

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**BEAUFORT COUNTY COMMUNITY COLLEGE**

**WASHINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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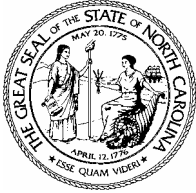
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement and compliance audit of Beaufort County Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 20, 2006

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Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT**

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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, 2005, 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, 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, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 31, 2006

## **BEAUFORT COUNTY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Beaufort County Community College is one of the 58 community colleges in the North Carolina Community College System. The College's service area includes Beaufort, Hyde, Tyrrell, and parts of Washington Counties. The College offers both curriculum and continuing education classes.

This section of the Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2005. This section is to be read in conjunction with the College's basic financial statements and the related notes.

### **Basic Financial Statements**

The basic financial statements include the 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, 2005, and includes all assets and liabilities of the College. The focus of the Statement of Net Assets is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portion to give the users of these statements insight into the financial position 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 College has chosen to use the direct method 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.

### **Condensed Financial Statements and Financial Analysis**

This segment of the Management Discussion and Analysis will attempt to provide additional information about the basic financial statements. We will use charts and graphs to help in our explanations.

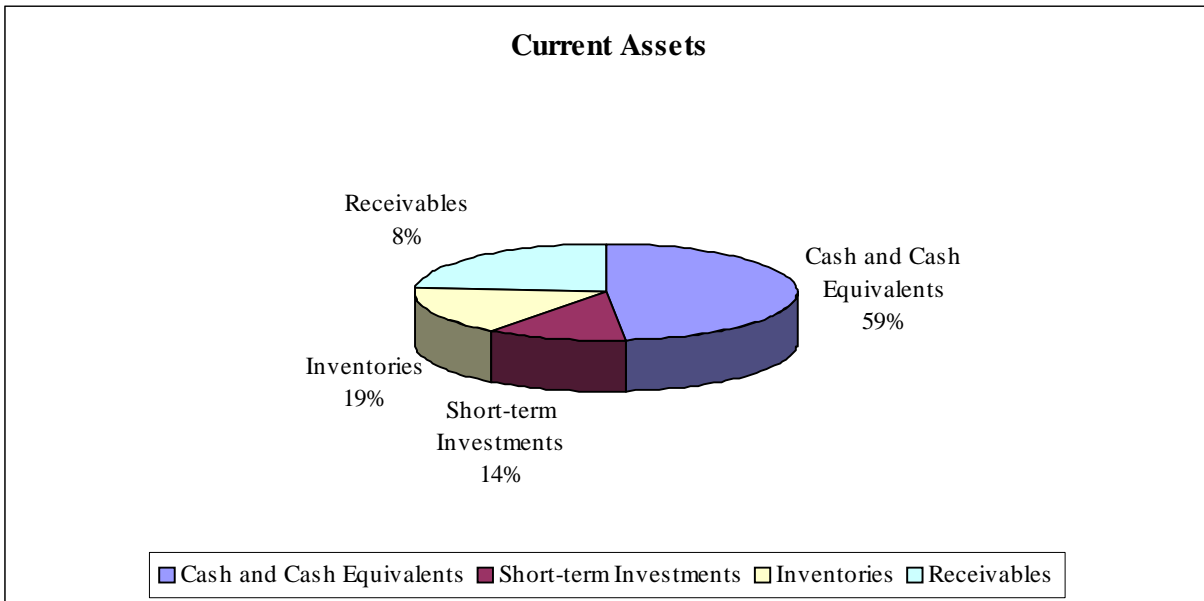
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of the Statement of Net Assets

#### Condensed Statement of Net Assets

|                                  | 2005             | 2004             | (in thousands)<br>Variance |
|----------------------------------|------------------|------------------|----------------------------|
| <b>Assets</b>                    |                  |                  |                            |
| Current Assets                   | \$ 1,010         | \$ 708           | \$ 302                     |
| Capital Assets                   | 10,458           | 9,581            | 877                        |
| Other Assets                     | 2,242            | 1,729            | 513                        |
| <b>Total Assets</b>              | <b>13,710</b>    | <b>12,018</b>    | <b>1,692</b>               |
| <b>Liabilities</b>               |                  |                  |                            |
| Current Liabilities              | 858              | 328              | 530                        |
| Noncurrent Long-Term Liabilities | 379              | 325              | 54                         |
| <b>Total Liabilities</b>         | <b>1,237</b>     | <b>653</b>       | <b>584</b>                 |
| <b>Net Assets</b>                |                  |                  |                            |
| Invested in Capital Assets       | 10,458           | 9,581            | 877                        |
| Restricted                       | 2,348            | 1,640            | 708                        |
| Unrestricted                     | (333)            | 144              | (477)                      |
| <b>Total Net Assets</b>          | <b>\$ 12,473</b> | <b>\$ 11,365</b> | <b>\$ 1,108</b>            |

