



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Beaufort County Community College

This report presents the results of our financial statement audit of Beaufort County Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Beaufort County Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Beaufort County Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Beaufort County Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the accompanying basic financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, 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 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, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort County Community College as of June 30, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

March 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basic Financial Statements

The basic financial statements include Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. The financial statements are accompanied by Notes to the Financial Statements that explain some of the information in the financial statements and provide more detail.

Statement of Net Assets: The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2003 and includes all assets and liabilities of the College.

Statement of Revenues, Expenses, and Changes in Net Assets: Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. Revenues and expenses are presented in a classified format to distinguish between operating and nonoperating revenues and expenses.

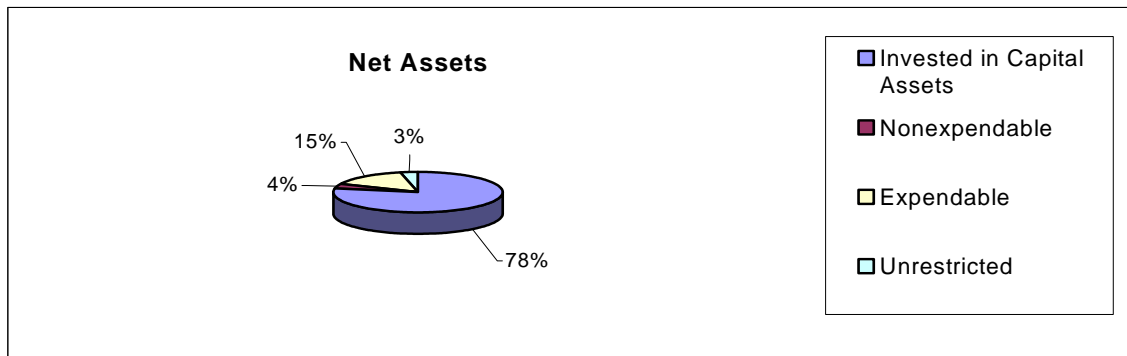
Statement of Cash Flows: The Statement of Cash Flows provides detail on the cash activity for the year. The direct method is used to present cash flows.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Statements and Financial Analysis
Statement of Net Assets

	<i>(in thousands)</i>		
	2003	2002	Variance
Assets			
Current Assets	\$ 773	\$ 717	\$ 56
Noncurrent Assets	11,429	7,739	3,690
Total Assets	12,202	8,456	3,746
Liabilities			
Current Liabilities	214	546	(332)
Noncurrent Liabilities	206	23	183
Total Liabilities	420	569	(149)
Net Assets			
Invested in Capital Assets	9,206	6,894	2,312
Nonexpendable	415	366	49
Expendable	1,781	412	1,369
Unrestricted	380	215	165
Total Net Assets	\$ 11,782	\$ 7,887	\$ 3,895



