



STATE OF NORTH CAROLINA

CARTERET COMMUNITY COLLEGE

MOREHEAD CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

CARTERET COMMUNITY COLLEGE

MOREHEAD CITY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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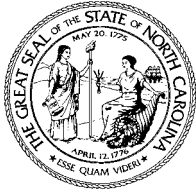
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2008, 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 disclosed a certain deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Carteret Community College
Morehead City, North Carolina

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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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, are 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 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.

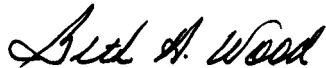
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Carteret Community College and its discretely presented component unit as of June 30, 2008, and the respective 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.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2009, 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 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.



Beth A. Wood, CPA
State Auditor

April 9, 2009

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 years ended June 30, 2008 and June 30, 2007. Since Management's Discussion and Analysis is designed to focus on current activities, resulting change 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 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 non-financial facts such as enrollment levels and the condition of facilities.

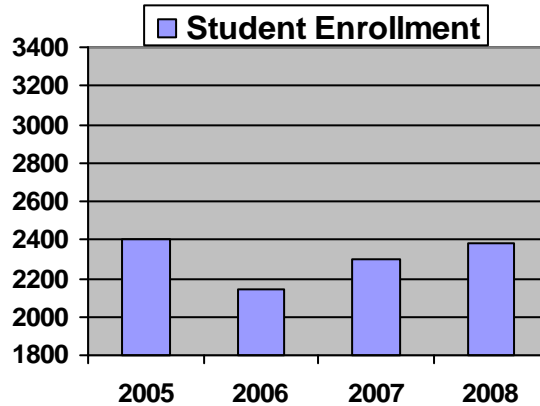
The Statement of Revenues, Expenses, and Changes in Net Assets spotlights both the gross costs and the net costs of College activities, which are supported mainly by State, local, federal, and other revenues. This statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. 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 non-operating 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 during academic year 2005 was 2,401. In 2006, enrollment dropped to 2,146, but increased again to 2,302 students during academic year 2007. For 2008, student enrollment rose by 3% to 2,378 students.



The overall operating expenses of the College during fiscal year 2008 increased by 4.89% due in large part to the addition of personnel and a 5% pay increase for all employees. The College also continued year two of a Federal Title III grant that is being utilized to increase the College's student retention rate and institutional effectiveness, as well as, aid the College in preparing for its Southern Association of Colleges and Schools re-accreditation.

During the month of June 2008, the College experienced a cash certification cut from the North Carolina Community College System which resulted in the loss of approximately \$80,000 of requested funding due to unrealized tax revenue estimates. This action resulted in the College having increased due to vendor payables at the end of fiscal year 2008.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2008, the College's total net assets increased by 5.07% to \$26.7 million. The majority of the increase in total net assets stems from the construction of a new maintenance facility, as well as additional renovation projects across campus. The College's total assets before liabilities equal \$27.5 million and consist of 93% capital assets, 3% cash, equivalents, and investments; and 4% receivables. Total liabilities of \$1.5 million consist of 20% accounts due to vendors, 6% unearned revenue, 34% notes payable, and 40% accrued vacation and bonus leave for personnel.

Current assets increased by 0.14% or approximately \$1,790. Receivables from the State also increased by 75.34% due to two new Golden Leaf grants awarded to the College that total \$144 thousand. Overall cash and cash equivalents decreased by 56% as a result of increased salary expenses paid from institutional funds of \$31 thousand, higher receivables due from

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State and county governments of \$40 thousand, and technology improvements around campus costing an additional \$42 thousand. Construction expenditures of \$49 thousand and outstanding grant reimbursements of \$101 thousand also added to the reduction in cash. Nondepreciable capital assets increased by 35.37% due to the addition of construction work in process during the year. Current liabilities rose by 28.63% overall, with a 46.79% increase in accounts payable and a 12.74% rise in the current portion of long-term liabilities. The increase in accounts payable is a result of higher accrual amounts due to vendors, while the expansion in the current portion of long-term liabilities is directly related to additional accruals for employee vacation leave. Unrestricted net assets decreased by approximately \$79 thousand. This decrease resulted primarily from net changes in the funds for donations to instructors, overhead receipts, and curriculum self-supporting tuition. Restricted net assets decreased 16.46% or approximately \$183 thousand overall due to completion of capital projects across campus.