As shown in the condensed Statement of Net Assets table above, the College continues to build upon its strong financial foundation. Increases were shown in every category of assets. Our total net assets increased by approximately \$1.1 million during fiscal year 2005. This is mainly attributable to the funds received for the construction of our public service building.



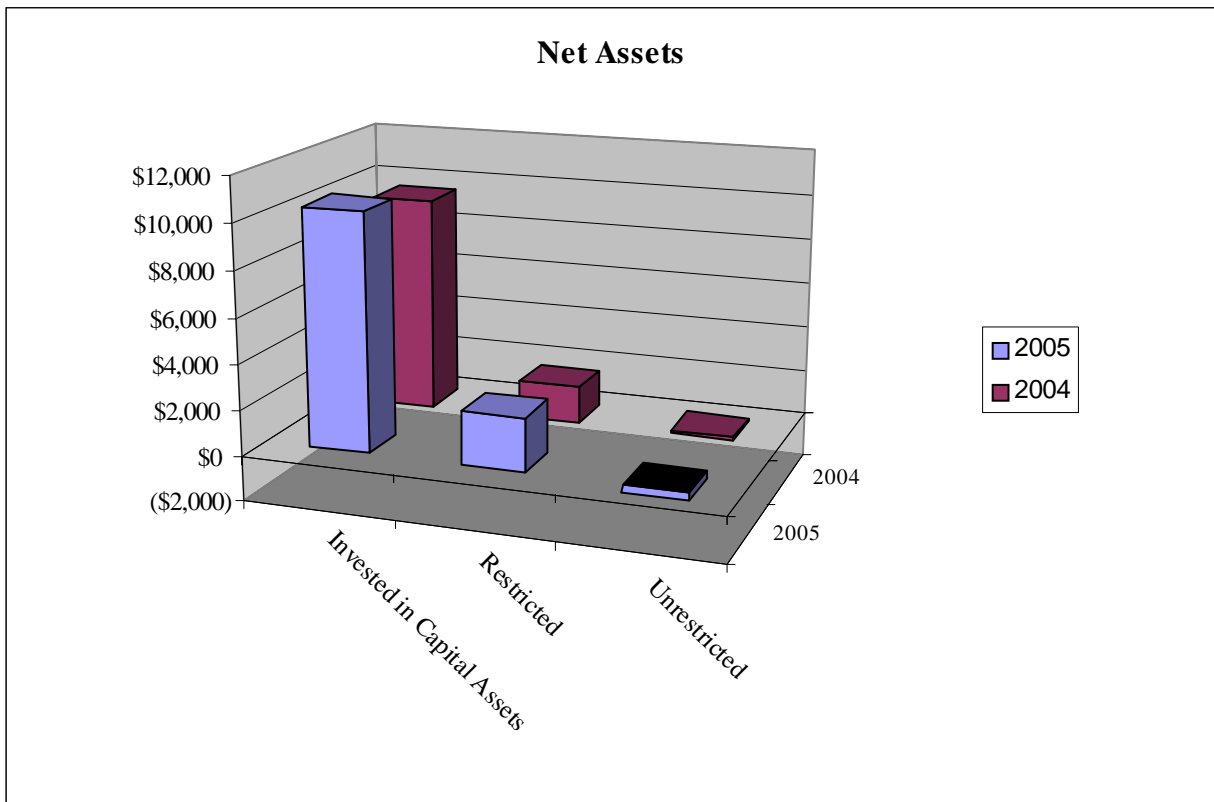


## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As can be seen from the chart above, cash and cash equivalents make up well over half of our total current assets. Our short-term investments also showed gains during the year due to the stock market performing much better than in the prior two years.

|                          | 2005            | 2004          | (in thousands)<br>Variance |
|--------------------------|-----------------|---------------|----------------------------|
| <b>Liabilities</b>       |                 |               |                            |
| Accounts Payable         | \$ 137          | \$ 62         | \$ 75                      |
| Accrued Payroll          | 229             | 140           | 89                         |
| Contracts Payable        | 398             | 24            | 374                        |
| Deferred Revenue         | 56              | 57            | (1)                        |
| Funds Held for Others    | 6               | 3             | 3                          |
| Compensated Absences     | 411             | 367           | 44                         |
| <b>Total Liabilities</b> | <b>\$ 1,237</b> | <b>\$ 653</b> | <b>\$ 584</b>              |