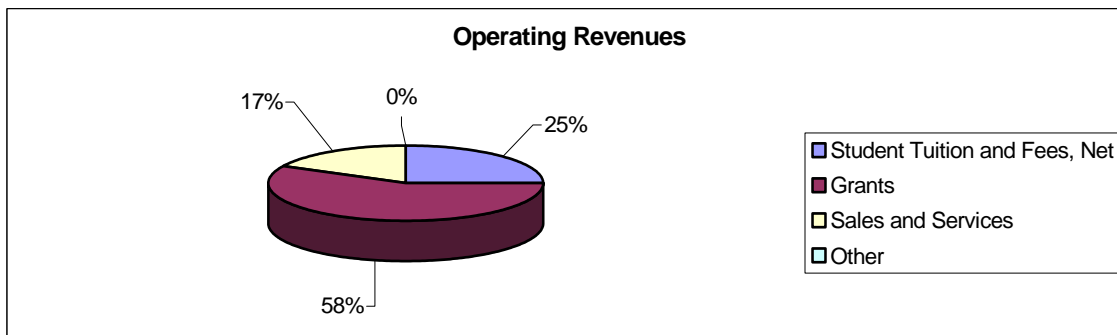
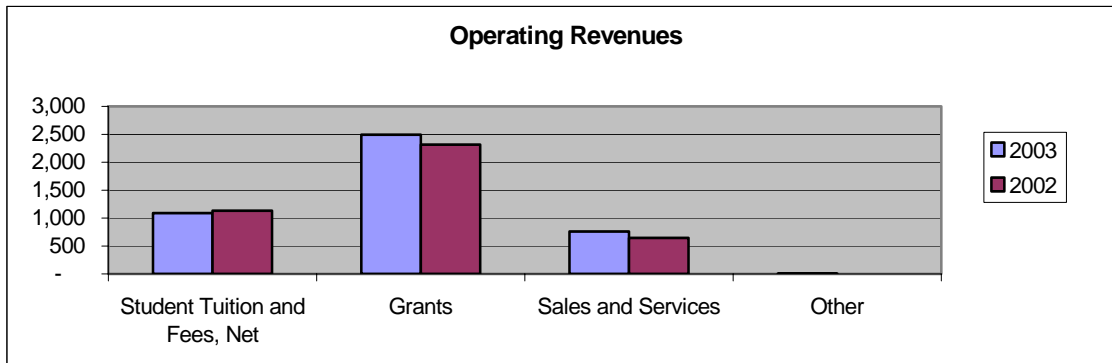
As shown in the Statement of Net Assets at June 30, 2003, the College continues to build upon its strong financial foundation. Current assets at June 30, 2003 were approximately \$773 thousand. Current assets consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current liabilities consisting of accounts payable, accrued compensation, and the current portion of long-term liabilities were approximately \$200 thousand.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase in net assets for 2003 was due to completing the first bond project and capitalizing a new building. Building 10 was completed in May of 2003. The building is approximately 26,000 square feet and houses the College's Public Safety programs. The project included an outdoor firing range and range house.

Statement of Revenues, Expenses, and Changes in Net Assets

	<i>(in thousands)</i>		
	<u>2003</u>	<u>2002</u>	<u>Variance</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 1,091	\$ 1,133	\$ (42)
Grants	2,495	2,316	179
Sales and Services	761	644	117
Other	5		5
Total Operating Revenues	<u>\$ 4,352</u>	<u>\$ 4,093</u>	<u>\$ 259</u>

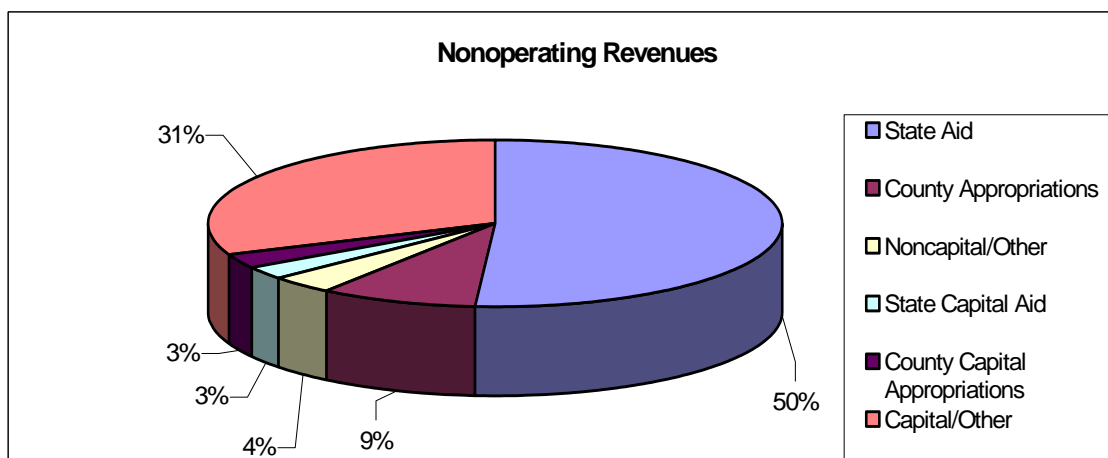
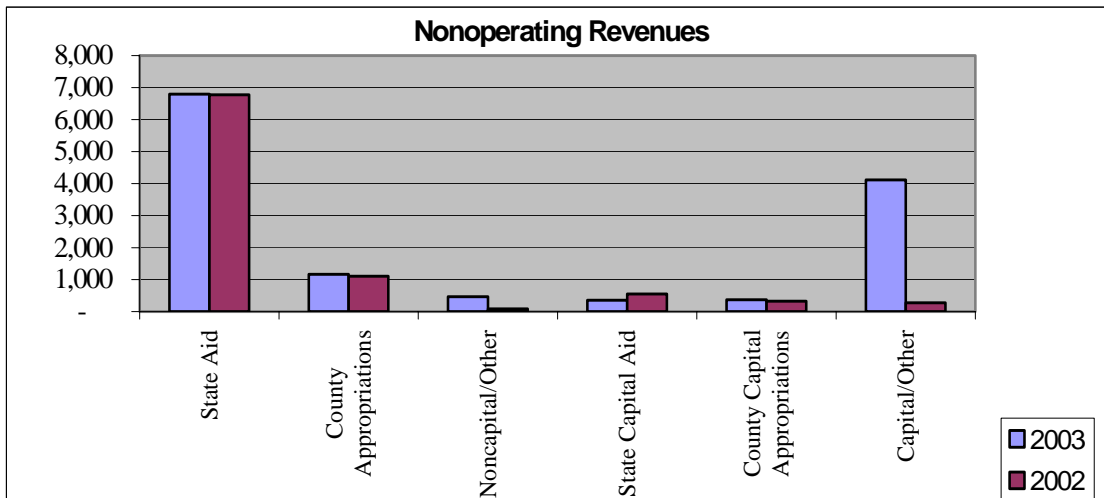


