STATE OF NORTH CAROLINA

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, 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

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, Coastal Carolina Community College

We have completed a financial statement audit of Coastal Carolina 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the accompanying basic financial statements of Coastal Carolina 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 did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., the College's blended component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Coastal Carolina Community College Foundation, Inc. were 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 opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Carolina Community College and its blended component unit 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 15 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 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

May 29, 2009

Introduction

This section of Coastal Carolina Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2008, with comparative data for the fiscal year ended 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 to the financial statements. 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 are recognized when earned, and expenses are recognized when an obligation has been incurred. 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 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 indicators of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels and the condition of facilities.

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

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

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

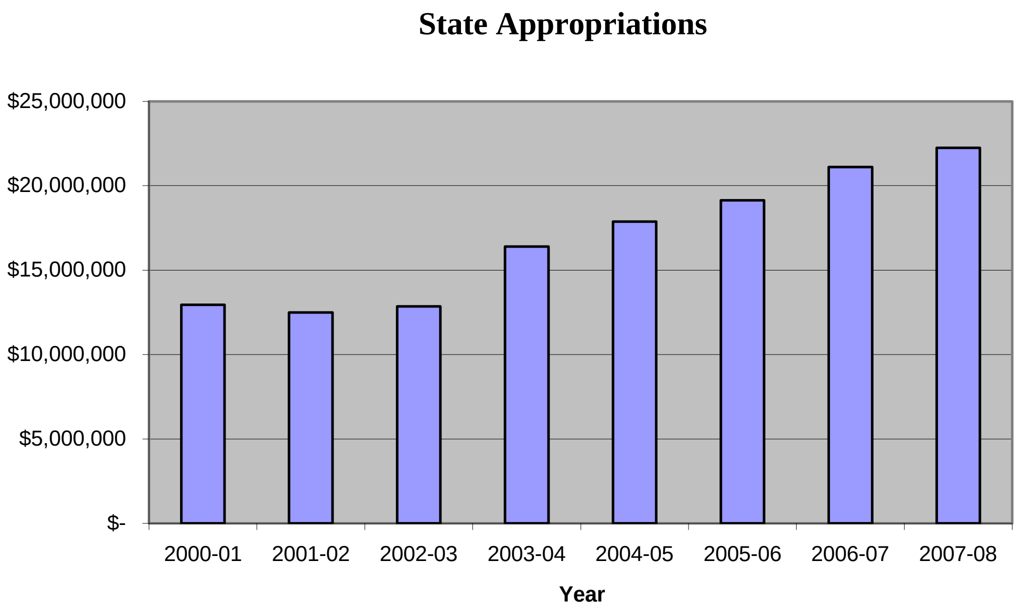
Financial Highlights

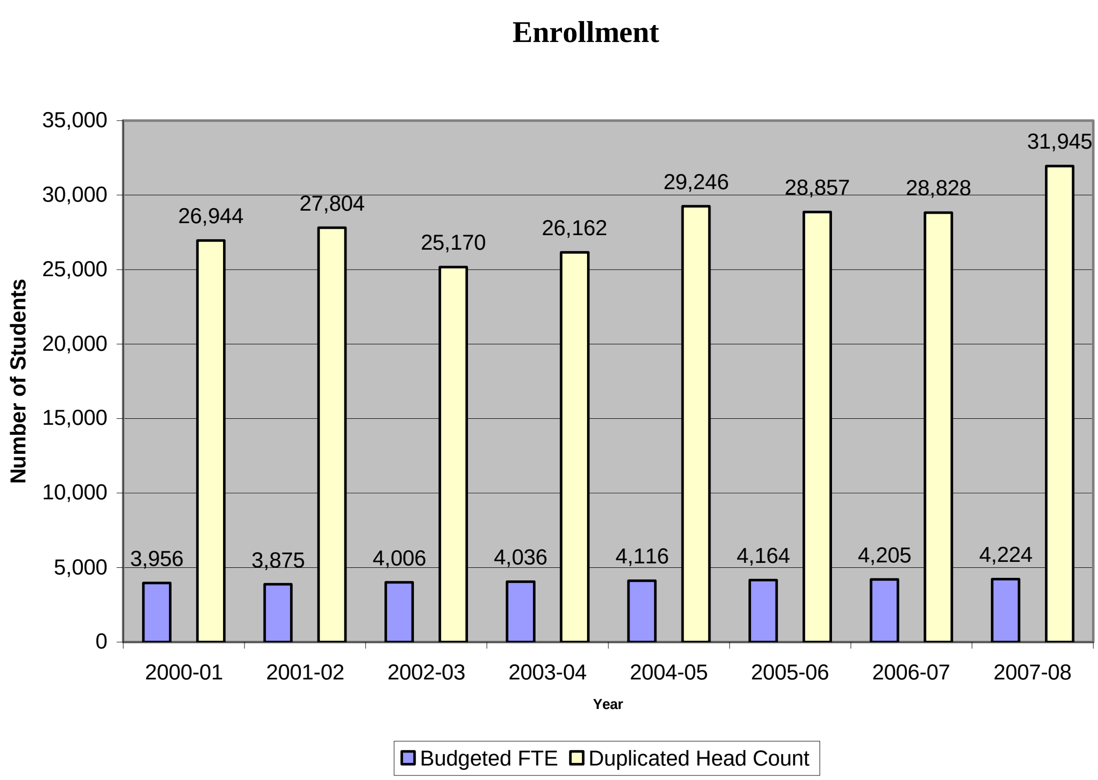
Our fourth construction project to be funded with state bond funds was approved this year for covered walkways/fascia repair. Bond funds approved for this project were $3,500,000.00. During the fiscal year ending June 30, 2008, a total of $130,621.85 was expended for design fees for this project.

