STATE OF NORTH CAROLINA

CRAVEN COMMUNITY COLLEGE

NEW BERN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

Craven Community College

New Bern, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, Craven Community College

We have completed a financial statement audit of Craven Community College for the year ended June 30, 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 certain deficiencies that are 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.

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Craven Community College
New Bern, North Carolina

We have audited the accompanying basic financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craven Community College as of June 30, 2008, and the changes in its financial position and its cash flows 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 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

Beth A. Wood, CPA
State Auditor

May 20, 2009

Overview of the Financial Statements and Financial Analysis

Craven Community College (hereinafter referred to as the "College") provides the following Management's Discussion and Analysis as an overview of the financial activities for the fiscal year ended June 30, 2008. Comparative data for the year ended June 30, 2007 is also included. Information contained herein has been prepared for the purpose of identifying significant transactions, trends and events that have impacted the fiscal health of the College and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the related financial statements and notes to the financial statements.

The Financial Statements

The financial statements of the College include:

- Statement of Net Assets
- Statement of Revenues, Expenses, and Changes in Net Assets
- Statement of Cash Flows

These statements were prepared in accordance with Governmental Accounting Standards Board (GASB) principles and reflect an economic resource measurement focus and the accrual basis of accounting. Management's discussion and analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, using condensed versions for the purposes of this discussion.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the College at June 30, 2008, defined by the balances of assets, liabilities and assets net of liabilities. Assets are classified as current or noncurrent and cash is further identified as unrestricted or restricted. Current assets include those resources available to meet current obligations and operating requirements while noncurrent assets are to be held to meet future needs. Capital assets are shown net of depreciation. Assets, net of liabilities, are grouped into three categories: investment in capital assets, restricted net assets, and unrestricted net assets. Restricted net assets are further classified as nonexpendable or expendable. Endowments and other funds comprise the nonexpendable net assets and expendable net assets are made up primarily of contracts, grants, and restricted gifts.

Condensed Statement of Net Assets

	June 30, 2008	June 30, 2007	Increase (Decrease)	Change
Assets				
Current Assets	$ 2,677,762.73	$ 2,828,271.77	$ (150,509.04)	-5%
Noncurrent Capital Assets, Net of Accumulated Depreciation	34,202,391.02	27,283,331.21	6,919,059.81	25%
Other Noncurrent Assets	5,783,668.96	10,774,445.83	(4,990,776.87)	-46%
Total Assets	42,663,822.71	40,886,048.81	1,777,773.90	4%
Liabilities				
Current Liabilities	1,516,243.07	921,354.87	594,888.20	65%
Noncurrent Liabilities	577,166.00	533,471.76	43,694.24	8%
Total Liabilities	2,093,409.07	1,454,826.63	638,582.44	44%
Net Assets				
Investment in Capital Assets	34,202,391.02	27,283,331.21	6,919,059.81	25%
Restricted	6,233,637.63	11,902,307.44	(5,668,669.81)	-48%
Unrestricted	134,384.99	245,583.53	(111,198.54)	-45%
Total Net Assets	$ 40,570,413.64	$ 39,431,222.18	$ 1,139,191.46	3%

Some highlights of the College's Statement of Net Assets are listed below:

- Noncurrent assets increased by $1,928,282.94. Construction projects funded by State grants were nearing completion at June 30, 2008, resulting in a decrease in the receivable from the State of $4,775,030.07. The decrease in the receivable from the State was offset by an increase in noncurrent capital assets net of depreciation in the amount of $6,919,059.81.

- Current liabilities increased by $594,888.20, primarily due to an increase in construction related payable at June 30, 2008.

- Net assets invested in capital assets increased $6,919,059.81 resulting from an increase of $7,896,666.27 in construction in progress as two projects, the Information and Technology Building and the Bosch and Siemens Advanced Manufacturing Center, neared completion at June 30, 2008. Restricted net assets decreased by $5,668,669.81, primarily due to the decrease in the amount due from the State for bond-funded projects.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets reports the activity of the College during the year and is subdivided into four major components: operating revenues, operating expenses, nonoperating revenues, and other revenues. Revenues are reported by major source and expenses are reported by natural classification. Intradepartmental sales, services, and transfers are eliminated and depreciation of capital assets is recorded.