The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present the revenues received by the Institution, operating and nonoperating, and the expenses paid by the Institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The data above shows that the College continues to have strong and increasing operating revenues. Operating revenues approached \$4.4 million in 2003, an increase of over \$250 thousand from 2002.

	<i>(in thousands)</i>		
	<u>2003</u>	<u>2002</u>	<u>Variance</u>
Nonoperating Revenues			
State Aid	\$ 6,791	\$ 6,774	\$ 17
County Appropriations	1,164	1,102	62
Noncapital/Other	465	88	377
State Capital Aid	355	553	(198)
County Capital Appropriations	372	326	46
Capital/Other	4,111	273	3,838
Total Nonoperating Revenues	<u>\$ 13,258</u>	<u>\$ 9,116</u>	<u>\$ 4,142</u>

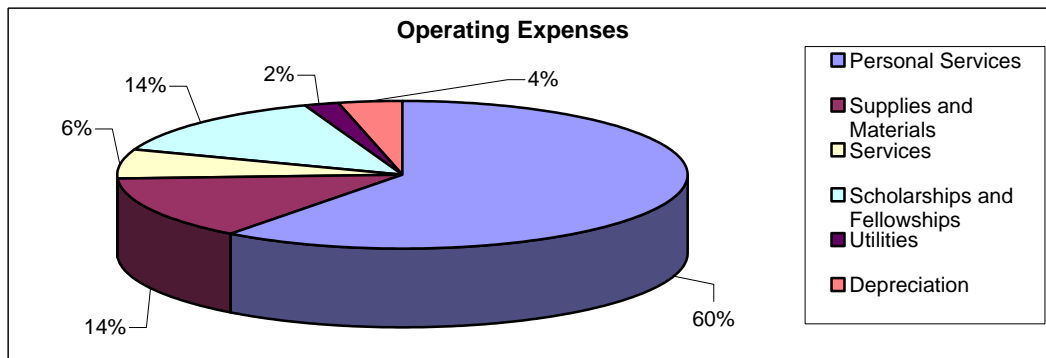
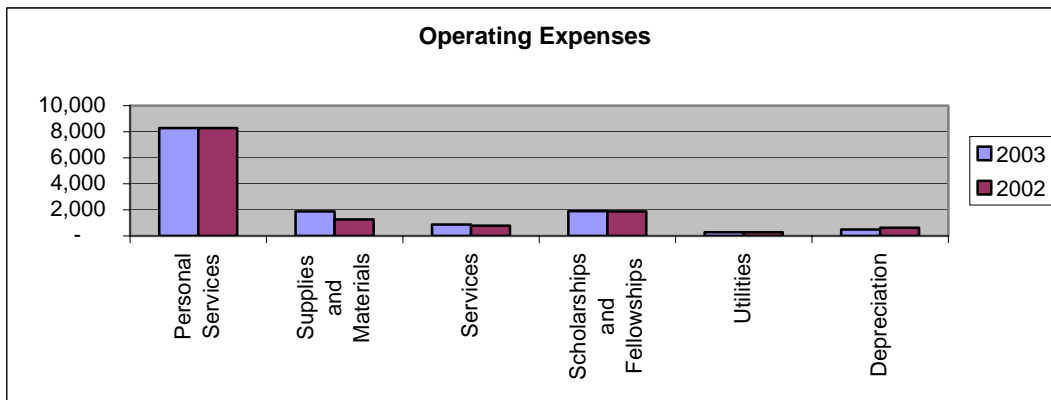