In response to a special provision of the NC General Assembly, the State Board of Community Colleges approved, in 1999, twelve performance measures and standards to enhance accountability in North Carolina community colleges. Each college is required to annually publish its performance ratings on these twelve measures. For the first time in 5 years, Coastal Carolina Community College did not meet all of the measures, meeting only ten of the twelve. As a result, we earned partial performance funding in the amount of $184,804 that was appropriated through our State appropriations.

In addition to the funding we receive from the State based on a full-time equivalent (FTE) formula, we receive funding from Onslow County for the maintenance of buildings and infrastructure.

The College continues to grow by budget increases, campus expansion, and student enrollment. The value of the FTE also increased, thereby increasing the overall state formula allocation for this fiscal year.


State Appropriations
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$-
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
Year


Enrollment
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
Number of Students
3,956
26,944
3,875
27,804
4,006
25,170
4,036
26,162
4,116
29,246
4,164
28,857
4,205
28,828
4,224
31,945
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
Year
Budgeted FTE
Duplicated Head Count

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2008, the College's current and noncurrent assets have decreased .60% from last fiscal year. The College Foundation's expendable scholarships increased by $59,000.00 due to total scholarship endowment earnings being in excess of current year scholarships and student aid payments.

Condensed Statement of Net Assets

	June 30, 2008	June 30, 2007 (as restated)	Increase/ (Decrease)	Percent Change
Current Assets:	$ 5,992,372.08	$ 5,672,576.87	$ 319,795.21	5.64%
Noncurrent Assets				
Capital Assets, Net of Depreciation	24,861,397.67	25,490,591.24	(629,193.57)	-2.47%
Other	6,591,137.18	6,508,074.06	83,063.12	1.28%
Total Assets	37,444,906.93	37,671,242.17	(226,335.24)	-0.60%
Current Liabilities:	977,215.06	1,109,768.99	(132,553.93)	-11.94%
Noncurrent Liabilities	411,362.49	378,499.12	32,863.37	8.68%
Total Liabilities	1,388,577.55	1,488,268.11	(99,690.56)	-6.70%
Net Assets:				
Investment in Capital Assets	24,861,397.67	25,490,591.24	(629,193.57)	-2.47%
Restricted for				
Nonexpendable:				
Scholarships and Fellowships	2,438,623.41	2,260,885.53	177,737.88	7.86%
Expendable:				
Capital Projects	4,222,650.67	4,291,568.24	(68,917.57)	-1.61%
Scholarships and Fellowships	158,735.21	99,127.21	59,608.00	60.13%
Other	199,402.51	335,922.56	(136,520.05)	-40.64%
Restricted for Specific Programs	169,244.79		169,244.79	
Unrestricted	4,006,275.12	3,704,879.28	301,395.84	8.14%
Total Net Assets	$ 36,056,329.38	$ 36,182,974.06	$ (126,644.68)	-0.35%

Analysis of Liabilities

The College had no significant change in overall liabilities.