	<i>(in thousands)</i>			Percent Change
	June 30, 2008	June 30, 2007	Increase	
Assets				
Current Assets	\$ 1,316.94	\$ 1,315.14	\$ 1.80	0.14 %
Noncurrent Assets				
Capital Assets, Net of Depreciation	25,603.29	24,818.13	785.16	3.16 %
Other	629.12	759.11	(129.99)	(17.12) %
Total Assets	<u>27,549.35</u>	<u>26,892.38</u>	<u>656.97</u>	
Liabilities				
Current Liabilities	518.27	402.93	115.34	28.63 %
Noncurrent Liabilities	1,028.71	1,057.58	(28.87)	(2.73) %
Total Liabilities	<u>1,546.98</u>	<u>1,460.51</u>	<u>86.47</u>	
Net Assets				
Investment in Capital Assets, Net of Related Debt	25,075.09	24,242.34	832.75	3.44 %
Unrestricted	(0.39)	79.02	(79.41)	(100.49) %
Restricted	927.67	1,110.51	(182.84)	(16.46) %
Total Net Assets	<u>\$ 26,002.37</u>	<u>\$ 25,431.87</u>	<u>\$ 570.50</u>	

Analysis of Net Capital Assets

The classifications of the College's capital assets as of June 30, 2008, 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. Construction in process represents the majority of change amongst the capital assets. The large swell in this category corresponds to the building of a new maintenance facility and other remodeling projects performed throughout the year across the College campus. A restatement of \$71 thousand for construction expenses not capitalized in 2007 is also included in this category. The land category was increased by \$112 thousand thanks to donated land given to the College by Carteret Community College Foundation, Inc. Purchases and disposals account for the difference shown in the machinery and equipment category.

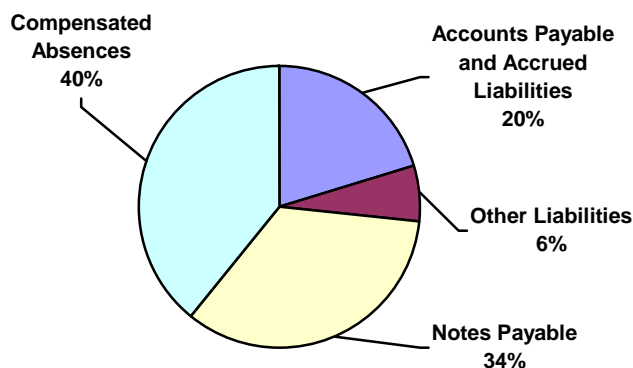
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<i>(in thousands)</i>			
	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent Change
Capital Assets				
Land	\$ 3,116.85	\$ 3,004.60	\$ 112.25	3.74 %
Buildings	18,587.10	18,587.10		
Construction in Progress	1,071.24	89.12	982.12	1102.02 %
Machinery and Equipment	2,757.81	2,508.78	249.03	9.93 %
General Infrastructure	5,109.75	5,109.75		
Total	30,642.75	29,299.35	1,343.40	
Less: Accumulated Depreciation	5,039.46	4,481.22	558.24	12.46 %
Net Capital Assets	\$ 25,603.29	\$ 24,818.13	\$ 785.16	

Analysis of Liabilities

The graph below represents the composition of the total liabilities for the College of \$1.54 million. Current liabilities consisting of accounts payable, unearned revenue, and the current portions of notes payable and compensated absences, increased by 28.63% and total \$518 thousand. The increase in current liabilities is attributed to an increase in accruals due to vendors for purchases and services, as well as, increased accruals for employee vacation leave. Long-term liabilities consist of payments for notes payable and compensated absences outside of a year time frame. Long-term liabilities remained relatively stable with a decrease of 2.73% or \$29 thousand 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 \$528 thousand due as of June 30, 2008. This note payable is scheduled to continue through the year 2017 with an interest rate of 4.09% on the principal balance.