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenue increases were due to State bond construction funds and increases in grants. In addition to the Title III grant, the College received a Rural Internet Access Authority (RIAA) grant and a Golden Leaf grant in 2003.

Beaufort County continues to provide increasing financial support to the College as evidenced by the 2003-2004 budget.

	<u>2003</u>	<u>2002</u>	<i>(in thousands)</i> <u>Variance</u>
Operating Expenses			
Personal Services	\$ 8,285	\$ 8,286	\$ (1)
Supplies and Materials	1,877	1,268	609
Services	878	791	87
Scholarships and Fellowships	1,900	1,878	22
Utilities	286	281	5
Depreciation	489	626	(137)
Total Operating Expenses	<u>\$ 13,715</u>	<u>\$ 13,130</u>	<u>\$ 585</u>



The 2002 and 2003 budgets were consistent; therefore, expenditures are consistent with the prior year.

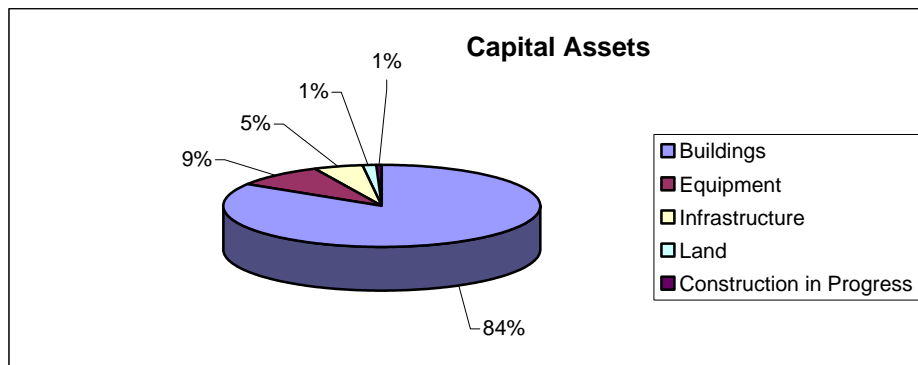
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses for the College were over \$13.7 million in 2003. This was an increase of only \$500 thousand from 2002.

Beaufort County Community College spent over \$8 million on personal services in 2003 and 2002. Personal Services represent 60% of the College's operating expenses in 2003.

Capital Assets

	<i>(in thousands)</i>			
	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets, Nondepreciable				
Total Capital Assets, Nondepreciable	\$ 635	\$ 2,286	\$ 2,734	\$ 187
Capital Assets, Depreciable				
Total Capital Assets, Before Depreciation	12,832	3,079	172	15,739
Less Accumulated Depreciation				
Total Depreciation	6,404	490	172	6,722
Total Capital Assets, Depreciable, Net	6,428	2,589		9,017
Capital Assets, Net	<u>\$ 7,063</u>	<u>\$ 4,875</u>	<u>\$ 2,734</u>	<u>\$ 9,204</u>
Depreciated Assets				
Buildings	\$ 7,720	84%		
Equipment	841	9%		
Infrastructure	457	5%		
Land	129	1%		
Construction in Progress	58	1%		
	<u>\$ 9,205</u>	<u>100%</u>		



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Beaufort County Community College continues to build new facilities and upgrade existing spaces to better serve the community. During 2003, Beaufort County Community College completed construction of a new Public Safety Building with a total cost of over \$2.7 million. Total net capital assets for the year were over \$9.2 million.