	June 30, 2008	June 30, 2007 (as restated)	Increase (Decrease)	Percent Change
Current Liabilities	$ 886,705.11	$ 1,032,364.45	$ (145,659.34)	-14.11%
Long-Term Liabilities - Current Portion	90,509.95	77,404.54	13,105.41	16.93%
Total Current Liabilities	977,215.06	1,109,768.99	(132,553.93)	-11.94%
Noncurrent Long-Term Liabilities	411,362.49	378,499.12	32,863.37	8.68%
Total Liabilities	$ 1,388,577.55	$ 1,488,268.11	$ (99,690.56)	-6.70%

Analysis of Net Capital Assets

This schedule defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. There were no significant changes in capital assets this fiscal year. The year consisted of normal purchases and deletions of equipment, and only minor changes in construction in progress. In the previous period, the College had mistakenly recorded an asset to general infrastructure, when it was in fact a component to a building. A reevaluation of useful lives for fully depreciated assets was calculated this fiscal year. This resulted in a restatement of beginning accumulated depreciation in the amount of $535,038.17. Capital assets were also restated for a building that was occupied in the 2007 fiscal year but was originally reported in the Construction in Progress caption.

	June 30, 2008	June 30, 2007 (as restated)	Increase (Decrease)	Percent Change
Capital Assets				
Land	$ 823,349.75	$ 823,349.75	$ 0.00	0.00%
Buildings	27,724,130.29	27,685,746.24	38,384.05	0.14%
Machinery and Equipment	2,504,574.76	2,538,161.77	(33,587.01)	-1.32%
Infrastructure	7,622,342.59	7,622,342.59	0.00	
Construction in Progress	138,183.30	403.95	137,779.35	34108.02%
Total	38,812,580.69	38,670,004.30	142,576.39	0.37%
Less: Accumulated Depreciation	(13,951,183.02)	(13,179,413.05)	771,769.97	5.86%
Net Capital Assets	$ 24,861,397.67	$ 25,490,591.25	$ (629,193.58)	-2.47%

Analysis of Revenues

The College experienced a 14% overall decrease in revenues from the prior fiscal year. The increase in scholarship discounts by $491,592 related to sales and services and other revenues over the prior fiscal year, accounts for the majority of the substantial decrease in our sales and service and other revenues of $589,000. Generally, the scholarship discount is financial aid from institutional resources and amounts received from government grants applied to satisfy student tuition and fees revenue. Also, certain other revenues from College charges are considered a component in the calculation of the scholarship discount. In determining the cause for the increase in the scholarship discount amount, we note that the College had an increase of funds received for financial aid this year of $354,000.00 of which a portion was applied to the student's account. In addition, the College issued $606,000.00 less in refund checks and therefore, more funds were applied to the students account before refunding their remaining financial aid award. These increases and decreases have caused an expected increase in the scholarship discounts. The federal grants and contracts increase was due mostly to an increase in Pell of $112,000.00 and an increase in the Academic Competitiveness Grant of $29,000.00. We have various state funded grant projects which include Department of Social Services, Educating the Workforce, Prodigy, Military Business Center, Facility Master Plan, Homeland Security, Behavioral Healthcare Services, and Base Realignment and Closure. Overall, these grants had an increase of approximately $75,000.00. Student aid received from state sources increased substantially by $229,000.00. The analysis of expenses is noted in a separate section. State capital aid is a direct reflection of the revenues from the bond proceeds of construction projects, and also includes capital equipment purchases. Last fiscal year the College had over $6.3 million for construction projects and equipment and this year we had over $1 million of funding for equipment. This substantial difference is attributed to the large amount of construction funds spent last fiscal year on various construction projects totaling $4,542,169.41 as well as $1,766,320.58 in equipment purchases. We also incurred a loss on disposal of equipment in the amount of $6,952.10, due to disposal of equipment before it had reached its estimated useful life.