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

	June 30, 2008	Restated June 30, 2007	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, Net	$ 2,240,044.55	$ 1,989,626.48	$ 250,418.07
Federal Grants and Contract	2,703,185.03	2,613,803.80	89,381.23
State and Local Grants	573,874.83	321,654.51	252,220.32
Other Operating Revenues	375,250.10	335,864.56	39,385.54
Total Operating Revenues	5,892,354.51	5,260,949.35	631,405.16
Operating Expenses			
Personal Services	15,494,774.56	14,730,445.03	764,329.53
Supplies and Materials	2,204,690.91	2,098,925.27	105,765.64
Services	2,855,727.13	2,915,181.51	(59,454.38)
Scholarships and Fellowships	2,475,581.88	2,233,169.08	242,412.80
Utilities	753,052.94	742,033.39	11,019.55
Depreciation	1,371,550.07	1,275,333.66	96,216.41
Operating Expenses	25,155,377.49	23,995,087.94	1,160,289.55
Operating Loss	(19,263,022.98)	(18,734,138.59)	(528,884.39)
Nonoperating Revenues			
State Aid	12,032,330.69	11,735,530.47	296,800.22
County Appropriations	2,985,130.00	2,870,227.00	114,903.00
Other Nonoperating Revenues	2,061,690.19	2,185,309.03	(123,618.84)
Net Nonoperating Revenues	17,079,150.88	16,791,066.50	288,084.38
Loss Before Other Revenues	(2,183,872.10)	(1,943,072.09)	(240,800.01)
Other Revenues			
State Capital Aid	1,023,851.41	11,351,389.72	(10,327,538.31)
County Capital Appropriations	2,075,000.00	75,000.00	2,000,000.00
Other Capital Revenues	224,212.15	549,586.58	(325,374.43)
Total Increase in Net Assets	1,139,191.46	10,032,904.21	(8,893,712.75)
Net Assets - Beginning of the Year	39,431,222.18	29,398,317.97	10,032,904.21
Net Assets - End of the Year	$ 40,570,413.64	$ 39,431,222.18	$ 1,139,191.46

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an increase in the net assets and revenues at year end. Some of the highlights are as follows:

- Operating revenues increased by $631,405.16. An increase in enrollment growth in curriculum and continuing education for the 2008 fiscal year was the primary cause of the increase. This enrollment growth is reflected in the increase in student tuition and fees, net and federal grants and revenues income. The College also received several new grants in 2008 such as the Baccalaureate Degree grant, Minority Male Mentoring grant, Technology grant, and the Career Readiness grant that attributed to the increase in State and local grants.

- Nonoperating revenues increased by $288,084.38. The College received an increase in State and county appropriations of $411,703.22 to cover operating budget increases and to fund new programs. Also, investment income decreased by $223,233.72 as the market experienced a year of decreases in stock values.

- The decrease in other revenues of $8,652,912.74 was largely due to a $10,550.398.58 decrease in allotments from the States 2000 construction bond referendum. The county appropriated $2,000,000.00 during the year for the Information and Technology building.

The College presents expenses by natural classification in the Statement of Revenues, Expenses, and Changes in Net Assets. Personal services accounted for 61.6% of operating expenses, followed by services at 11.4%, scholarships and fellowships at 9.8%, supplies and materials at 8.8%, depreciation at 5.4%, and utility costs at 3.0%.

The increase in operating costs of $1,160,289.55 is attributed primarily to increases in payroll charges and expenses for supplies and materials and scholarships and fellowships. Payroll expenses increased by $764,329.53 as a result of a 5% pay raise granted by the State legislature. Supplies and materials increased by $105,765.64 due to purchases made in anticipation of the opening of the two new buildings and the increase in scholarships and fellowships of $242,412.80 was due to the increase of $129,545.00 in North Carolina Education Lottery Scholarship awards and the increase of $99,000.00 in Bates Foundation Scholarship awards.

Capital Assets

The following schedule compares capital assets for the fiscal years 2008 and 2007, net of accumulated depreciation.

	June 30, 2008	June 30, 2007	Increase (Decrease)	Percent Change
Land	$ 596,500.00	$ 596,500.00	$ 0.00	0.00%
Construction in Progress	11,578,387.11	3,681,720.84	7,896,666.27	214.48%
Buildings	15,223,226.47	15,774,215.71	(550,989.24)	-3.49%
Machinery and Equipment	5,344,112.37	5,732,866.14	(388,753.77)	-6.78%
Infrastructure	1,460,165.07	1,498,028.52	(37,863.45)	-2.53%
Total Capital Assets, Net	$ 34,202,391.02	$ 27,283,331.21	$ 6,919,059.81	

Construction in progress represents the Bosch & Siemens Advanced Manufacturing Center, the Information and Technology Building and the new parking lot nearing completion. As of June 30, 2008, the College had commitments of $404,390.00 for ongoing construction projects. The Legislature in the 2005-2006 budget approved $7,400,000.00 for construction of the Bosch & Siemens Advanced Manufacturing Center of which $5,904,866.86 has been spent.