Future Financial Influences

The College started the design work for another bond project in 2003-2004 for a Public Service Building that will house Cosmetology, Early Childhood, and Human Services Programs. The bid process and construction of this 25,000 square foot facility is set to start in Fall 2004.

The academic program, Construction Equipment Systems, was added for 2003-2004.

Enrollment growth was funded for the 2003-2004 fiscal year; however, budget cuts and reversions are planned for 2003-2004.

The State and county budgets for 2003-2004 were consistent with 2002-2003.

Beaufort County Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 82,036.94
Restricted Cash and Cash Equivalents	235,953.98
Short-Term Investments	32,168.00
Restricted Short-Term Investments	92,767.49
Receivables, Net (Note 4)	137,546.49
Due from State of North Carolina Component Units	36,560.00
Inventories	156,017.92
Total Current Assets	773,050.82

Noncurrent Assets:

Restricted Cash and Cash Equivalents	466,242.40
Restricted Due from Primary Government	1,343,883.63
Endowment Investments	406,237.99
Notes Receivable, Net (Note 4)	6,960.85
Capital Assets - Nondepreciable (Note 5)	187,673.01
Capital Assets - Depreciable, Net (Note 5)	9,017,941.98
Total Noncurrent Assets	11,428,939.86
Total Assets	12,201,990.68

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	194,587.91
Deferred Revenue	8,634.73
Funds Held for Others	3,268.76
Long-Term Liabilities - Current Portion (Note 7)	7,709.84
Total Current Liabilities	214,201.24

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	205,706.05
Total Noncurrent Liabilities	205,706.05
Total Liabilities	419,907.29

NET ASSETS

Invested in Capital Assets	9,205,614.99
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	415,086.87
Expendable:	
Scholarships and Fellowships	180,464.69
Loans	7,937.42
Capital Projects	1,592,936.53
Unrestricted	380,042.89
Total Net Assets	\$ 11,782,083.39

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

Beaufort County Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,090,961.91
Federal Grants and Contracts		2,237,964.58
State and Local Grants and Contracts		256,870.89
Sales and Services, Net		760,785.35
Other Operating Revenues		5,094.22
Total Operating Revenues		4,351,676.95
EXPENSES		
Operating Expenses:		
Personal Services		8,284,599.44
Supplies and Materials		1,877,239.20
Services		877,958.62
Scholarships and Fellowships		1,900,136.30
Utilities		285,523.07
Depreciation		489,540.96
Total Operating Expenses		13,714,997.59
Operating Loss		(9,363,320.64)
NONOPERATING REVENUES		
State Aid		6,791,239.88
County Appropriations		1,164,263.00
Noncapital Grants		396,986.51
Noncapital Gifts, Net		22,170.87
Investment Income, Net		45,689.60
Net Nonoperating Revenues		8,420,349.86
Loss Before Other Revenues, Expenses, Gains, and Losses		(942,970.78)
State Capital Aid		354,965.10
County Capital Appropriations		372,000.00
Capital Grants		4,056,065.00
Additions to Endowments		54,631.75
Increase in Net Assets		3,894,691.07
NET ASSETS		
Net Assets, July 1, 2002		7,887,392.32
Net Assets, June 30, 2003	\$	11,782,083.39
The accompanying notes to the financial statements are an integral part of this statement.		

Beaufort County Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	4,352,518.78
Payments to Employees and Fringe Benefits		(8,415,207.89)
Payments to Vendors and Suppliers		(3,058,483.01)
Payments for Scholarships and Fellowships		(1,936,768.88)
Loans Issued to Students		(3,204.69)
Other Payments		(3,239.24)
Net Cash Used by Operating Activities		(9,064,384.93)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,791,239.88
County Appropriations		1,164,263.00
Noncapital Grants Received		336,156.42
Noncapital Gifts and Endowments Received		76,802.62
Net Cash Provided by Noncapital Financing Activities		8,368,461.92
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		354,965.10
County Capital Appropriations		372,000.00
Capital Grants Received		2,712,189.00
Acquisition and Construction of Capital Assets		(2,641,429.18)
Net Cash Provided by Capital and Related Financing Activities		797,724.92
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		45,689.60
Investment Income		(1,215.21)
Purchase of Investments and Related Fees		(39,275.53)
Net Cash Provided by Investing Activities		5,198.86
Net Increase in Cash and Cash Equivalents		107,000.77
Cash and Cash Equivalents, July 1, 2002		677,232.55
Cash and Cash Equivalents, June 30, 2003	\$	784,233.32
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(9,363,320.64)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		489,540.96
Changes in Assets and Liabilities:		
Receivables, Net		(35,790.75)
Inventories		(3,675.41)
Notes Receivable, Net		(3,204.69)
Accounts Payable and Accrued Liabilities		(123,469.20)
Funds Held for Others		(3,239.24)
Compensated Absences		(21,225.96)
Net Cash Used by Operating Activities	\$	(9,064,384.93)