	June 30, 2008	June 30, 2007 (as restated)	Increase (Decrease)	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	$ 3,761,250.11	$ 3,753,925.94	$ 7,324.17	0.20%
Federal Grants and Contracts	3,898,196.77	3,780,828.26	117,368.51	3.10%
State and Local Grants and Contracts	826,110.92	520,955.02	305,155.90	58.58%
Sales and Services and Other, Net	2,066,815.24	2,656,316.24	(589,501.00)	-22.19%
Total Operating Revenues	10,552,373.04	10,712,025.46	(159,652.42)	-1.49%
Less Operating Expenses	31,709,128.01	31,983,429.66	(274,301.65)	-0.86%
Operating Loss	(21,156,754.97)	(21,271,404.20)	(114,649.23)	0.54%
Nonoperating Revenues:				
State Aid	16,306,311.60	15,940,689.29	365,622.31	2.29%
County Appropriations	3,035,147.20	2,337,052.00	698,095.20	29.87%
Noncapital Gifts and Grants	368,461.60	454,243.09	(85,781.49)	-18.88%
Investment Income (Loss)	(129,431.92)	376,245.96	(505,677.88)	-134.40%
Other Nonoperating Expenses	(6,952.09)	(25,998.31)	19,046.22	-73.26%
Net Nonoperating Revenues	19,573,536.39	19,082,232.03	491,304.36	2.57%
Other Revenues:				
State Capital Aid	1,022,235.50	6,308,489.99	(5,286,254.49)	-83.80%
County Capital Aid	158,083.80	317,948.00	(159,864.20)	-50.28%
Capital Grants	125,385.60	128,270.19	(2,884.59)	-2.25%
Additions to Endowments	150,869.00	125,241.00	25,628.00	20.46%
Total Nonoperating Revenues	21,030,110.29	25,962,181.21	(4,932,070.92)	-19.00%
Increase (Decrease) in Net Assets	$ (126,644.68)	$ 4,690,777.01	$ (4,817,421.69)	-102.70%

Analysis of Expenses

The College experienced a .86% overall decrease in operating expenses from the prior fiscal year. Typically, personal services comprise the largest category of expenses and it increased 4.51%. This category includes salary and benefit expenses, retirement contributions, and employer tax amounts. Our employees received a 5% annual raise and a one-time 2% bonus was also awarded to professional staff, faculty, and executive management. For fiscal year 2007-2008, the total North Carolina's pension, employee insurance, and post employment rates were set at 7.83% as compared to the previous year of 7.14%. Supplies and materials decreased by 12.79% this year due to large supply and material expenses last fiscal year associated with furnishing and occupying the new building.

Scholarships and fellowships expense show a decrease of 17%. This decrease was caused by a substantial increase of $960,000.00 in the allowance for scholarship discounts. Generally, the scholarship discount is financial aid from institutional resources and amounts received from government grants applied to satisfy student tuition and fees revenue. Also, certain other revenues from College charges are considered a component in the calculation of the scholarship discount. The College encountered an increase in funds received for financial aid this year of $354,000.00. In addition, the College issued $606,000.00 less in refund checks to students, which would cause an increase in the scholarship discounts as well since only amounts actually refunded to students should be recorded as a scholarship and fellowship expense and not a scholarship discount. These two factors represent the $960,000.00 difference. The 2007 expenses were restated to show depreciation expense for the Math and Science Technology Building that was occupied during the 2007 year. This building had been incorrectly shown as construction in progress and no depreciation expense had been recorded.

	June 30, 2008	June 30, 2007 (as restated)	Increase (Decrease)	Percent Change
Personal Services	$ 20,576,813.01	$ 19,688,145.67	$ 888,667.34	4.51%
Supplies and Materials	4,421,887.08	5,070,654.59	(648,767.51)	-12.79%
Services	2,185,359.25	2,287,395.66	(102,036.41)	-4.46%
Scholarships and Fellowships	2,844,676.56	3,427,399.09	(582,722.53)	-17.00%
Utilitites	691,732.93	639,439.20	52,293.73	8.18%
Depreciation	988,659.18	870,395.45	118,263.73	13.59%
Total Operating Expenses	$ 31,709,128.01	$ 31,983,429.66	$ (274,301.65)	-0.86%

Economic Forecast

For the 2008-2009 fiscal year, approximately 55% of the College's total revenue is funded by the State of North Carolina and approximately 10% is funded by Onslow County. As a result of the economic downturn, a 3% budget reversion to the State is anticipated and the possibility of a County budget reversion is expected before the end of the fiscal year. In addition, the College has been notified that carry-over funds for equipment and library books should not be expected for the next fiscal year, a potential loss of more than $1.4 million in revenue.

