

STATE OF NORTH CAROLINA

CRAVEN COMMUNITY COLLEGE

NEW BERN, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

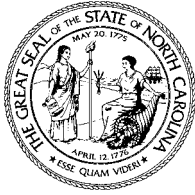
BOARD OF TRUSTEES

GARY H. BALDREE, SR., CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. CATHERINE CHEW, PRESIDENT

KARY PORTER, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Notes to the Financial Statements	13
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 <i>GOVERNMENT AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

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, 2010, 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.

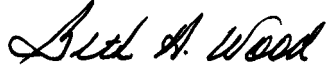
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craven Community College as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

May 4, 2011

CRAVEN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Craven Community College, we offer readers of the college's financial statements this narrative overview and analysis of the financial activities of the College for the fiscal year ended June 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the College's financial statements, which follow this narrative.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Craven Community College's basic financial statements. The College's basic financial statements consist of three components; 1) Management's Discussion and Analysis, 2) the basic financial statements, and 3) Notes to the Financial Statements.

Basic Financial Statements

The basic financial statements present information for Craven Community College as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets (Exhibit A-1) presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the financial position of the College is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) presents information showing how the College's net assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The Statement of Cash Flows (Exhibit A-3) presents information showing how the College's cash changed as a result of current year operations. The Statement of Cash Flows includes a reconciliation of operating income (loss) to net cash provided (used) during the year.

The financial statements provide both long-term and short-term information about the College's overall financial status.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements follow the basic financial statements.

The College's financial statements are prepared on an accrual basis which means that revenues are recognized in the period in which they are earned and expenses are recognized in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the period in which they are incurred. Depreciation of capital assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the college are included in the Statement of Net Assets.

Condensed Statement of Net Assets

	2010	Restated 2009	Increase (Decrease)
Assets			
Current Assets	\$ 4,617,269.89	\$ 3,482,021.47	\$ 1,135,248.42
Capital Assets, Net of Depreciation	33,211,786.63	35,455,141.80	(2,243,355.17)
Other Noncurrent Assets	1,971,048.32	2,511,786.08	(540,737.76)
Total Assets	<u>39,800,104.84</u>	<u>41,448,949.35</u>	<u>(1,648,844.51)</u>
Liabilities			
Current Liabilities	1,396,059.89	976,189.19	419,870.70
Noncurrent Liabilities	609,604.17	693,238.31	(83,634.14)
Total liabilities	<u>2,005,664.06</u>	<u>1,669,427.50</u>	<u>336,236.56</u>
Net Assets			
Invested in Capital Assets	33,211,786.63	35,455,141.80	(2,243,355.17)
Restricted	4,666,964.53	4,931,289.18	(264,324.65)
Unrestricted	(84,310.38)	(606,909.13)	522,598.75
Total Net Assets	<u>\$ 37,794,440.78</u>	<u>\$ 39,779,521.85</u>	<u>\$ (1,985,081.07)</u>

As noted earlier, net assets may serve over time as a useful indicator of the College's financial condition. While total current assets of the College exceeded current liabilities by \$3,221,210.00 as of June 30, 2010, the College's total net assets decreased by \$1,985,081.07, primarily due to the disposal of capital assets and a decrease in the amount due from the State for bond funded capital projects.

Current assets increased by \$1,135,248.42 primarily due to an increase in accounts receivable and \$560,264.02 due from the Golden Leaf Foundation. Accounts receivables includes a \$346,120.77 increase in the amount due from students for tuition and fees and an increase of \$140,735.77 due from the Department of Education for increases in federal financial aid. These are both the result of gains in enrollment and tuition increases.

The College's noncurrent assets decreased by \$2,784,092.93 for the fiscal year ended June 30, 2010. A large portion of that is attributable to the College returning two turbine engines and two helicopters that were donated to the College's aviation program in a prior year. These were provided by the federal government and returned for disposal when they were no longer useful to the program. This decrease is reflected in the Capital Assets caption which shows the College's investment in land, buildings, machinery and equipment and infrastructure net of accumulated depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The restricted portion of the College's net assets represents resources that are subject to external restrictions on how they may be used. The decrease in restricted net assets was due mainly to the completion of the Business and Technology Building project, which is also reflected in the related decreases in the amount due from the state for construction (\$275,026.46) and restricted cash (\$383,392.51). The remaining portion of net assets includes resources that are not restricted by external parties.