Total Liabilities



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Revenues

Total operating revenues for the College increased by \$651 thousand or 16.05 % for fiscal year 2008. State and local grant revenues increased by 9.22% from the previous year as the College began receiving NC State Lottery funds during the year for student scholarships. Similarly, federal grants and contracts increased by \$295 thousand or 14.99% due to increased funding from the Title III grant adding \$181 thousand, and elevated Pell grant awards which increased this item by \$115 thousand. In addition, tuition and fees net of discounts increased by 27.28%. This improvement stems mainly from Disney Conference revenues consisting of \$43 thousand and a rise in tuition receipts of \$213 thousand. The tuition receipt increase resulted from fewer discounts to tuition recorded which increased tuition revenues. Net sales and services increased by \$54 thousand or 8.84% due to increased sales at the Campus Bookstore, as well as, slight increases in patron fees for College programs. Nonoperating revenues increased by 4.99% overall from the previous year. State and county appropriations which increased by 5.05% and 6.59%, respectively, contributed to this improvement. Noncapital grants and gifts declined by 19.03% due to a drop in donations to instructors through Carteret Community College Foundation, Inc., completion of the Kate B. Reynolds Nursing Grant and a reduction of federal pass through dollars awarded to the College during the year. State capital aid received decreased by \$474 thousand. This is due to the completion of capital projects funded by the 2000 Higher Education Bonds. County capital aid increased by \$898 thousand due to the special appropriations received from Carteret County for various capital projects.

	<i>(in thousands)</i>			
	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	\$ 1,194.86	\$ 938.78	\$ 256.08	27.28 %
Federal Grants and Contracts	2,263.19	1,968.12	295.07	14.99 %
State and Local Grants and Contracts	561.71	514.28	47.43	9.22 %
Sales and Services	664.91	610.92	53.99	8.84 %
Other Operating Revenue	22.05	23.64	(1.59)	(6.73) %
Total Operating Revenues	4,706.72	4,055.74	650.98	16.05 %
Less Operating Expenses	16,470.27	15,701.98	768.29	4.89 %
Operating Loss	(11,763.55)	(11,646.24)	(117.31)	
Nonoperating Revenues (Expenses):				
State Aid	8,234.26	7,838.79	395.47	5.05 %
County Appropriations	1,992.78	1,869.50	123.28	6.59 %
Noncapital Grants and Gifts	343.62	424.39	(80.77)	(19.03) %
Other Nonoperating Revenues (Expenses)	7.47	(57.18)	64.65	(113.06) %
Total Nonoperating Revenues	10,578.13	10,075.50	502.63	
State Capital Aid	525.02	999.46	(474.44)	(47.47) %
County Capital Aid	1,109.17	211.37	897.80	424.75 %
Other Capital Aid	121.73	1.00	120.73	12,073.00 %
Increase (Decrease) in Net Assets	\$ 570.50	\$ (358.91)	\$ 929.41	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Operating Expenditures

Total operating expenditures for fiscal 2008 increased by a modest 4.89% or approximately \$768 thousand. The areas of personal services, supplies and materials, and scholarships and fellowships account for the increased expenses during the year. Personal services increased by \$792 thousand or 7.59% due to the addition of new personnel, a 5% pay increase, a 2% salary bonus, and a bonus funded through the receipt of a performance funding allocation. Supplies and materials increased by \$106 thousand or 5.78%, due to repair of the student center elevator and increase in instructional supplies expenses. Scholarship and fellowship expenses increased by \$117 thousand or 11.63% as more of the student body qualified for Pell grants and NC State Lottery funds for assistance with their educational expenses. The College experienced decreases in all other operating expenditures from the previous year.

	<i>(in thousands)</i>			Percent Change
	June 30, 2008	June 30, 2007	Increase (Decrease)	
Personal Services	\$ 11,229.92	\$ 10,437.47	\$ 792.45	7.59 %
Supplies and Materials	1,944.10	1,837.79	106.31	5.78 %
Services	1,205.02	1,341.21	(136.19)	(10.15) %
Scholarships and Fellowships	1,123.73	1,006.68	117.05	11.63 %
Utilities	382.71	412.57	(29.86)	(7.24) %
Depreciation	584.79	666.26	(81.47)	(12.23) %
Total Operating Expenditures	\$ 16,470.27	\$ 15,701.98	\$ 768.29	

Summary

In 2007, Carteret Community College expanded its record of excellence by providing education, job training and life enrichment opportunities for the people of Carteret County. During the past year, the College has been taking advantage of a Title III grant in improving its distance learning program and the College continues monitoring the needs of the community to ensure that its programs and services are relevant to those needs and to ensure that we meet the needs of our citizens in the future.