Although there is a slight decline in Occupational Extension enrollment, the College has experienced over an 8% growth in both Curriculum and Basic Skills full time equivalent (FTE) enrollments. Such growth could be attributed to a higher demand for education as a result of a weakened economy, increased class offerings due to the addition of the Math and Science Technology Building, and a substantial increase in the availability of on-line courses.

With less than promising budget projections for the next fiscal year, the challenge will be meeting the obvious demands of the service area with less than adequate revenue. Although not desirable, a number of solutions may need to be implemented including but not limited to increased workloads, enrollment caps, and/or a reduction in force.

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances, and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

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

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 3,684,271.17
Restricted Cash and Cash Equivalents	320,247.59
Short-Term Investments	659,309.00
Restricted Short-Term Investments	392,293.00
Receivables, Net (Note 4)	331,393.95
Inventories	522,205.45
Prepaid Items	80,818.92
Notes Receivable (Note 4)	1,833.00
Total Current Assets	5,992,372.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	102,117.43
Restricted Due from Primary Government	3,982,354.75
Endowment Investments	2,416,615.00
Other Long-Term Investments	51,800.00
Notes Receivable (Note 4)	38,250.00
Capital Assets - Nondepreciable (Note 5)	961,533.05
Capital Assets - Depreciable, Net (Note 5)	23,899,864.62
Total Noncurrent Assets	31,452,534.85
Total Assets	37,444,906.93
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	663,185.15
Unearned Revenue	193,370.41
Funds Held for Others	30,149.55
Long-Term Liabilities - Current Portion (Note 7)	90,509.95
Total Current Liabilities	977,215.06
Noncurrent Liabilities:	
Funds Held for Others	48,642.91
Long-Term Liabilities (Note 7)	362,719.58
Total Noncurrent Liabilities	411,362.49
Total Liabilities	1,388,577.55

NET ASSETS

Invested in Capital Assets	24,861,397.67
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,438,623.41
Expendable:	
Scholarships and Fellowships	158,735.21
Capital Projects	4,222,650.67
Restricted for Specific Programs	169,244.79
Other	199,402.51
Unrestricted	4,006,275.12
Total Net Assets	$ 36,056,329.38

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

Coastal Carolina 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 9)	$ 3,761,250.11
Federal Grants and Contracts	3,898,196.77
State and Local Grants and Contracts	826,110.92
Sales and Services, Net (Note 9)	2,044,438.95
Other Operating Revenues	22,376.29
Total Operating Revenues	10,552,373.04
EXPENSES	
Operating Expenses:	
Personal Services	20,576,813.01
Supplies and Materials	4,421,887.08
Services	2,185,359.25
Scholarships and Fellowships	2,844,676.56
Utilities	691,732.93
Depreciation	988,659.18
Total Operating Expenses	31,709,128.01
Operating Loss	(21,156,754.97)
NONOPERATING REVENUES (EXPENSES)	
State Aid	16,306,311.60
County Appropriations	3,035,147.20
Noncapital Grants	178,094.71
Noncapital Gifts	190,366.89
Investment Loss	(129,431.92)
Other Nonoperating Expenses	(6,952.09)
Net Nonoperating Revenues	19,573,536.39
Loss Before Other Revenues	(1,583,218.58)
State Capital Aid	1,022,235.50
County Capital Aid	158,083.80
Capital Grants	125,385.60
Additions to Endowments	150,869.00
Increase in Net Assets	(126,644.68)
NET ASSETS	
Net Assets, July 1, 2007, as Restated (Note 16)	36,182,974.06
Net Assets, June 30, 2008	$ 36,056,329.38

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

Coastal Carolina 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	$ 10,801,339.37
Payments to Employees and Fringe Benefits	(20,656,333.93)
Payments to Vendors and Suppliers	(7,713,660.52)
Payments for Scholarships and Fellowships	(2,643,433.56)
Collection of Loans to Students	1,717.00
Other Receipts	22,376.29
Net Cash Used by Operating Activities	(20,187,995.35)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	16,306,311.60
County Appropriations	3,035,147.20
Noncapital Grants Received	178,094.71
Noncapital Gifts	190,366.89
Endowments Received	150,869.00
Cash Provided by Noncapital Financing Activities	19,860,789.40
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,158,275.95
County Capital Appropriations	158,083.80
Capital Grants Received	125,385.60
Acquisition and Construction of Capital Assets	(366,417.70)
Net Cash Provided by Capital and Related Financing Activities	1,075,327.65
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments and Related Fees	(219,335.00)
Proceeds from Sales and Maturities of Investments	35,322.00
Investment Income	318,130.00
Net Cash Provided by Investing Activities	134,117.00
Net Increase in Cash and Cash Equivalents	882,238.70
Cash and Cash Equivalents, July 1, 2007	3,224,397.49
Cash and Cash Equivalents, June 30, 2008	$ 4,106,636.19