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

	<u>June 30, 2010</u>	<u>Restated June 30, 2009</u>	<u>Increase (Decrease)</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 3,412,761.08	\$ 2,401,120.09	\$ 1,011,640.99
Other Operating Revenues	<u>360,565.28</u>	<u>314,406.42</u>	<u>46,158.86</u>
Total Operating Revenues	<u>3,773,326.36</u>	<u>2,715,526.51</u>	<u>1,057,799.85</u>
Operating Expenses			
Personal Services	15,815,439.74	16,106,453.89	(291,014.15)
Supplies and Materials	2,312,197.68	1,580,839.84	731,357.84
Services	3,102,565.23	2,689,091.72	413,473.51
Scholarships and Fellowships	5,153,581.36	3,378,579.78	1,775,001.58
Utilities	1,058,352.39	889,749.33	168,603.06
Depreciation	<u>1,290,846.10</u>	<u>1,007,590.97</u>	<u>283,255.13</u>
Operating Expenses	<u>28,732,982.50</u>	<u>25,652,305.53</u>	<u>3,080,676.97</u>
Operating Loss	<u>(24,959,656.14)</u>	<u>(22,936,779.02)</u>	<u>(2,022,877.12)</u>
Nonoperating Revenues			
State Aid	10,966,843.02	11,792,487.24	(825,644.22)
County Appropriations	3,255,130.00	3,255,130.00	
Other Nonoperating Revenues	<u>7,429,529.61</u>	<u>6,203,248.85</u>	<u>1,226,280.76</u>
Net Nonoperating Revenues	<u>21,651,502.63</u>	<u>21,250,866.09</u>	<u>400,636.54</u>
Loss Before Other Revenues	<u>(3,308,153.51)</u>	<u>(1,685,912.93)</u>	<u>(1,622,240.58)</u>
Other Revenues			
State Capital Aid	1,131,853.27	695,949.08	435,904.19
Other Capital Revenues	159,502.17	591,231.93	(431,729.76)
Additions to Endowments	<u>31,717.00</u>	<u>31,717.00</u>	<u>31,717.00</u>
Total Decrease in Net Assets	(1,985,081.07)	(398,731.92)	(1,586,349.15)
Net Assets, July 1, 2009	<u>39,779,521.85</u>	<u>40,178,253.77</u>	<u>(398,731.92)</u>
Net Assets, June 30, 2010	<u>\$ 37,794,440.78</u>	<u>\$ 39,779,521.85</u>	<u>\$ (1,985,081.07)</u>

Operating revenues increased by \$1,057,799.85. This change is due to increased charges for student tuition and fees due to a tuition rate hike mandated by the State of North Carolina as well as an increase in the student enrollment.

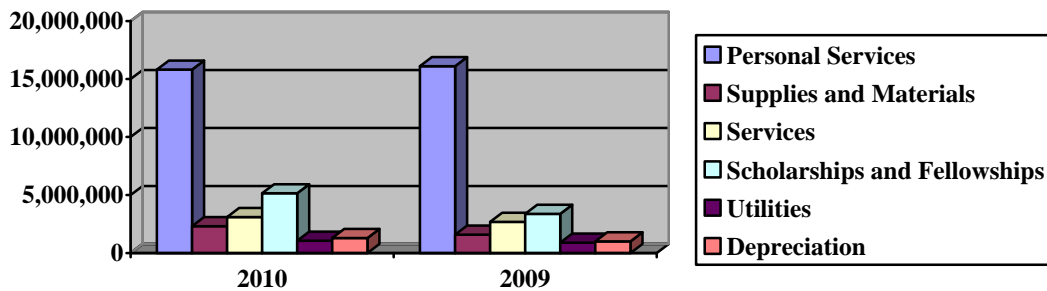
Nonoperating revenues increased by \$400,636.54. The College experienced a decrease in state aid of \$825,644.22 due to required cuts to our state budget. This decrease was offset by a reimbursement from a contractor of \$115,057.60 for a prior year expense paid by the College

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

College and an increase in the Federal financial aid, specifically Federal Pell Grant Awards. Federal Pell awards increased from \$3,234,769.92 in 2008-2009 to \$5,466,239.36 in 2009-2010.