Beaufort County Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	82,036.94
Restricted Cash and Cash Equivalents		235,953.98
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		466,242.40
Total Cash and Cash Equivalents - June 30, 2003	\$	784,233.32
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	\$	1,414,556.03
The accompanying notes to the financial statements are an integral part of this statement.		

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BEAUFORT COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Beaufort County Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 27-member board consisting of 3 ex officio directors and 24 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 Beaufort County Community College Board of Trustees and the Foundation's sole purpose is to benefit Beaufort County 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, Beaufort County Community College, P.O. Box 1069, Washington, NC 27889, or by calling 252-940-6213. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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** - This classification includes long-term fixed income investments, equity investments, mutual funds, and money market funds held by the College. Except for money market funds, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds 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 charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the last invoice method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 3 to 25 years for equipment.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include 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 1st 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College 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 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,200.00. The carrying amount of cash on deposit was \$783,033.32 and the bank balance was \$1,171,104.40.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 731,988.08	\$ 689,173.41
Cash on Deposit with Private Financial Institutions	51,045.24	481,930.99
	\$ 783,033.32	\$ 1,171,104.40

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool 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.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$100,000.00 of the bank balance was covered by federal depository insurance, and \$381,930.99 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (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 General Statute 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 General Statute 159-30(c), as follows: 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 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 General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A summary of the College's investments at June 30, 2003 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Investments Categorized:				
Corporate Common Stock	\$ 12,736.00	\$ 0.00	\$ 0.00	12,736.00
Investments Not Categorized:				
Mutual Funds				518,435.48
Money Market Funds				2.00
Total Investments Not Categorized				518,437.48
Total Investments				\$ 531,173.48

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on donor fund authorities. The prior year spending percentage is increased by the inflation rate to determine the current spending percentage. To the extent that the total return for the current year exceeds the payout, the excess is added to principal. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Net Receivables
Current Receivables:	
Students	\$ 57,176.27
Accounts	31,083.49
Intergovernmental	36,820.15
Investment Earnings	2,789.28
Other	9,677.30
Total Current Receivables	\$ 137,546.49
Notes Receivable - Noncurrent:	
Institutional Student Loan Programs	\$ 6,960.85

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 129,283.53	\$ 0.00	\$ 0.00	\$ 0.00	\$ 129,283.53
Construction in Progress	506,016.40	(2,733,837.90)	2,286,210.98		58,389.48
Total Capital Assets, Nondepreciable	635,299.93	(2,733,837.90)	2,286,210.98		187,673.01
Capital Assets, Depreciable:					
Buildings	9,368,961.37	2,733,837.90	12,645.48	57,521.40	12,057,923.35
Machinery and Equipment	2,351,968.60		332,714.23	114,142.20	2,570,540.63
General Infrastructure	1,111,218.23				1,111,218.23
Total Capital Assets, Depreciable	12,832,148.20	2,733,837.90	345,359.71	171,663.60	15,739,682.21
Less Accumulated Depreciation:					
Buildings	4,112,266.38		283,524.64	57,521.40	4,338,269.62
Machinery and Equipment	1,675,331.89		167,952.13	114,142.20	1,729,141.82
General Infrastructure	616,264.60		38,064.19		654,328.79
Total Accumulated Depreciation	6,403,862.87		489,540.96	171,663.60	6,721,740.23
Total Capital Assets, Depreciable, Net	6,428,285.33	2,733,837.90	(144,181.25)		9,017,941.98
Capital Assets, Net	\$ 7,063,585.26	\$ 0.00	\$ 2,142,029.73	\$ 0.00	\$ 9,205,614.99