The average age of Carteret County's population is increasing and this phenomenon is creating a need for skilled Allied Health professionals. During the summer of 2007, the College graduated its first class of new nurses with an associate degree in nursing. Many of them joined Carteret General Hospital as new registered nurses.

The number of second home owners is also growing in the county, and the area has become a popular destination for tourists who visit the beaches of the Crystal Coast. These temporary visitors are creating a demand for upscale restaurants and other hospitality services required in a leisure economy. The College's culinary technology program enrolled 98 culinary students and graduated 14 new culinary workers during 2007. All of these graduates who wanted jobs found employment. The culinary program continues to have a full enrollment and it has recently added a hotel and restaurant management program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

With millions of dollars of new construction in the works across Carteret County, the College will begin renovating space in 2008 to provide training in construction technologies. The College recently completed a renovation and expansion of the welding area. It also conducts heating, ventilation and air conditioning (HVAC) training as well. Carteret County is providing an additional \$1.7 million dollars in capital funding to assist with this effort over the coming year. Plans also include adding courses in plumbing, electrical and general construction.

As a member of the Marine Science and Education Partnership (MSEP), Carteret Community College continues 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, 2008

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 185,169.59
Restricted Cash and Cash Equivalents	19,103.16
Short-Term Investments	252,922.94
Restricted Short-Term Investments	366,810.60
Receivables, Net (Note 3)	258,524.22
Due from State of North Carolina Component Units	24,000.00
Inventories	152,560.22
Prepaid Items	55,210.43
Notes Receivable, Net (Note 3)	<u>2,640.87</u>
Total Current Assets	<u>1,316,942.03</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	19,524.03
Receivables (Note 3)	40,223.49
Restricted Due from Primary Government	449,370.27
Due from State of North Carolina Component Units	120,000.00
Capital Assets - Nondepreciable (Note 4)	4,188,078.51
Capital Assets - Depreciable, Net (Note 4)	<u>21,415,207.77</u>
Total Noncurrent Assets	<u>26,232,404.07</u>
Total Assets	<u>27,549,346.10</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	314,645.83
Unearned Revenue	89,898.16
Funds Held for Others	7,740.92
Long-Term Liabilities - Current Portion (Note 6)	<u>105,981.99</u>
Total Current Liabilities	<u>518,266.90</u>
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	<u>1,028,711.61</u>
Total Liabilities	<u>1,546,978.51</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	25,075,086.06
Restricted for:	
Expendable:	
Scholarships and Fellowships	30,226.87
Loans	133,867.90
Capital Projects	633,138.06
Restricted for Specific Programs	88,455.72
Other	41,982.17
Unrestricted	<u>(389.19)</u>
Total Net Assets	<u>\$ 26,002,367.59</u>

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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,194,862.08
Federal Grants and Contracts	2,263,189.03
State and Local Grants and Contracts	561,714.09
Sales and Services, Net (Note 8)	664,910.42
Other Operating Revenues	22,048.98
	<hr/>
Total Operating Revenues	4,706,724.60
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	11,229,925.04
Supplies and Materials	1,944,101.13
Services	1,205,016.35
Scholarships and Fellowships	1,123,728.89
Utilities	382,712.42
Depreciation	584,789.68
	<hr/>
Total Operating Expenses	16,470,273.51
	<hr/>
Operating Loss	(11,763,548.91)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	8,234,261.05
County Appropriations	1,992,784.92
Noncapital Grants	156,435.27
Noncapital Gifts	187,184.65
Investment Income	27,267.59
Interest and Fees on Debt	(22,664.20)
Other Nonoperating Revenues	2,859.28
	<hr/>
Net Nonoperating Revenues	10,578,128.56
	<hr/>

Loss Before Other Revenues	(1,185,420.35)
	<hr/>

State Capital Aid	525,022.86
County Capital Aid	1,109,165.15
Capital Grants	9,483.41
Capital Gifts	112,245.00
	<hr/>
Increase in Net Assets	570,496.07
	<hr/>

NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 15)	25,431,871.52
	<hr/>
Net Assets, June 30, 2008	\$ 26,002,367.59
	<hr/> <hr/>