In other revenues, the increase in state capital aid was offset by a decrease in other capital revenues, resulting in a net increase for other revenues of \$35,891.43. The College received \$435,904.19 more for state capital aid in 2010 than in 2009, which was used to furnish the Business and Technology Building and for additional purchases of educational equipment. While state funding for capital expenditures increased, other sources of capital funding went down in 2010. In 2009, the College received capital gifts and grants for the nursing simulation lab project that they did not receive in 2010. Also, in 2009 Craven County appropriated an additional \$300,000 for the parking lot project that was completed in 2010. Similar funding was not received in the 2010 fiscal year.

Comparison of Operating Expenses for Fiscal Years 2010 and 2009



The increase in operating costs of \$3,080,676.97 is due primarily to increases in scholarships and fellowships, supplies and materials, and services. As referenced previously, gains in enrollment and the increase in the number of students qualifying for aid is the primary factor for the \$1,775,001.58 increase in scholarships and fellowships. Federal Pell Grant awards went from \$3,234,769.62 to \$5,466,239.36 an increase of \$2,231,469.44. Changes in the federal regulations increased the maximum amount that a student could receive in aid from \$4,731 in 2009 to \$5,350 in 2010. The Department of Education also instituted 'year round' Pell in 2010 which allows the student to receive two Pell Grant awards within one award year. The increases in enrollment also contributed to the change in supplies and materials (increase of \$731,357.84) and services (increase of \$413,473.51) to pay for expenditures to serve these students.

Capital Assets

The College's investment in capital assets as of June 30, 2010 was \$33,211,786.63 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, parking lots, vehicles, and other infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Major capital asset transactions during the year include the following additions and disposals:

- Purchase of education equipment totaling \$635,288.15 and other equipment totaling \$64,329.06.
- Completion of construction projects that increase buildings by \$41,881.42 and parking lot of \$79,395.81.
- Disposal of capital assets totaling \$2,513,931.48. This included two trailers totaling \$36,097.24, other equipment totaling \$23,286.24 and educational equipment totaling \$2,454,548. Educational equipment included two helicopters and two turbine engines used in the College's aviation program.

Craven Community College's Capital Assets

	(net of depreciation)		Increase (Decrease)
	2010	2009	
Land	\$ 596,500.00	\$ 596,500.00	\$ 0.00
Construction in progress		115,520.81	(115,520.81)
Buildings	26,060,456.78	26,818,544.70	(758,087.92)
Machinery and equipment	4,733,261.94	6,102,881.06	(1,369,619.12)
Infrastructure	1,821,567.91	1,821,695.23	(127.32)
Total	\$ 33,211,786.63	\$ 35,455,141.80	\$ (2,243,355.17)

At June 30, 2010 the College had no construction in progress. However, the College was awarded \$90,000 in advance planning funds during the year which is recorded as a receivable from primary government. After the bidding process, LS3P Associates, Ltd. was selected to prepare the plans for the Community Life Building. This was identified as the College's next priority building project. The College had no outstanding construction commitments. Additional information on the College's capital assets can be found in note 5 of the Basic Financial Statements.

Economic Outlook and Effects on Financial Position

The economic downturn continues to impact Craven County. Information provided by the Employment Security Commission as of September 29, 2010, shows that Craven County's unemployment rate of 9.4% (in August of 2010) is slightly lower than North Carolina's unemployment rate of 9.7%. Companies such as Hatteras Yachts and EMBARQ had significant layoffs. These unfortunate events impact the College in the form of increased enrollments. The College is working closely with the Employment Security Commission and the companies to offer their former employees choices to assist them in their decisions regarding their future. Some students opt to take continuing education courses that will arm them with skills quicker so they can re-enter the workforce as soon as possible, while others are seeking longer term degrees. During the 2009-2010 academic year, the College billed

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

\$393,274.54 in tuition and fees to the Employment Security Commission for dislocated students they were sponsoring.

The College's customized training department anticipates the opportunity to provide customized training for Weyerhaeuser Company and Brunswick Corporation, the parent corporation of Hatteras Yachts and Cabo Yachts. The College is expecting allocations of approximately \$300,000.00 and \$467,000.00 respectively from the state to provide this training. Brunswick Corporation recently announced that it will consolidate its Hatteras and Cabo brand yacht manufacturing operations at its New Bern facility. This consolidation is expected to bring an additional 350 jobs to the New Bern plant.