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (21,156,754.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	988,659.18
Miscellaneous Nonoperating Income	80,286.08
Changes in Assets and Liabilities:	
Receivables, Net	83,607.12
Inventories	(108,663.10)
Prepaid Items	(77,156.10)
Notes Receivable, Net	1,717.00
Accounts Payable and Accrued Liabilities	(47,727.76)
Unearned Revenue	7,148.88
Funds Held for Others	44,054.45
Compensated Absences	(3,166.13)
Net Cash Used by Operating Activities	$ (20,187,995.35)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 3,684,271.17
Restricted Cash and Cash Equivalents	320,247.59
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	102,117.43
Total Cash and Cash Equivalents - June 30, 2008	$ 4,106,636.19

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Decrease in Fair Value of Investments	$ 433,563.08
Loss on Disposal of Capital Assets	6,952.10

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

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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. Coastal Carolina Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Blended Component Unit - Although legally separate, Coastal Carolina Community College Foundation, Inc. (Foundation) is reported as if it were part of the College. The Foundation is governed by a 27-member board consisting of two ex officio directors and 25 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. Because the elected directors of the Foundation are appointed by the members of the Coastal Carolina Community College Board of Trustees and the Foundation's sole purpose is to benefit Coastal Carolina Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 444 Western Boulevard, Jacksonville, NC 28546, or by calling (910) 938-6138. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

During the year ended June 30, 2008, the Foundation distributed $182,926.43 to the College for both restricted and unrestricted purposes.

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, savings 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.

Real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts. Notes receivable is the consideration received from the sale of real estate that had been previously donated to the Foundation.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out 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 method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 15 to 50 years for buildings, and 5 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 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. **Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as The College Store and Coastal Café. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. **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 $9,360.00, and deposits in private financial institutions with a carrying value of $1,689,185.05, and a bank balance of $3,141,799.13.

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

Generally, funds belonging to the College may be invested in 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 $2,408,091.14, 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 Foundation, 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2008, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value	Investment Maturities (in Years) 6 to 10
Investment Type		
Debt Securities		
Mutual Bond Funds	$ 1,277,218.00	$ 1,277,218.00
Other Securities		
Domestic Mutual Funds	1,739,980.00	
International Mutual Funds	450,693.00	
Investment in Real Estate	51,800.00	
Common Stock	326.00	
Total Investments	$ 3,520,017.00	

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2008, the College's investments in the Mutual Bond Funds were not rated; however, based on the unaudited fact sheets for the Wachovia Charitable Fixed Income Fund, the average quality of the portfolio is rated AAA by Standard and Poor's.

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

Cash on Hand	$	9,360.00
Carrying Amount of Deposits with Private Financial Institutions		1,689,185.05
Investments in the Short Term Investment Fund		2,408,091.14
Other Investments		3,520,017.00
Total Deposits and Investments	$	7,626,653.19
Current:		
Cash and Cash Equivalents	$	3,684,271.17
Restricted Cash and Cash Equivalents		320,247.59
Short-Term Investments		659,309.00
Restricted Short-Term Investments		392,293.00
Noncurrent:		
Restricted Cash and Cash Equivalents		102,117.43
Endowment Investments		2,416,615.00
Other Long-Term Investments		51,800.00
Total	$	7,626,653.19

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested. 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 under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which allows up to 100% of the endowment income each year for the sole purpose of funding student scholarships.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 253,210.72	$ 56,820.22	$ 196,390.50
Accounts	63,490.57		63,490.57
Intergovernmental	52,429.53		52,429.53
Other	19,083.35		19,083.35
Total Current Receivables	$ 388,214.17	$ 56,820.22	$ 331,393.95
Notes Receivable:			
Notes Receivable - Current:			
Real Estate Loan	$ 1,833.00	$ 0.00	$ 1,833.00
Notes Receivable - Noncurrent:			
Real Estate Loan	$ 38,250.00	$ 0.00	$ 38,250.00

