	205,047.75
Inventories	(7,632.84)
Prepaid Items	(17,484.29)
Notes Receivable, Net	11,724.25
Accounts Payable and Accrued Liabilities	64,721.45
Unearned Revenue	41,177.27
Funds Held for Others	4,428.04
Compensated Absences	17,785.04
	<u>17,785.04</u>
Net Cash Used by Operating Activities	<u>\$ (10,723,367.16)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 71,628.88
Restricted Cash and Cash Equivalents	214,561.33
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>218,873.06</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 505,063.27</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 363,763.20
Capital Asset Write-Offs	74,510.67

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, 2007

Exhibit B-1

ASSETS

Current Assets:

Cash	\$ 105,021
Donated Boat Inventory	54,219

Total Current Assets	159,240
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Property & Equipment, Net	1,071,009
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Total Property and Equipment, Net	1,071,009
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Other Assets:

Other Assets	2,600
Investments	1,371,508

Total Other Assets	1,374,108
--------------------	-----------

Total Assets	\$ 2,604,357
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 858
Accrued Expenses	1,665
Current Portion of Long-Term Debt	19,490

Total Current Liabilities	22,013
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Long - Term Liabilities

Notes Payable, Net of Current Portion	522,990
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Total Long-Term Liabilities	522,990
-----------------------------	---------

Total Liabilities	545,003
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NET ASSETS

Unrestricted	996,205
Temporarily Restricted	293,000
Permanently Restricted	770,149

Total Net Assets	2,059,354
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Total Liabilities and Net Assets	\$ 2,604,357
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The accompanying notes to the financial statements are an integral part of this statement.

***Carteret Community College Foundation, Inc.
Statement of Activities and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit B-2

UNRESTRICTED NET ASSETS

Support:

Cash Donations	\$ 5,400
Community and Internal Fund Drives	4,237
Noncash Donations	65,476
Boat Contributions, Net of Gains or Losses	158,738
Special Program Revenues	20,259
	<hr/>
Total Support	254,110

Other Revenues:

Real Estate Rental Income	64,800
Investment Income	54,386
Loss on Disposal of Assets	(481)
Miscellaneous Income	1,418
	<hr/>
Total Other Revenues	120,123

Net Assets Released from Restrictions

220,275

Total Support and Revenues

594,508

Expenses:

Program Services	
College Support	195,756
Scholarships	150,417
	<hr/>
Total Program Services	346,173

Supporting Services:

Property Management	56,269
Foundation Administration	51,110
Boat Program Expenses	85,841
Fund Raising Expenses	15,825
	<hr/>
Total Supporting Services	209,045

Total Expenses

555,218

Increase in Unrestricted Net Assets

39,290

TEMPORARILY RESTRICTED NET ASSETS

Miscellaneous Donations	49,140
Scholarship Donations	137,148
Investment Income	34,320
Net Assets Released from Restrictions	(220,275)
	<hr/>
Increase in Temporarily Restricted Net Assets	333

PERMANENTLY RESTRICTED NET ASSETS

Endowment Fund Contributions	516,740
Investment Income	34,901
	<hr/>
Increase in Permanently Restricted Net Assets	551,641

Increase in Net Assets

591,264

Net Assets at Beginning of Year

1,468,090

Net Assets at End of Year

\$ 2,059,354

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

CARTERET COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Carteret Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Discretely Presented Component Unit - The Carteret Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Carteret Community College Foundation, Inc. is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 22 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Carteret Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2007, the Foundation distributed \$346,000.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Christine Triglath, Controller, 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 Governmental Accounting Standards Board (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.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- E. Investments** - This classification includes a mutual fund holding by the College through The North Carolina Capital Management Trust – Cash Portfolio. Investment in the Trust is recorded at cost, which approximates market value held by the College.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the 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 College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 60 years for buildings, and 2 to 25 years for equipment.
- I. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30 reduced by the amount of vacation leave transferred to sick leave.

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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. Net Assets - The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$2,385.00, and deposits in private financial institutions with a carrying value of \$502,678.27, and a bank balance of \$565,460.98.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - 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 the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2007, the College's investments consisted of \$594,081.88 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Capital Management Trust had an average maturity of less than six months at June 30, 2007.

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, 2007, North Carolina Capital Management Trust carried a credit rating of AAAM by Standard and Poor's.

Component Unit - Investments of the College's discretely presented component unit, the Carteret Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) 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 not held by the College:

Investment Type	Carrying Value
Money Market Funds	\$ 2,203
Equity Stocks	1,369,305
Total Investments	\$ 1,371,508

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$ 2,385.00
Carrying Amount of Deposits with Private Financial Institutions	502,678.27
Investments in the North Carolina Capital Management Trust	594,081.88
Total Deposits and Investments	\$ 1,099,145.15
Current:	
Cash and Cash Equivalents	\$ 71,628.88
Restricted Cash and Cash Equivalents	214,561.33
Short-Term Investments	531,955.55
Restricted Short-Term Investments	62,126.33
Noncurrent:	
Restricted Cash and Cash Equivalents	218,873.06
Total	\$ 1,099,145.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 164,623.56	\$ 61,350.59	\$ 103,272.97
Accounts	21,712.32		21,712.32
Intergovernmental	36,946.67		36,946.67
Other	53,259.49		53,259.49
Total Current Receivables	\$ 276,542.04	\$ 61,350.59	\$ 215,191.45
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 94,453.51	\$ 91,971.52	\$ 2,481.99