Economic Forecast

The New Bern Area Chamber of Commerce reports that the New Bern/Craven County area is experiencing steady growth in population, education, and economic development. The decade 1990-2000 saw a population growth of 12% for Craven County. By 2010 the area is projected to have more than 100,000 residents (US Census Bureau reports an estimated population of 91,754 in 2003). The fastest growing segment of the population is the relocation/early retirement age group (55+). The mild climate, excellent health care and affordable lifestyle in the area make it an attractive destination for many retirees, who add immeasurably to the area's available experienced workforce. Because of the well-trained workforce, a growing population with increased buying power, affordable cost of living and doing business, available resources and technology, and an overall favorable environment, the New Bern/Craven County area is inviting to new businesses.

The area is experiencing growth, that is evident by projects such as the shopping center at Carolina Colours off of Hwy. 70 East with the Harris Teeter as the anchor store (developers anticipate the store opening in 2010), the Sand Ridge Harbor Marina on 88 acres just north of Bridgeton (developers anticipate 130 residential units and a deep-water marina with about 250 boat slips, and RiverShore opposite Duck Creek in Bridgeton (plans call for 44 house lots, a marina, walking trails and a common area near a 5-acre manmade lake over 70 acres), and many other projects. In August 2006 New Bern City Manager Bill Hartman gave a conservative estimate for growth in the area for the next 10 to 15 years. His estimate of 22,000 additional people living in the area equates to 9,000 additional sewer connections for the city. He also included in his estimates 500 to 700 lots being developed every year. Although the housing industry has seen downward trends over the last few years, Craven County and its surrounding areas continue to experience growth in this area. The recent completion of a Guy C. Lee Lumber and Supply Company off of Hwy. 17 S. near River Bend and Norandex Building Components off Hwy. 70 East are evidence of this area's continued housing industry growth.

Additional new military-related personnel, estimated to be about 11,477 people, are expected to arrive at Cherry Point, Camp Lejeune and New River Air Station. As of May 2008 the growth estimate was revised to 78,000, up from the originally projected 61,000 people, and the arrival time moved up to 2009. The Military Growth Task Force estimates that the impact of growth on Craven County will be 25 percent.

Major industries in the area include Naval Aviation Depot (NADEP) at Cherry Point, Moen, Inc., BSH Home Appliances, Hatteras Yachts, and Weyerhaeuser Company. Major employers enjoy the support and job training provided by the College's industry training and workforce continuing education programs. The College secured funding for the Bosch and Siemens Advanced Manufacturing Center. In August of 2008 the College dedicated the Bosch and Siemens Advanced Manufacturing Center, a 30,000 square foot building that includes classrooms and labs to be used to train people for computer-integrated manufacturing, automation, metal-forming, plastics and design jobs as well as provide facilities for the Early College initiative (the initial class of 50 students which started in fall of 2005 are currently housed in temporary trailers) and provide facilities for local industry to utilize for training.

Craven Community College monitors the changes in technology and economy and strives to meet the needs of our growing community. To meet industry needs, the College has completed the building expansion to house the new technology necessary for the machining technology program. The aviation systems technology program, which graduated its first class of students in 2006, continues to be a strong program. This program will provide a skilled workforce for NADEP which employs approximately 4,133 people as well as area airports. The College is now focused on selecting and implementing additional health care programs (such as the Health Information Technology program which is slated to start in spring 2009) to meet the ever-growing demands of the area.

The College continues to foster its University Connections initiative as well as other partnerships with sister schools, business and industry. The University Connections initiative allows students to complete their associate's degree with the College and then after being accepted to East Carolina University or North Carolina State University continue their studies towards a bachelor's degree without leaving Craven County.

With emphases on community engagement and economic development, Craven Community College actively collaborates with a variety of other organizations working to achieve broad-based economic development. Overall, the economic forecast for the region and Craven Community College appears positive.