The College's liabilities also increased during the year, but approximately \$374 thousand of the \$584 thousand increase was due to contracts payable from our construction projects. Compensated absences also continue to grow as a liability for the College. The large increases in compensated absences during recent years are attributable to the General Assembly awarding bonus vacation days to College employees.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase in our net assets during fiscal year 2005 is mainly due to our current construction projects. We did however show a decrease in our unrestricted net assets, which is attributable to increases in our compensated absences, increases in our accrued payroll, and increases in our accounts payable. The College is currently exploring options to increase our unrestricted net assets; however, the General Assembly has recently awarded 5 additional bonus days to community college employees, and increased the percentage the College is responsible for on retirement and post-employment benefits. Both of which will contribute to a decrease in unrestricted net assets during fiscal year 2006.

### Analysis of the Statement of Revenues, Expenses, and Changes in Net Assets

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

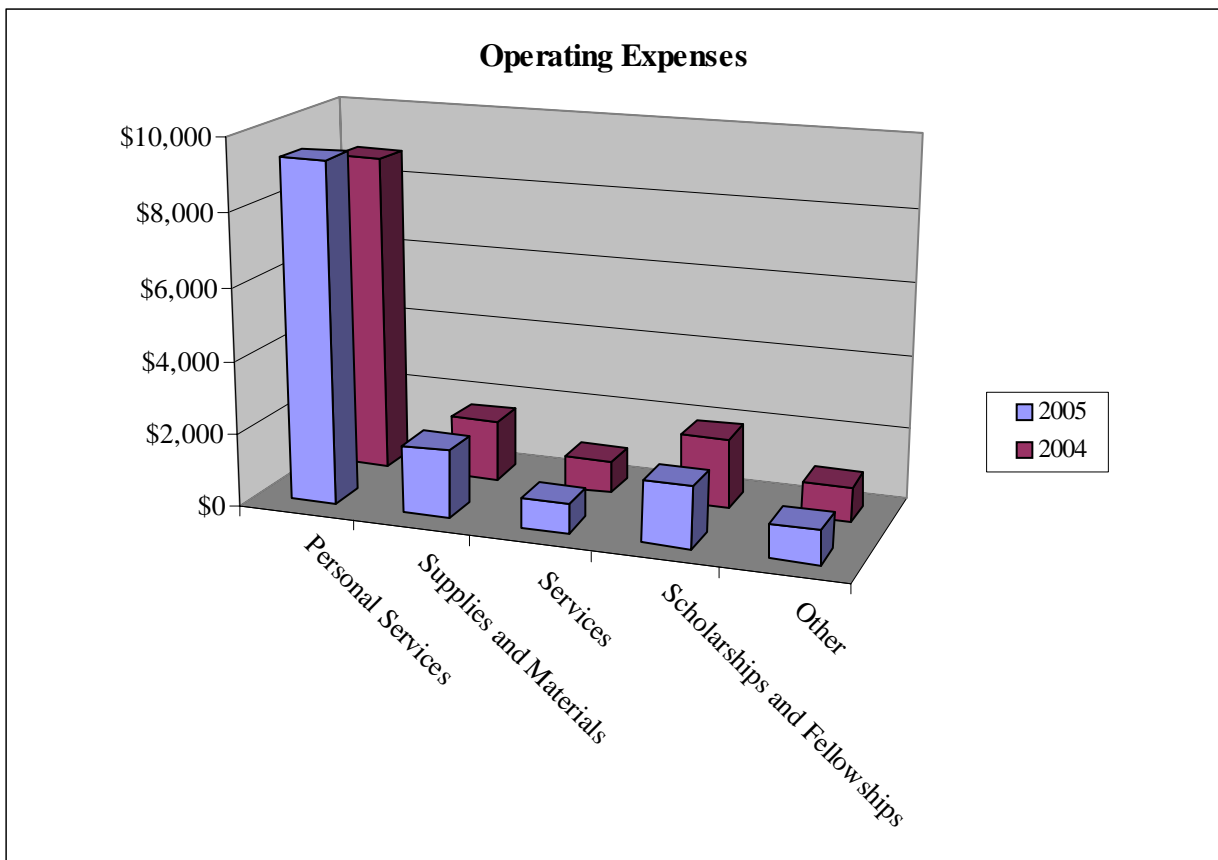
|                               | 2005      | 2004      | (in thousands)<br>Variance |
|-------------------------------|-----------|-----------|----------------------------|
| <b>Operating Revenues</b>     |           |           |                            |
| Student Tuition and Fees, Net | \$ 952    | \$ 912    | \$ 40                      |
| Grants and Contracts          | 2,759     | 3,037     | (278)                      |
| Sales and Services, Net       | 519       | 540       | (21)                       |
| Other                         | 3         | 4         | (1)                        |
| Total Operating Revenues      | 4,233     | 4,493     | (260)                      |
| <b>Operating Expenses</b>     |           |           |                            |
| Personal Services             | 9,357     | 8,812     | 545                        |
| Supplies and Materials        | 1,868     | 1,677     | 191                        |
| Services                      | 818       | 884       | (66)                       |
| Scholarships and Fellowships  | 1,687     | 1,900     | (213)                      |
| Other                         | 941       | 955       | (14)                       |
| Total Operating Expenses      | 14,671    | 14,228    | 443                        |
| <b>Nonoperating Revenues</b>  |           |           |                            |
| State Aid                     | 6,827     | 6,883     | (56)                       |
| County Appropriations         | 1,273     | 1,184     | 89                         |
| Other                         | 418       | 460       | (42)                       |
| Net Nonoperating Revenues     | 8,518     | 8,527     | (9)                        |
| <b>Other Revenues</b>         |           |           |                            |
| State Capital Aid             | 2,175     | 341       | 1,834                      |
| County Capital Appropriations | 515       | 372       | 143                        |
| Other                         | 338       | 78        | 260                        |
| Total Other Revenues          | 3,028     | 791       | 2,237                      |
| <b>Net Assets</b>             |           |           |                            |
| Net Assets, July 1            | 11,365    | 11,782    | (417)                      |
| Net Assets, June 30           | \$ 12,473 | \$ 11,365 | \$ 1,108                   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating revenues decreased by approximately \$260 thousand from fiscal year 2004. Grants and contracts was the largest factor in this decrease. Pell grants made up a majority of the decrease in grants and contracts and this decrease is due to fewer students at the College that qualify for the grants.