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 3,004,590.91	\$ 0.00	\$ 0.00	\$ 3,004,590.91
Construction in Progress	17,951.26			17,951.26
Total Capital Assets, Nondepreciable	3,022,542.17			3,022,542.17
Capital Assets, Depreciable:				
Buildings	19,029,435.30		442,334.17	18,587,101.13
Machinery and Equipment	2,765,902.38	267,318.02	524,435.43	2,508,784.97
General Infrastructure	5,109,754.59			5,109,754.59
Total Capital Assets, Depreciable	26,905,092.27	267,318.02	966,769.60	26,205,640.69
Less Accumulated Depreciation:				
Buildings	2,837,701.91	313,356.36	442,334.17	2,708,724.10
Machinery and Equipment	1,679,426.44	251,188.01	449,924.76	1,480,689.69
General Infrastructure	190,091.13	101,714.76		291,805.89
Total Accumulated Depreciation	4,707,219.48	666,259.13	892,258.93	4,481,219.68
Total Capital Assets, Depreciable, Net	22,197,872.79	(398,941.11)	74,510.67	21,724,421.01
Capital Assets, Net	\$ 25,220,414.96	\$ (398,941.11)	\$ 74,510.67	\$ 24,746,963.18

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 192,719.41
Accrued Payroll	21,631.51
Total Accounts Payable and Accrued Liabilities	\$ 214,350.92

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 621,469.26	\$ 0.00	\$ 45,682.60	\$ 575,786.66	\$ 47,586.44
Compensated Absences	558,005.87	454,365.41	436,580.37	575,790.91	46,415.52
Total Long-Term Liabilities	\$ 1,179,475.13	\$ 454,365.41	\$ 482,262.97	\$ 1,151,577.57	\$ 94,001.96

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 06/30/2007	Principal Outstanding 06/30/2007
Energy Performance Contract	BB&T	4.09	06/14/2017	\$ 665,324.17	\$ 89,537.51	\$ 575,786.66

The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements Notes Payable	
	Principal	Interest
	2008	\$ 47,586.44
2009	49,569.62	20,681.02
2010	51,635.44	18,615.20
2011	53,787.41	16,463.64
2012	56,029.01	14,221.63
2013-2017	317,178.74	34,074.20
Total Requirements	\$ 575,786.66	\$ 126,719.89

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 65,696.16
2009	65,696.16
2010	<u>65,696.16</u>
Total Minimum Lease Payments	<u>\$ 197,088.48</u>

Rental expense for all operating leases during the year was \$71,553.26.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 1,389,157.87</u>	<u>\$ 450,380.95</u>	<u>\$ 938,776.92</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 829,851.57	\$ 286,294.47	\$ 543,557.10
Vending	21,052.56		21,052.56
Other	4,361.19		4,361.19
Sales and Service of Education and Related Activities	<u>41,950.80</u>		<u>41,950.80</u>
Total Sales and Services	<u>\$ 897,216.12</u>	<u>\$ 286,294.47</u>	<u>\$ 610,921.65</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,770,407.91	\$ 550,182.71	\$ 378,311.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,698,901.95
Research	57,638.08	11,793.23	91,412.26				160,843.57
Public Service	1,049.72		1,814.06				2,863.78
Academic Support	1,199,056.23	93,162.78	32,006.04				1,324,225.05
Student Services	574,299.09	20,228.51	95,583.99				690,111.59
Institutional Support	1,752,496.84	92,015.23	294,289.88				2,138,801.95
Operations and Maintenance of Plant	853,269.36	379,208.32	392,631.87		412,573.37		2,037,682.92
Student Financial Aid	47,272.91	71,358.97	18,407.22	1,006,682.00			1,143,721.10
Auxiliary Enterprises	181,984.28	690,998.59	36,748.13				909,731.00
Depreciation						666,259.13	666,259.13
Total Operating Expenses	\$ 10,437,474.42	\$ 1,908,948.34	\$ 1,341,204.78	\$ 1,006,682.00	\$ 412,573.37	\$ 666,259.13	\$ 15,773,142.04

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$8,851,192.75, of which \$7,324,705.54 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$439,482.55 and \$194,837.17, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$194,837.17, \$153,713.77, and \$130,743.73, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$21,762.00 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$105,723.00 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$24,520.00 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$278,338.81. 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*.
- B. Disability Income -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$38,088.47. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$75,000 deductible. Losses for employees paid from county and institutional funds are covered under a blanket policy for employee dishonesty and fraud with a private insurance company with coverage of \$3,000,000 per occurrence and a \$10,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

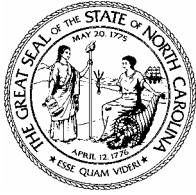
Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 13 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 22,440,087.74
Restatements:	
Correction of an Error Related to the Estimated Useful Lives of Capital Assets	3,349,392.39
Correction of an Understatement of Cash in Prior Year	<u>1,302.37</u>
July 1, 2006, Net Assets as Restated	<u>\$ 25,790,782.50</u>

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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 the financial statements of Carteret Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 24, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Carteret Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 24, 2008

ORDERING INFORMATION

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