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, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,718,662.28
Payments to Employees and Fringe Benefits	(11,197,416.01)
Payments to Vendors and Suppliers	(3,506,858.49)
Payments for Scholarships and Fellowships	(1,123,728.89)
Other Receipts	6,480.06
	<hr/>
Net Cash Used by Operating Activities	(11,102,861.05)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,234,261.05
County Appropriations	1,992,784.92
Noncapital Grants Received	38,357.68
Noncapital Gifts Received	187,184.65
Federal Family Education Loans Received	397,220.33
Federal Family Education Loans Disbursed	(396,185.79)
	<hr/>
Cash Provided by Noncapital Financing Activities	10,453,622.84

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	615,884.64
County Capital Aid	1,068,941.66
Capital Grants Received	9,483.41
Acquisition and Construction of Capital Assets	(1,257,703.28)
Principal Paid on Capital Debt and Leases	(47,586.44)
Interest Paid on Capital Debt and Leases	(22,664.20)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	366,355.79

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	27,267.59
Purchase of Investments and Related Fees	(25,651.66)
	<hr/>
Net Cash Provided by Investing Activities	1,615.93

Net Decrease in Cash and Cash Equivalents	(281,266.49)
Cash and Cash Equivalents, July 1, 2007	505,063.27
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 223,796.78

Carteret Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

Page 2

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

Operating Loss	\$ (11,763,548.91)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	584,789.68
Provision for Uncollectible Loans and Write-Offs	(158.88)
Miscellaneous Nonoperating Income	2,859.28
Changes in Assets and Liabilities:	
Receivables, Net	12,869.82
Inventories	(34,970.14)
Prepaid Items	(37,726.14)
Accounts Payable and Accrued Liabilities	100,294.91
Unearned Revenue	(251.48)
Funds Held for Others	2,278.34
Compensated Absences	30,702.47
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (11,102,861.05)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 185,169.59
Restricted Cash and Cash Equivalents	19,103.16
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	19,524.03
	<hr/>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 223,796.78</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 112,245.00
Increase in Receivables Related to Nonoperating Income	158,301.08
Capital Asset Write-Offs	26,548.90

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, 2008

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 146,772
Unconditional Promises to Give	112,149
Donated Boat Inventory	<u>189,546</u>

Total Current Assets 448,467

Property and Equipment, Net 999,805

Total Property and Equipment, Net 999,805

Other Assets:

Other Assets	2,600
Investments	<u>1,303,779</u>

Total Other Assets 1,306,379

Total Assets \$ 2,754,651

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 2,290
Accrued Expenses	1,807
Current Portion of Long-Term Debt	<u>22,454</u>

Total Current Liabilities 26,551

Long-Term Liabilities:

Notes Payable, Net of Current Portion 501,069

501,069

Total Liabilities 527,620

NET ASSETS

Unrestricted	1,041,335
Temporarily Restricted	238,293
Permanently Restricted	<u>947,403</u>

Total Net Assets 2,227,031

Total Liabilities and Net Assets \$ 2,754,651

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, 2008***

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support:	
Cash Donations	\$ 7,330
Community and Internal Fund Drives	3,480
Noncash Donations	34,166
Boat Contributions, Net of Gains or Losses	308,430
Special Program Revenues	23,413
Total Support	<u>376,819</u>
Other Revenues:	
Real Estate Rental Income	58,800
Investment Loss	(51,590)
Loss on Disposal of Assets	(717)
Miscellaneous Income	1,244
Total Other Revenues	<u>7,737</u>
Total Net Assets Released from Restrictions	<u>267,454</u>
Total Support and Revenues	<u>652,010</u>
Expenses:	
Program Services:	
College Support	201,466
Scholarships	152,464
Total Program Services	<u>353,930</u>
Supporting Services:	
Property Management	57,009
Foundation Administration	63,829
Boat Program Expenses	103,721
Fund Raising Expenses	28,391
Total Supporting Services	<u>252,950</u>
Total Expenses	<u>606,880</u>
Increase in Unrestricted Net Assets	45,130
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Miscellaneous Donations	56,631
Scholarship Donations	156,116
Net Assets Released from Restrictions	(267,454)
Decrease in Temporarily Restricted Net Assets	<u>(54,707)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Endowment Fund Contributions	<u>177,254</u>
Increase in Permanently Restricted Net Assets	<u>177,254</u>
Increase in Net Assets	167,677
Net Assets at Beginning of Year	<u>2,059,354</u>
Net Assets at End of Year	<u>\$ 2,227,031</u>

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

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CARTERET COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and 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 – 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the Foundation distributed \$407,863.50 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Christine Trigleth, 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, 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** - 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 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 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 at year end are 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Revenues, Expenses, and Changes in Net Assets. 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 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 \$7,632.50, and deposits in private financial institutions with a carrying value of \$216,164.28, and a bank balance of \$386,569.54.