Craven Community College monitors the changes in technology and economy and strives to meet the needs of our growing community. To meet industry and community needs, the College has implemented several new programs, such as Composites Manufacturing, Pharmacy Technician and Physical Therapy. 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, Cherry Point Naval Air Station, New River Air Station and Spirit Aerosystems.

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.

In a specially called meeting of the Board of Trustees on September 14, 2010, the College accepted the settlement offer in relation to the Bender Building dispute. The dispute stems from renovations that took place in August 2009 in which asbestos was discovered in the flooring that was removed. The College paid \$192,322 in asbestos abatement and cleanup related costs. The College will receive \$70,000.00 and be released from all claims. In addition, the College will keep approximately \$40,000.00 in payments that it held from the flooring contractor less legal fees.

Requests for Information

This report is designed to provide an overview of the college's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Cindy A. Patterson, Director of Financial Services, Craven Community College, 800 College Court, New Bern, NC 28562. The College's website is cravencc.edu.

Craven Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 1,075,088.26
Restricted Cash and Cash Equivalents	1,470,043.25
Receivables, Net (Note 4)	1,365,493.62
Due from State of North Carolina Component Units	560,264.02
Inventories	144,925.40
Notes Receivable, Net (Note 4)	1,455.34
	<hr/>
Total Current Assets	4,617,269.89
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	615,605.41
Restricted Due from Primary Government	180,625.40
Restricted Investments	1,174,161.65
Other Investments	655.86
Capital Assets - Nondepreciable (Note 5)	596,500.00
Capital Assets - Depreciable, Net (Note 5)	32,615,286.63
	<hr/>
Total Noncurrent Assets	35,182,834.95
	<hr/>
Total Assets	39,800,104.84

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	803,369.48
Unearned Revenue	342,541.66
Funds Held for Others	156,891.25
Long-Term Liabilities - Current Portion (Note 7)	93,257.50
	<hr/>
Total Current Liabilities	1,396,059.89
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	609,604.17
	<hr/>
Total Liabilities	2,005,664.06

NET ASSETS

Invested in Capital Assets	33,211,786.63
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,265,374.14
Other	41,909.83
Expendable:	
Scholarships and Fellowships	201,372.76
Loans	44,811.05
Capital Projects	990,986.76
Restricted for Public Radio East	428,071.18
Other	1,694,438.81
Unrestricted	(84,310.38)
	<hr/>
Total Net Assets	\$ 37,794,440.78

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 3,412,761.08
Sales and Services	243,447.83
Other Operating Revenues	117,117.45
	<hr/>
Total Operating Revenues	3,773,326.36
	<hr/>

EXPENSES

Operating Expenses:

Salaries and Benefits	15,815,439.74
Supplies and Materials	2,312,197.68
Services	3,102,565.23
Scholarships and Fellowships	5,153,581.36
Utilities	1,058,352.39
Depreciation	1,290,846.10
	<hr/>

Total Operating Expenses 28,732,982.50

Operating Loss (24,959,656.14)

NONOPERATING REVENUES (EXPENSES)

State Aid	10,966,843.02
County Appropriations	3,255,130.00
Noncapital Grants - Federal Student Financial Aid	5,721,323.05
Noncapital Grants	2,446,735.03
Noncapital Gifts	632,994.97
Investment Income, Net	163,880.95
Other Nonoperating Expenses	(1,535,404.39)
	<hr/>

Net Nonoperating Revenues 21,651,502.63

Loss Before Other Revenues (3,308,153.51)

State Capital Aid	1,131,853.27
County Capital Aid	75,000.00
Capital Grants	84,502.17
Additions to Endowments	31,717.00
	<hr/>

Decrease in Net Assets (1,985,081.07)

NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 14) 39,779,521.85

Net Assets, June 30, 2010 \$ 37,794,440.78

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, 2010***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,423,709.07
Payments to Employees and Fringe Benefits	(15,721,997.23)
Payments to Vendors and Suppliers	(6,082,455.34)
Payments for Scholarships and Fellowships	(5,163,071.94)
Loans Issued to Students	(2,318.51)
Collection of Loans to Students	99.25
Other Receipts	100,917.39
	<hr/>
Net Cash Used by Operating Activities	(23,445,117.31)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,966,843.02
County Appropriations	3,255,130.00
Noncapital Grants - Federal Student Financial Aid	5,520,378.39
Noncapital Grants Received	1,936,298.00
Noncapital Gifts and Endowments Received	666,309.16
Federal Family Education Loan Receipts	1,701,803.00
Federal Family Education Loan Disbursements	(1,701,803.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	22,344,958.57

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,406,879.73
County Capital Aid	75,000.00
Capital Grants Received	84,502.17
Proceeds from Insurance on Capital Assets	4,767.86
Acquisition and Construction of Capital Assets	(820,894.44)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	750,255.32

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	616,646.14
Investment Income	71,957.93
Purchase of Investments and Related Fees	(642,694.13)
	<hr/>
Net Cash Provided by Investing Activities	45,909.94

Net Decrease in Cash and Cash Equivalents	(303,993.48)
Cash and Cash Equivalents, July 1, 2009	3,464,730.40
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 3,160,736.92

Craven Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (24,959,656.14)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	1,290,846.10
Provision for Uncollectible Loans and Write-Offs	863.17
Miscellaneous Nonoperating Income	117,710.45
Changes in Assets and Liabilities:	
Receivables, Net	(358,588.48)
Inventories	3,787.58
Notes Receivable, Net	(2,219.26)
Accounts Payable and Accrued Liabilities	515,295.75
Unearned Revenue	(115,576.99)
Funds Held for Others	98,264.54
Compensated Absences	(35,844.03)
	<u>(35,844.03)</u>
Net Cash Used by Operating Activities	<u>\$ (23,445,117.31)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,075,088.26
Restricted Cash and Cash Equivalents	1,470,043.25
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	615,605.41
	<u>615,605.41</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 3,160,736.92</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 66,672.74
Increase in Receivables Related to Nonoperating Income	700,999.79
Capital Asset Write-Offs, returned to federal government	2,513,931.48

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

CRAVEN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 its component units for which the College's Board of Trustees is financially accountable. The College's component units are blended in the College's 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 - The Craven Community College Foundation, Inc. is governed by a 29-member board consisting of 3 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 23-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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, 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 estimated amounts 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ready market existed for the investments. The net increase (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 cost using the last invoice cost.
- 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 5 to 30 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 require 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 the 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- L. Net 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,550.00, and deposits in private financial institutions with a carrying value of \$61,962.31, and a bank balance of \$2,212,952.92.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2010, 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,097,224.61, 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component units, the Craven Community College Foundation, Inc. and the Public Radio East Foundation, are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, 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 Type		
Mutual Funds		1,174,161.65
Other		655.86
Total Investments		<u>\$ 1,174,817.51</u>

Credit Risk: The Foundations’ investment policies state 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 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, 2010, the College’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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$	1,550.00
Carrying Amount of Deposits with Private Financial Institutions		61,962.31
Investments in the Short Term Investment Fund		3,097,224.61
Other Investments		<u>1,174,817.51</u>
 Total Deposits and Investments	 \$	 <u><u>4,335,554.43</u></u>
 Current:		
Cash and Cash Equivalents	\$	1,075,088.26
Restricted Cash and Cash Equivalents		1,470,043.25
 Noncurrent:		
Restricted Cash and Cash Equivalents		615,605.41
Endowment Investments		1,174,161.65
Other Long-Term Investments		<u>655.86</u>
 Total	 \$	 <u><u>4,335,554.43</u></u>

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 are 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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. The College's endowment donor agreements prohibit spending of nonexpendable balances that are not eligible for expenditure.