State capital aid and county capital appropriations increased drastically from fiscal year 2004. We are currently in the construction phase of a public service building and a majority of these revenues were related to that building.

Beaufort County continues to provide increasing financial support to the College as is evidenced by the College's 2005-2006 budget. The College's 2005-2006 county budget will allow us the funds to take care of many capital needs on campus.



Operating expenses increased by approximately \$443 thousand from fiscal year 2004. The largest increase was shown in the personal services line. During fiscal year 2005, full-time College employees received approximately 4.5% in pay increases and \$1,000 in performance bonuses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of the Statement of Cash Flows

| Statement of Cash Flows                      |                |               |              |
|--|----------------|---------------|--------------|
|  | (in thousands) |               |              |
|  | 2005           | 2004          | Variance     |
| Cash Provided (Used) by:                     |                |               |              |
| Operating Activities                         | \$ (9,607)     | \$ (8,908)    | \$ (699)     |
| Noncapital Financing Activities              | 8,504          | 8,470         | 34           |
| Capital Financing Activities                 | 1,151          | 204           | 947          |
| Investing Activities                         | (31)           | 43            | (74)         |
| Net Change in Cash and Cash Equivalents      | 17             | (191)         | 208          |
| Cash and Cash Equivalents, Beginning of Year | 593            | 784           | (191)        |
| Cash and Cash Equivalents, End of Year       | <u>\$ 610</u>  | <u>\$ 593</u> | <u>\$ 17</u> |

As can be seen from the above chart, cash and cash equivalents increased by approximately \$17 thousand during fiscal year 2005. Most of the increase in cash during this year was attributable to the construction of a new public safety building.