Craven Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	280,403.55
Restricted Cash and Cash Equivalents		1,726,666.52
Receivables, Net (Note 4)		479,748.39
Due from State of North Carolina Component Units		50,000.00
Inventories		137,702.62
Notes Receivable, Net (Note 4)		3,241.65
Total Current Assets		2,677,762.73
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		363,482.56
Receivables (Note 4)		165,000.00
Restricted Due from Primary Government		3,909,290.24
Endowment Investments		1,344,720.01
Other Long-Term Investments		1,176.15
Capital Assets - Nondepreciable (Note 5)		12,174,887.11
Capital Assets - Depreciable, Net (Note 5)		22,027,503.91
Total Noncurrent Assets		39,986,059.98
Total Assets		42,663,822.71
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,056,223.57
Unearned Revenue		333,923.13
Funds Held for Others		51,431.77
Long-Term Liabilities - Current Portion (Note 7)		74,664.60
Total Current Liabilities		1,516,243.07
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		577,166.00
Total Liabilities		2,093,409.07
NET ASSETS		
Invested in Capital Assets	$	34,202,391.02
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,239,116.20
Other		40,418.76
Expendable:		
Scholarships and Fellowships		393,122.36
Loans		43,661.59
Capital Projects		3,986,725.34
Restricted for Public Radio East		421,673.76
Other		108,919.62
Unrestricted		134,384.99
	$	40,570,413.64

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

Craven Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,240,044.55
Federal Grants and Contracts		2,703,185.03
State and Local Grants and Contracts		573,874.83
Sales and Services		201,789.31
Other Operating Revenues		173,460.79
Total Operating Revenues		5,892,354.51
EXPENSES		
Operating Expenses:		
Personal Services		15,494,774.56
Supplies and Materials		2,204,690.91
Services		2,855,727.13
Scholarships and Fellowships		2,475,581.88
Utilities		753,052.94
Depreciation		1,371,550.07
Total Operating Expenses		25,155,377.49
Operating Loss		(19,263,022.98)
NONOPERATING REVENUES		
State Aid		12,032,330.69
County Appropriations		2,985,130.00
Noncapital Grants		1,129,309.05
Noncapital Gifts		819,119.78
Investment Income, Net		70,886.18
Other Nonoperating Revenues		42,375.18
Net Nonoperating Revenues		17,079,150.88
Loss Before Other Revenues		(2,183,872.10)
State Capital Aid		1,023,851.41
County Capital Appropriations		2,075,000.00
Capital Grants		179,212.15
Capital Gifts		45,000.00
Increase in Net Assets		1,139,191.46
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 15)		39,431,222.18
Net Assets, June 30, 2008	$	40,570,413.64

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

Craven Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,782,121.90
Payments to Employees and Fringe Benefits	(15,312,310.19)
Payments to Vendors and Suppliers	(5,714,914.74)
Payments for Scholarships and Fellowships	(2,478,703.86)
Loans Issued to Students	(16,373.42)
Collection of Loans to Students	12,155.77
Other Receipts	17,982.99
Net Cash Used by Operating Activities	(17,710,041.55)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,032,330.69
County Appropriations	2,985,130.00
Noncapital Grants Received	1,054,969.41
Noncapital Gifts Received	809,761.61
Cash Provided by Noncapital Financing Activities	16,882,191.71
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	5,798,881.48
County Capital Aid	2,075,000.00
Capital Grants Received	36,154.15
Proceeds from Sale of Capital Assets	42,375.18
Acquisition and Construction of Capital Assets	(7,875,223.78)
Net Cash Provided by Capital and Related Financing Activities	77,187.03
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	868,827.89
Investment Income	193,183.70
Purchase of Investments and Related Fees	(908,473.01)
Net Cash Provided by Investing Activities	153,538.58
Net Decrease in Cash and Cash Equivalents	(597,124.23)
Cash and Cash Equivalents, July 1, 2007	2,967,676.86
Cash and Cash Equivalents, June 30, 2008	$ 2,370,552.63

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(19,263,022.98)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,371,550.07
Provision for Uncollectible Loans and Write-Offs		1,424.34
Changes in Assets and Liabilities:		
Receivables, Net		(115,588.52)
Inventories		32,216.85
Notes Receivable, Net		(4,217.65)
Accounts Payable and Accrued Liabilities		239,667.30
Unearned Revenue		2,233.93
Funds Held for Others		17,982.99
Compensated Absences		7,712.12
Net Cash Used by Operating Activities	$	(17,710,041.55)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	280,403.55
Restricted Cash and Cash Equivalents		1,726,666.52
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		363,482.56
Total Cash and Cash Equivalents - June 30, 2008	$	2,370,552.63

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	555,879.68
Assets Acquired through a Gift		45,000.00
Change in Fair Value of Investments		(122,297.52)
Increase in Receivables Related to Nonoperating Income		227,355.81
Capital Asset Write-Offs		110,903.20

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The College's component units are blended in the financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College.