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	$ 823,349.75	$ 0.00	$ 0.00	$ 823,349.75
Construction in Progress	403.95	176,163.40	38,384.05	138,183.30
Total Capital Assets, Nondepreciable	823,753.70	176,163.40	38,384.05	961,533.05
Capital Assets, Depreciable:				
Buildings	27,685,746.24	38,384.05		27,724,130.29
Machinery and Equipment	2,538,161.77	190,254.30	223,841.31	2,504,574.76
General Infrastructure	7,622,342.59			7,622,342.59
Total Capital Assets, Depreciable	37,846,250.60	228,638.35	223,841.31	37,851,047.64
Less Accumulated Depreciation:				
Buildings	10,678,128.87	681,067.53		11,359,196.40
Machinery and Equipment	1,271,606.81	175,342.98	216,889.21	1,230,060.58
General Infrastructure	1,229,677.37	132,248.67		1,361,926.04
Total Accumulated Depreciation	13,179,413.05	988,659.18	216,889.21	13,951,183.02
Total Capital Assets, Depreciable, Net	24,666,837.55	(760,020.83)	6,952.10	23,899,864.62
Capital Assets, Net	$ 25,490,591.25	$ (583,857.43)	$ 45,336.15	$ 24,861,397.67

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 152,849.81
Accrued Payroll	510,335.34
Total Accounts Payable and Accrued Liabilities	$ 663,185.15

NOTE 7 - 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	$ 456,395.66	$ 465,523.57	$ 468,689.70	$ 453,229.53	$ 90,509.95

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 212,266.56
2010	80,884.45
Total Minimum Lease Payments	$ 293,151.01

Rental expense for all operating leases during the year was $264,367.89.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 4,991,583.01	$ 0.00	$ 1,173,512.68	$ 56,820.22	$ 3,761,250.11
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	$ 263,966.29	$ 6,972.28	$ 0.00	$ 0.00	$ 256,994.01
Vending	53,330.40				53,330.40
Bookstore	2,369,500.34	13,812.70	667,789.10		1,687,898.54
Other	532.00				532.00
Sales and Services of Education and Related Activities	45,684.00				45,684.00
Total Sales and Services	$ 2,733,013.03	$ 20,784.98	$ 667,789.10	$ 0.00	$ 2,044,438.95

NOTE 10 - 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	$ 13,117,313.64	$ 1,516,570.83	$ 532,613.11	$ 103,074.77	$ 1,407.24	$ 0.00	$ 15,270,979.59
Academic Support	2,484,146.94	120,695.51	131,016.46				2,735,858.91
Student Services	1,336,707.42	61,139.19	92,895.51				1,490,742.12
Institutional Support	2,674,080.93	379,917.81	818,515.36	5,840.42			3,878,354.52
Operations and Maintenance of Plant	778,477.84	188,172.55	550,927.97	55.00	690,325.69		2,207,959.05
Student Financial Aid				2,735,706.37			2,735,706.37
Auxiliary Enterprises	186,086.24	2,155,391.19	59,390.84				2,400,868.27
Depreciation						988,659.18	988,659.18
Total Operating Expenses	$ 20,576,813.01	$ 4,421,887.08	$ 2,185,359.25	$ 2,844,676.56	$ 691,732.93	$ 988,659.18	$ 31,709,128.01

NOTE 11 - 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 $17,112,448.82, of which $14,591,871.56 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $875,512.30 and 445,052.09, 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 $445,052.09, $344,830.00, and $280,694.67, 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 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 $272,600.73 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 $32,600 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. 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 of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are 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 $598,266.74, $492,614.29, and $455,828.94, 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 $75,877.74, $67,410.38, and $62,376.60, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 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. The College purchases coverage for losses from employee dishonesty of county and institutional fund paid employees under an employee dishonesty bond.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Other insurance purchased by the College includes firearms training general liability insurance with coverage of $2,000,000 for bodily injury and property damage, and boiler, machinery, and equipment insurance with coverage based on the buildings and contents value of $70,345,587.

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.

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

NOTE 14 - 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 $888,456.98 and on other purchases were $189,917.14 at June 30, 2008.