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, 2008, 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, 2008, the College's investments consisted of \$619,733.54 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 had a maturity of less than six months at June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, North Carolina Capital Management Trust carried a credit rating of AAA by Standard and Poor's.

Component Unit - Investments of the College's discretely presented component unit, Carteret Community College Foundation, Inc., is 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	\$ 5,635
Equity Stocks	1,101,254
Fixed Income	196,890
Total Investments	\$ 1,303,779

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	\$ 7,632.50
Carrying Amount of Deposits with Private Financial Institutions	216,164.28
Investments in the North Carolina Capital Management Trust	619,733.54
Total Deposits and Investments	\$ 843,530.32
Current:	
Cash and Cash Equivalents	\$ 185,169.59
Restricted Cash and Cash Equivalents	19,103.16
Short-Term Investments	252,922.94
Restricted Short-Term Investments	366,810.60
Noncurrent:	
Restricted Cash and Cash Equivalents	19,524.03
Total	\$ 843,530.32

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 179,676.51	\$ 96,998.07	\$ 82,678.44
Accounts	31,778.06		31,778.06
Intergovernmental	33,136.80		33,136.80
Other	110,930.92		110,930.92
Total Current Receivables	\$ 355,522.29	\$ 96,998.07	\$ 258,524.22
Noncurrent Receivables:			
Intergovernmental	\$ 40,223.49	\$ 0.00	\$ 40,223.49
Notes Receivable:			
Institutional Student Loan Programs	\$ 90,786.80	\$ 88,145.93	\$ 2,640.87

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 3,004,590.91	\$ 112,245.00	\$ 0.00	\$ 3,116,835.91
Construction in Progress	89,115.76	982,126.84		1,071,242.60
Total Capital Assets, Nondepreciable	3,093,706.67	1,094,371.84		4,188,078.51
Capital Assets, Depreciable:				
Buildings	18,587,101.13			18,587,101.13
Machinery and Equipment	2,508,784.97	275,576.44	26,548.90	2,757,812.51
General Infrastructure	5,109,754.59			5,109,754.59
Total Capital Assets, Depreciable	26,205,640.69	275,576.44	26,548.90	26,454,668.23
Less Accumulated Depreciation:				
Buildings	2,695,934.17	310,569.24		3,006,503.41
Machinery and Equipment	1,158,912.60	172,505.68	26,548.90	1,304,869.38
General Infrastructure	626,372.91	101,714.76		728,087.67
Total Accumulated Depreciation	4,481,219.68	584,789.68	26,548.90	5,039,460.46
Total Capital Assets, Depreciable, Net	21,724,421.01	(309,213.24)		21,415,207.77
Capital Assets, Net	\$ 24,818,127.68	\$ 785,158.60	\$ 0.00	\$ 25,603,286.28

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 291,207.76
Accrued Payroll	<u>23,438.07</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 314,645.83</u></u>

NOTE 6 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
Notes Payable	\$ 575,786.66	\$ 0.00	\$ 47,586.44	\$ 528,200.22	\$ 49,569.62
Compensated Absences	<u>575,790.91</u>	<u>443,439.22</u>	<u>412,736.75</u>	<u>606,493.38</u>	<u>56,412.37</u>
Total Long-Term Liabilities	<u>\$ 1,151,577.57</u>	<u>\$ 443,439.22</u>	<u>\$ 460,323.19</u>	<u>\$ 1,134,693.60</u>	<u>\$ 105,981.99</u>

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

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through 06/30/2008</u>	<u>Principal Outstanding 06/30/2008</u>
Energy Performance Contract	BB&T	4.09	06/14/2017	<u>\$ 665,324.17</u>	<u>\$ 137,123.95</u>	<u>\$ 528,200.22</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2008 are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
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	58,364.05	11,886.64
2014-2017	<u>258,814.69</u>	<u>22,187.00</u>
Total Requirements	<u>\$ 528,200.22</u>	<u>\$ 104,055.13</u>

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, 2008:

Fiscal Year	<u>Amount</u>
2009	\$ 58,800.00
2010	58,800.00
2011	58,800.00
2012	<u>58,800.00</u>
Total Minimum Lease Payments	<u>\$ 235,200.00</u>

Rental expense for all operating leases during the year was \$70,494.08.