Blended Component Units - Although legally separate, the Craven Community College Foundation, Inc. and the Public Radio East Foundation are reported as if they were part of the College. The Craven Community College Foundation, Inc. is governed by a 29-member board consisting of three ex officio directors and 26 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Public Radio East Foundation is governed by a 21-member board consisting of all elected directors. The Foundation's purpose is to perform the functions of and to carry out the purposes of Public Radio East, a public radio station that is operated as part of Craven Community College. Because the elected directors of both Foundations are appointed by the members of the Craven Community College Board of Trustees and the Foundations' sole purpose is to benefit Craven Community College, their financial statements have been blended with those of the College.

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

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, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease in the fair value of investments is recognized as a component of investment income.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market value using the last invoice 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 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

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

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities includes compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave. 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 - This represents the College's total investment in capital assets.

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

Restricted Net 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 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 by the College.

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 $1,650.00, and deposits in private financial institutions with a carrying value of $36,703.02, and a bank balance of $401,217.68.

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 - In addition to donated securities 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 amount shown on the Statement of Net Assets as cash and cash equivalents includes $2,332,199.61, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Investments of the College's component unit, the Craven 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. At June 30, 2008 all investments were held by the Craven Community College Foundation, Inc.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the Foundation's investments. Interest rate risk is defined by

GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not have a formal investment policy that addresses interest rate risk.

Investments

		Fair Value
Investment Type		
Mutual Funds	$	1,344,720.01
Other		1,176.15
Total Investments	$	1,345,896.16

Credit Risk: The Foundation's investment policy states that the investment quality of bonds, with the exception of high yield portion of the asset allocation (if held), is to be investment grade with ratings of at least "Baa" by a recognized rating service, such as Moody's or the equivalent. Common stocks and convertible securities in investments must be traded on U.S. security exchanges or publicly available in the U.S. over-the-counter market. Speculative securities are not appropriate investments in the portfolio. As of June 30, 2008, the Foundation's investments were unrated.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation does not have a formal policy for custodial credit risk.

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

Cash on Hand	$	1,650.00
Carrying Amount of Deposits with Private Financial Institutions		36,703.02
Investments in the Short Term Investment Fund		2,332,199.61
Other Investments		1,345,896.16
Total Deposits and Investments	$	3,716,448.79
Current:		
Cash and Cash Equivalents	$	280,403.55
Restricted Cash and Cash Equivalents		1,726,666.52
Noncurrent:		
Restricted Cash and Cash Equivalents		363,482.56
Endowment Investments		1,344,720.01
Other Long-Term Investments		1,176.15
Total	$	3,716,448.79

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are both separately invested and pooled. The College has endowment assets that are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – current on the accompanying financial statements. The remainder of the endowment funds is separately invested with Branch Banking & Trust Company. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to 6% of the endowment principal's market value. Under this policy, the prior year spending percentage is increased by the inflation rate to determine the current year spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2008, net appreciation of $182,034.46 was available to be spent, all of which was restricted for specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 69,922.38	$ 6,655.17	$ 63,267.21
Accounts	153,877.16	3,931.39	149,945.77
Intergovernmental	190,047.86		190,047.86
Pledges	84,796.24	17,154.46	67,641.78
Other	8,845.77		8,845.77
Total Current Receivables	$ 507,489.41	$ 27,741.02	$ 479,748.39
Noncurrent Receivables:			
Intergovernmental	$ 165,000.00	$ 0.00	$ 165,000.00
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 4,659.65	$ 1,418.00	$ 3,241.65