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 180,579.63
Accrued Payroll	10,331.77
Contract Retainage	3,676.51
Total Accounts Payable and Accrued Liabilities	\$ 194,587.91

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 234,641.85	\$ 241,243.96	\$ 262,469.92	\$ 213,415.89	\$ 7,709.84

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,513,189.58	\$ 422,227.67	\$ 1,090,961.91

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	\$ 4,599,021.48	\$ 379,009.84	\$ 227,785.37	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,205,816.69
Academic Support	635,731.42	54,383.45	86,585.76				776,700.63
Student Services	768,997.96	20,634.93	94,118.71				883,751.60
Institutional Support	1,761,684.32	799,092.80	324,273.42				2,885,050.54
Operations and Maintenance of Plant	452,569.71	114,902.95	132,250.07		285,523.07		985,245.80
Student Financial Aid			1,389.25	1,900,136.30			1,901,525.55
Auxiliary Enterprises	66,594.55	509,215.23	11,556.04				587,365.82
Depreciation						489,540.96	489,540.96
Total Operating Expenses	<u>\$ 8,284,599.44</u>	<u>\$ 1,877,239.20</u>	<u>\$ 877,958.62</u>	<u>\$ 1,900,136.30</u>	<u>\$ 285,523.07</u>	<u>\$ 489,540.96</u>	<u>\$ 13,714,997.59</u>

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$7,143,059.11, of which \$5,632,544.12 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$337,952.63. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$292,689.96, and \$303,044.17, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$12,252.00 for the year ended June 30, 2003.

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 except for a 5% employer contribution for the College’s law enforcement officers, which is mandated under General Statute 143-166.30(e) and a 1% employer contribution for all permanent full-time employees. Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2003 were \$2,865.20 and total employer contributions on behalf of permanent full time employees were \$56,522.32. The voluntary contributions by employees amounted to \$232,970.00 for the year ended June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$6,056.00 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$132,364.79. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$29,289.23. 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 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, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty for employees paid by county and institutional funds by contracts with private insurance companies.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

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

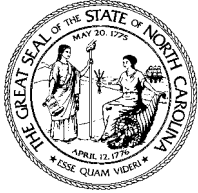
NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. 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 \$448,996.21 and on other purchases were \$7,777.68 at June 30, 2003.

B. Community College General Obligation Bonds - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$3,022,491.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

Beaufort County Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003 **Schedule 1**

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Law Enforcement/EMT/Fire Svc Trng Facility 1084	Feb 2001	\$ 3,990,000.00	\$ 10,000.00	\$ 4,000,000.00	\$ 2,936,102.42	100.00%	Completed
Renovations to Buildings 1, 3 and 4 1265	Jul 2002	180,000.00		180,000.00	154,895.00	100.00%	Completed
Projects Pending Approval by the State Board							
Roof Replacement - Building No. 3	Jul 2003	134,000.00		134,000.00			Jul 2004
Cosmetology Building	Jul 2003	900,000.00	50,000.00	950,000.00			Mar 2005
Renovate space vacated by Cosmetology and other programs	Jul 2004	70,000.00		70,000.00			May 2005
Air Condition shops in Building No. 4	Jan 2004	134,399.00		134,399.00			May 2005
Classrooms (Addition to existing building)	Jan 2004	1,169,045.00		1,169,045.00			Mar 2006
Renovations to lower level of Building No. 5	Jul 2004	400,000.00		400,000.00			Mar 2006
Re-surface and repair parking lots, streets, and sidewalks	Jan 2005	91,000.00		91,000.00			Oct 2005
Replace HVAC units, air-handlers, etc. in Buildings No. 1 and 2	Jan 2006	110,000.00		110,000.00			Oct 2006
Total All Projects		\$ 7,178,444.00	\$ 60,000.00	\$ 7,238,444.00	\$ 3,090,997.42		
<p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p>							



Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 12, 2004.

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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being

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

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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



Ralph Campbell, Jr.
State Auditor

March 12, 2004

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April 22, 2004

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