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>\$ 1,733,102.96</u>	<u>\$ 538,240.88</u>	<u>\$ 1,194,862.08</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 925,417.60	\$ 331,576.40	\$ 593,841.20
Vending	19,934.91		19,934.91
Other	6,326.04		6,326.04
Sales and Services of Education and Related Activities	<u>44,808.27</u>		<u>44,808.27</u>
Total Sales and Services	<u>\$ 996,486.82</u>	<u>\$ 331,576.40</u>	<u>\$ 664,910.42</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	\$ 6,181,084.73	\$ 564,343.11	\$ 270,201.67	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,015,629.51
Research	5,901.79	20.45	4,120.00				10,042.24
Public Service			1,638.60				1,638.60
Academic Support	1,243,962.83	125,750.90	76,358.08				1,446,071.81
Student Services	732,733.18	35,558.83	78,841.39				847,133.40
Institutional Support	1,920,612.51	96,126.57	308,409.58				2,325,148.66
Operations and Maintenance of Plant	913,606.03	319,650.93	410,146.76		382,712.42		2,026,116.14
Student Financial Aid		99,312.69	17,851.59	1,123,728.89			1,240,893.17
Auxiliary Enterprises	232,023.97	703,337.65	37,448.68				972,810.30
Depreciation						584,789.68	584,789.68
Total Operating Expenses	<u>\$ 11,229,925.04</u>	<u>\$ 1,944,101.13</u>	<u>\$ 1,205,016.35</u>	<u>\$ 1,123,728.89</u>	<u>\$ 382,712.42</u>	<u>\$ 584,789.68</u>	<u>\$ 16,470,273.51</u>

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$10,191,777.77, of which \$7,814,440.98 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$238,340.45 and \$468,866.62, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$238,340.45, \$194,837.17, and \$153,713.77, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> 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 \$42,599.00 for the year ended June 30, 2008.

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 \$126,950.00 for the year ended June 30, 2008.

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 \$27,520.00 for the year ended June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, 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 Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$320,392.08, \$278,338.81, and \$249,620.65, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<http://www.ncosc.net/> and clicking on “Financial Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$40,635.09, \$38,088.47, and \$34,158.62, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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.

Tort claims of up to \$1,000,000 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the 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 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$881,722.80. There were no significant commitments on other purchases at June 30, 2008.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

GASB Statement No. 50, Pension Disclosures.

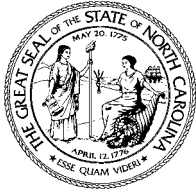
GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 25,360,707.02
Restatement:	
Correction of an Error Related to the Capitalization of Prior Year Construction Expenses	<u>71,164.50</u>
July 1, 2007 Net Assets as Restated	<u>\$ 25,431,871.52</u>



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 9, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 opinion 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.

**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 (CONTINUED)**

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 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. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

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 the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

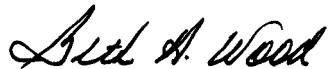
Compliance and Other Matters

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*.

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

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, 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.



Beth A. Wood, CPA
State Auditor

April 9, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Carteret Community College contained a number of misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

- The College began participation in the Family Federal Education Loan program, also known as Stafford loans. Because the loans are made by outside lenders (the institutions have certain administrative requirements for new loans), the loan transactions should not be reflected on the statement of revenues, expenses, and changes in net assets. The College erroneously reported federal grant revenue and scholarship and fellowship expense related to the loan program of \$397,220.33 and \$396,185.79, respectively.
- The College did not record a liability for contracts payable in the amount of \$54,194.55. In addition to understating the liability, this caused capital assets to be understated by \$36,232.03 and supplies and materials to be understated by \$17,962.52.
- The College did not properly record a restatement for prior year construction costs and incorrectly capitalized expenses which caused supplies and materials to be understated by \$71,164.50.
- The College did not properly record the county capital appropriations received from the county's financing package for construction and renovations. This caused county capital appropriations to be overstated by \$719,404.51 and receivables to be overstated by the same amount.

Recommendation: The College should place greater emphasis on year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

Response: The Vice President of Administrative Services and the Controller are implementing additional checks and adding review steps to the College's financial statement preparation processes that will prevent the identified errors from reoccurring in the College's future presentation of financial statements.

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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