### Analysis of Capital Assets

| Capital Assets            |                  |                 |               |
|---------------------------|------------------|-----------------|---------------|
|                           | (in thousands)   |                 |               |
|                           | 2005             | 2004            | Variance      |
| <b>Capital Assets</b>     |                  |                 |               |
| Land                      | \$ 180           | \$ 129          | \$ 51         |
| Construction in Progress  | 1,424            | 172             | 1,252         |
| Buildings                 | 7,419            | 7,717           | (298)         |
| Machinery and Equipment   | 895              | 951             | (56)          |
| General Infrastructure    | 540              | 612             | (72)          |
| Total Capital Assets, Net | <u>\$ 10,458</u> | <u>\$ 9,581</u> | <u>\$ 877</u> |

During fiscal year 2005, the College purchased approximately 31.6 acres of land. The final cost of the land to the College was approximately \$51 thousand. The large increase in construction in progress is due to the public service building that is currently being constructed. The construction cost of the public service building is expected to be approximately \$3.1 million. During fiscal year 2006, the College also plans to renovate two other buildings on campus. These two renovations will cost the College approximately \$714 thousand.

### Analysis of the Overall Financial Position

Beaufort County Community College is well positioned to meet the needs of our growing community. The College has a strong financial base and will continue to be an asset to our service area for many years.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Future Financial Influences**

The three construction projects discussed previously (construction of the public service building and renovations to two existing classroom buildings) will leave the College with approximately \$250 thousand remaining in our portion of the Community College General Obligation Bonds from 2000. At the current time, no other bond series has been discussed and the College will have to seek future construction funds from Beaufort County.

Beaufort County Community College continues to provide training opportunities for local companies through our NEIT (New and Expanding Industry Training) projects. During fiscal year 2005, we continued our project with Prettl Appliance Systems. We have several new NEIT projects that will take place during fiscal year 2006 including Hackney, Impressions, Flanders, and many others.

The College also received funding from the Golden Leaf Foundation during fiscal year 2005 for a Work-Keys project. This is computerized training software that can be customized for a particular industry. Plans are to begin using the software during the 2005-2006 school year.

Continuing Education showed an increase in full-time equivalents (FTE's) during fiscal year 2005. This is attributed to increases in the basic skills programs.

Welding careers continue to be a growing part of the local economy. Beaufort County Community College's welding programs are a major contributor to the workforce in this area. Both our curriculum and continuing education programs offer welding classes to meet the needs of local industry. The Golden Leaf Foundation has awarded the College a \$215 thousand grant for a non-ferrous welding lab.

Nursing continues to be a strong program at the College. Our nursing graduates are highly sought by local and regional health care institutions. We are currently exploring ways to expand our nursing programs.

We have received notice that our federal student support services program has received funding for an additional four-year period. This federal program will receive approximately \$320 thousand a year for the next four years.

We are entering the final year of our federal Title III grant. At the current time, we have not found any replacements for the approximately \$350 thousand a year we receive from this grant.

### **Contacting the College's Financial Management**

Our financial statements are designed to provide the citizens of North Carolina with a general overview of the College's finances and show accountability of all funds received. If you have any questions or need additional financial information, please contact the Beaufort County Community College Controller's Office at (252) 940-6210.

**Beaufort County Community College**  
**Statement of Net Assets**  
**June 30, 2005**

**Exhibit A-1**

**ASSETS**

Current Assets:

|                                      |               |
|--------------------------------------|---------------|
| Cash and Cash Equivalents            | \$ 136,219.44 |
| Restricted Cash and Cash Equivalents | 456,052.33    |
| Short-Term Investments               | 30,134.00     |
| Restricted Short-Term Investments    | 118,300.03    |
| Receivables (Note 4)                 | 78,741.52     |
| Inventories                          | 190,449.47    |
|                                      | <hr/>         |
| Total Current Assets                 | 1,009,896.79  |
|                                      | <hr/>         |

Noncurrent Assets:

|  |               |
|--|---------------|
| Restricted Cash and Cash Equivalents             | 17,512.30     |
| Restricted Due from Primary Government           | 1,451,006.03  |
| Endowment Investments                            | 551,887.05    |
| Notes Receivable (Note 4)                        | 6,731.14      |
| Due from State of North Carolina Component Units | 215,000.00    |
| Capital Assets - Nondepreciable (Note 5)         | 1,604,391.90  |
| Capital Assets - Depreciable, Net (Note 5)       | 8,853,709.94  |
|  | <hr/>         |
| Total Noncurrent Assets                          | 12,700,238.36 |
|  | <hr/>         |
| Total Assets                                     | 13,710,135.15 |
|  | <hr/>         |