NOTE 15 - 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 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 16 - 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	$ 35,873,270.16
Error in Establishing Useful Lives of Capital Assets When New Reporting Model was Implemented	535,038.14
Record Foundation Payable from 2007	(100,000.00)
Record Depreciation for FY2007 for Math and Science Technology Building	(125,334.24)
July 1, 2007 Net Assets as Restated	$ 36,182,974.06

NOTE 17 - SUBSEQUENT EVENTS

Fair Value of Investments

Component Unit - The fair market value of the Foundation's investments with Wachovia Trust decreased 25.9 percent over the seven-month period ending January 31, 2009. The market values for the investments were $3,468,216.32 at June 30, 2008 and declined to $2,571,762.64.

The change is primarily due to the unrealized loss on these investments as a result of the volatile and unstable world-wide financial market. It is expected that this downward trend will continue into the foreseeable future. College and Foundation management, along with their investment management advisors, plan to continue their efforts of monitoring these investments to minimize any significant losses.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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
Coastal Carolina Community College
Jacksonville, North Carolina

We have audited the financial statements of Coastal Carolina 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 29, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 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.

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 the Coastal Carolina Community College Foundation as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 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 the significant deficiency described above is not 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*.

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.

**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)**

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

May 29, 2009

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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 included:

a. A building that had been occupied since November 2006 was incorrectly disclosed in the Notes as Construction in Progress. This caused Construction in Progress to be overstated by $9,438,451 and the Building caption to be understated by the same amount. This error also caused the current depreciation expense to be understated by $188,769 and a restatement totaling $125,334 was required for the depreciation that should have been recorded in the prior fiscal year.

b. Unearned revenue was overstated by $186,222 and tuition and fees revenues were understated by the same amount because the College failed to reverse a prior year accrual transaction.

c. Depreciation expense was understated by $535,038. The College corrected an error in applying an accounting principle related to establishing the useful lives of its capital assets by reducing current year depreciation expense instead of restating net assets. Guidance from the Office of State Controller directed that these type entries be recorded as a restatement.

d. Receivables from the College's Foundation exceeded the payables recorded on the Foundation's books by $100,000.

e. The College incorrectly recorded the Foundation's investment losses for the year to the operating expense - services account, causing this account to be overstated by $562,995 and the investment loss account to be understated by the same amount.

f. Notes to the financial statements required revisions to correct amounts and required disclosures.

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

College's Response:

a. While the building was occupied in FY 2006-2007, final payment and approval from the State Construction Office took place in a subsequent fiscal year. Therefore, the actual cost necessary to add the building to our computerized asset system was not available at the time of occupancy in FY 2006-2007. Due to limitations of our current computer system, if this situation were to present itself again, we would have no choice but to add separate assets for each year payments were made.

b. The College understands that a reversal of unearned revenue journal entries from prior years is necessary when completing financial statements, however, detailed closeout procedure documentation did not state this entry needed to be reversed after implementing the Datatel student module. Although we were no longer processing any financial information in the Unix system, the opening balances brought forward included this entry that we inadvertently failed to reverse. An evaluation of the unearned revenue account balance will be completed to ensure that prior year balances are reversed as necessary.

c. Reevaluation amounts were posted to current year depreciation solely because entries restating net asset beginning balances would have required entries directly to fund balance accounts resulting in unbalanced financial statements. The College was not aware CAFR presentation information could be altered to adjust beginning balance net assets when general ledger entries would not reflect the same information. If restatement entries are required in the future, the necessary entries will be posted in the College's computer information system to maintain balanced financial statements and presentation adjustments will be made to the CAFR to reflect the restatement.

d. We acknowledge the College Foundation's financial statements should have reflected a payable to correspond to the receivable booked in the College's system. In the future, we will ensure that a proper liability is reported in the Foundation's financial statements if a receivable is due to the College.

e. The College acknowledges that the Foundation's investment losses should have been moved to a non-operating account during the blending of the Foundation's financial statements into the College's financial statements. If investment losses are incurred in the future, the College will record them accordingly.

f. The College will place greater emphasis on the preparation of financial statements to minimize required revisions.

Please rest assured that any errors, omissions, or misstatements were inadvertent and unintentional. Findings (a) and (c) can be attributed to limitations imposed by our computerized software system, finding (b) is related to a detrimental reliance on the thoroughness and accuracy of closeout documentation provided to us, and findings (d) and (e) resulted from the impact the national economic downturn had on The College Foundation both in terms of investment losses, and the acknowledged failure to post a payable to the College. In the future, we will place greater emphasis on the review and analysis of the year end financial reporting process and implement more effective internal controls to ensure complete and accurate financial statements.

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