NOTE 5 - 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	$ 596,500.00	$ 0.00	$ 0.00	$ 596,500.00
Construction in Progress	3,681,720.84	7,896,666.27		11,578,387.11
Total Capital Assets, Nondepreciable	4,278,220.84	7,896,666.27		12,174,887.11
Capital Assets, Depreciable:				
Buildings	22,279,296.18			22,279,296.18
Machinery and Equipment	8,186,689.93	351,782.76	350,978.32	8,187,494.37
General Infrastructure	1,955,884.91	42,160.85	8,528.00	1,989,517.76
Total Capital Assets, Depreciable	32,421,871.02	393,943.61	359,506.32	32,456,308.31
Less Accumulated Depreciation:				
Buildings	6,505,080.47	550,989.24		7,056,069.71
Machinery and Equipment	2,453,823.79	740,536.53	350,978.32	2,843,382.00
General Infrastructure	457,856.39	80,024.30	8,528.00	529,352.69
Total Accumulated Depreciation	9,416,760.65	1,371,550.07	359,506.32	10,428,804.40
Total Capital Assets, Depreciable, Net	23,005,110.37	(977,606.46)		22,027,503.91
Capital Assets, Net	$ 27,283,331.21	$ 6,919,059.81	$ 0.00	$ 34,202,391.02

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 226,975.75
Accrued Payroll	272,768.14
Contract Retainage	555,879.68
Intergovernmental Payables	600.00
Total Accounts Payable and Accrued Liabilities	$ 1,056,223.57

NOTE 7 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 644,118.48	$ 432,172.71	$ 424,460.59	$ 651,830.60	$ 74,664.60

NOTE 8 - REVENUES

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

	Gross Revenues	Scholarship Discounts	Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 3,188,433.17	$ 942,213.75	$ 6,174.87	$ 2,240,044.55

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	$ 8,608,457.04	$ 1,208,036.52	$ 1,007,190.72	$ 0.00	$ 0.00	$ 0.00	$ 10,823,684.28
Public Service	715,223.67	89,741.51	506,880.27		46,864.89		1,358,710.34
Academic Support	1,771,977.05	86,007.90	102,871.37				1,960,856.32
Student Services	1,266,422.07	19,826.56	42,066.84				1,328,315.47
Institutional Support	2,213,219.91	329,697.01	802,568.86	45,817.56			3,391,303.34
Operations and Maintenance of Plant	919,474.82	471,381.41	383,014.47		706,188.05		2,480,058.75
Student Financial Aid			11,134.60	2,429,764.32			2,440,898.92
Depreciation						1,371,550.07	1,371,550.07
Total Operating Expenses	$ 15,494,774.56	$ 2,204,690.91	$ 2,855,727.13	$ 2,475,581.88	$ 753,052.94	$ 1,371,550.07	$ 25,155,377.49

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 $12,991,003.13, of which $10,188,018.53 was covered under the

Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $310,734.57 and $611,271.81, 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 $310,734.57, $262,851.41, and $202,826.01, 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 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 $34,385.72 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 $185,075.00 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 $31,120.00 for the year ended June 30, 2008.

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 $417,708.76, $375,502.02, and $329,375.58, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.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 $52,977.70, $51,384.49, and $45,072.45, 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.

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

Liability insurance for 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 private insurance policy.

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.

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

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.

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. Outstanding commitments on construction contracts were $404,390.00 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

	Amount
July 1, 2007 Net Assets as Previously Reported	$ 40,097,058.16
Restatement:	
To Correct Beginning Construction in Progress for Projects Capitalized in Error	(665,835.98)
July 1, 2007 Net Assets as Restated	$ 39,431,222.18

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Trustees
Craven Community College
New Bern, North Carolina

We have audited the financial statements of Craven Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, and have issued our report thereon dated May 20, 2009.

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.

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.

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

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)

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.

<u>Compliance and Other Matters</u>

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.*

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

Beth A. Wood, CPA
State Auditor

May 20, 2009

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 the 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 did not properly disclose the amount of cash available to meet current obligations. As a result current restricted cash was understated in the amount of $608,282.45 and noncurrent cash was overstated by the same amount.
- The College did not properly disclose its net asset balances. As a result unrestricted net assets were overstated in the amount $1,232,345.64, restricted nonexpendable were understated in the amount of $468,311.72 and restricted expendable were understated in the amount of $764,033.92.
- The College improperly capitalized repair expense as construction in progress in prior years. As a result beginning construction in progress was overstated in the amount of $665,835.98 and net assets were overstated by the same amount.

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

College's Response: The College recognizes that the repair expense was improperly capitalized as construction in progress and has implemented a process to eliminate future misstatments of this nature.

All other areas of concern that have been brought to the College's attention will be addressed to ensure proper handling of the year-end financial statement reporting process.

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