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 up 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2010, net appreciation of \$79,194.80 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 427,933.48	\$ 12,893.93	\$ 415,039.55
Accounts	10,812.64	246.88	10,565.76
Intergovernmental	853,172.10		853,172.10
Pledges	79,482.37	13,065.09	66,417.28
Other	23,398.91	3,099.98	20,298.93
Total Current Receivables	\$ 1,394,799.50	\$ 29,305.88	\$ 1,365,493.62
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 2,318.51	\$ 863.17	\$ 1,455.34

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance 1-Jul-09 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 596,500.00	\$ 0.00	\$ 0.00	\$ 596,500.00
Construction in Progress	115,520.81		115,520.81	
Total Capital Assets, Nondepreciable	712,020.81		115,520.81	596,500.00
Capital Assets, Depreciable:				
Buildings	34,670,472.29	41,881.42	36,097.60	34,676,256.11
Machinery and Equipment	9,171,192.55	699,617.21	2,477,833.88	7,392,975.88
General Infrastructure	2,405,729.49	79,395.81		2,485,125.30
Total Capital Assets, Depreciable	46,247,394.33	820,894.44	2,513,931.48	44,554,357.29
Less Accumulated Depreciation for:				
Buildings	7,851,927.59	796,417.56	32,545.82	8,615,799.33
Machinery and Equipment	3,068,311.49	414,905.41	823,502.96	2,659,713.94
General Infrastructure	584,034.26	79,523.13		663,557.39
Total Accumulated Depreciation	11,504,273.34	1,290,846.10	856,048.78	11,939,070.66
Total Capital Assets, Depreciable, Net	34,743,120.99	(469,951.66)	1,657,882.70	32,615,286.63
Capital Assets, Net	\$ 35,455,141.80	\$ (469,951.66)	\$ 1,773,403.51	\$ 33,211,786.63

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The College returned to the federal government two turbines and two helicopters resulting in the \$2.4 million decrease in equipment. These items had been provided to the aviation program and were required to be returned to the federal government when no longer useful to the program.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 426,039.40
Accrued Payroll	363,076.30
Contract Retainage	14,253.78
Total Accounts Payable and Accrued Liabilities	\$ 803,369.48

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 738,705.70	\$ 457,400.60	\$ 493,244.63	\$ 702,861.67	\$ 93,257.50

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 4,805,308.07	\$ 1,381,444.22	\$ 11,102.77	\$ 3,412,761.08

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,790,694.11	\$ 1,488,024.06	\$ 539,390.94	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,818,109.11
Public Service	585,354.77	59,143.90	400,150.12		58,614.71		1,103,263.50
Academic Support	1,804,191.96	82,180.41	43,679.39				1,930,051.76
Student Services	1,149,195.52	39,911.42	81,834.69				1,270,941.63
Institutional Support	2,467,871.97	415,729.82	967,303.07	27,015.00			3,877,919.86
Operations and Maintenance of Plant	1,018,131.41	180,791.20	1,018,678.36		999,737.68		3,217,338.65
Student Financial Aid			39,840.77	5,126,566.36			5,166,407.13
Auxiliary Enterprises		46,416.87	11,687.89				58,104.76
Depreciation						1,290,846.10	1,290,846.10
Total Operating Expenses	<u>\$ 15,815,439.74</u>	<u>\$ 2,312,197.68</u>	<u>\$ 3,102,565.23</u>	<u>\$ 5,153,581.36</u>	<u>\$ 1,058,352.39</u>	<u>\$ 1,290,846.10</u>	<u>\$ 28,732,982.50</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$10,812,737.56, of which \$10,225,660.73 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$365,056.09 and \$613,539.64, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$365,056.09, \$358,927.98, and \$310,734.57, 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 \$30,073.04 for the year ended June 30, 2010.

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 \$154,920.99 for the year ended June 30, 2010.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$460,154.73, \$437,977.59, and \$417,708.76, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$53,173.44, \$55,548.38, and \$52,977.70, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses for employees paid from county and institutional funds are covered under a private insurance policy. 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

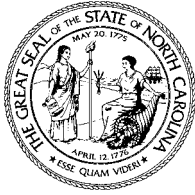
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 40,189,995.01
Restatement:	
To Correct Funds Held for Others Incorrectly Recorded.	(18,313.29)
To Correct Error in General Ledger for Capital Assets - Failure to Reconcile to Subsidiary.	<u>(392,159.87)</u>
July 1, 2009 Net Assets as Restated	<u>\$ 39,779,521.85</u>

[This Page Left Blank Intentionally]



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
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, 2010, and have issued our report thereon dated May 4, 2011.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

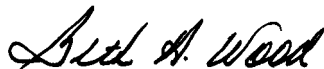
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, 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 4, 2011

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647