**LIABILITIES**

Current Liabilities:

|   |            |
|---|------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 763,954.50 |
| Deferred Revenue                                  | 55,546.86  |
| Funds Held for Others                             | 6,232.52   |
| Long-Term Liabilities - Current Portion (Note 7)  | 31,640.92  |
|   | <hr/>      |
| Total Current Liabilities                         | 857,374.80 |
|   | <hr/>      |

Noncurrent Liabilities:

|                                |              |
|--------------------------------|--------------|
| Long-Term Liabilities (Note 7) | 379,280.17   |
|                                | <hr/>        |
| Total Liabilities              | 1,236,654.97 |
|                                | <hr/>        |

**NET ASSETS**

|                              |                  |
|------------------------------|------------------|
| Invested in Capital Assets   | 10,458,101.84    |
| Restricted for:              |                  |
| Nonexpendable:               |                  |
| Scholarships and Fellowships | 558,816.83       |
| Expendable:                  |                  |
| Scholarships and Fellowships | 108,214.14       |
| Loans                        | 7,447.49         |
| Capital Projects             | 1,644,444.24     |
| Other                        | 29,195.96        |
| Unrestricted                 | (332,740.32)     |
|                              | <hr/>            |
| Total Net Assets             | \$ 12,473,480.18 |
|                              | <hr/> <hr/>      |

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, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

|  |               |
|--|---------------|
| Student Tuition and Fees, Net (Note 8) | \$ 952,487.10 |
| Federal Grants and Contracts           | 2,589,500.45  |
| State and Local Grants and Contracts   | 169,124.05    |
| Sales and Services, Net (Note 8)       | 518,965.35    |
| Other Operating Revenues               | 2,977.75      |

|                          |              |
|--------------------------|--------------|
| Total Operating Revenues | 4,233,054.70 |
|--------------------------|--------------|

**EXPENSES**

Operating Expenses:

|                              |              |
|------------------------------|--------------|
| Personal Services            | 9,357,192.98 |
| Supplies and Materials       | 1,867,689.02 |
| Services                     | 818,365.39   |
| Scholarships and Fellowships | 1,686,508.42 |
| Utilities                    | 354,126.75   |
| Depreciation                 | 586,894.96   |

|                          |               |
|--------------------------|---------------|
| Total Operating Expenses | 14,670,777.52 |
|--------------------------|---------------|

|                |                 |
|----------------|-----------------|
| Operating Loss | (10,437,722.82) |
|----------------|-----------------|

**NONOPERATING REVENUES (EXPENSES)**

|                             |              |
|-----------------------------|--------------|
| State Aid                   | 6,826,887.77 |
| County Appropriations       | 1,272,570.00 |
| Noncapital Grants           | 249,026.00   |
| Noncapital Gifts            | 117,423.09   |
| Investment Income, Net      | 109,867.64   |
| Other Nonoperating Expenses | (57,663.62)  |

|                           |              |
|---------------------------|--------------|
| Net Nonoperating Revenues | 8,518,110.88 |
|---------------------------|--------------|

|                            |                |
|----------------------------|----------------|
| Loss Before Other Revenues | (1,919,611.94) |
|----------------------------|----------------|

|                               |              |
|-------------------------------|--------------|
| State Capital Aid             | 2,175,493.02 |
| County Capital Appropriations | 514,891.05   |
| Capital Grants                | 299,168.97   |
| Additions to Endowments       | 38,449.92    |

|                        |              |
|------------------------|--------------|
| Increase in Net Assets | 1,108,391.02 |
|------------------------|--------------|

**NET ASSETS**

|                          |               |
|--------------------------|---------------|
| Net Assets, July 1, 2004 | 11,365,089.16 |
|--------------------------|---------------|

|                           |                  |
|---------------------------|------------------|
| Net Assets, June 30, 2005 | \$ 12,473,480.18 |
|---------------------------|------------------|

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, 2005**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                       |
|---|-----------------------|
| Received from Customers                   | \$ 4,252,402.40       |
| Payments to Employees and Fringe Benefits | (9,224,657.25)        |
| Payments to Vendors and Suppliers         | (2,951,469.77)        |
| Payments for Scholarships and Fellowships | (1,686,508.42)        |
| Loans Issued to Students                  | (1,000.00)            |
| Collection of Loans to Students           | 473.88                |
| Other Receipts                            | 3,618.76              |
|   | <u>3,618.76</u>       |
| Net Cash Used by Operating Activities     | <u>(9,607,140.40)</u> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|  |                     |
|--|---------------------|
| State Aid Received                               | 6,826,887.77        |
| County Appropriations                            | 1,272,570.00        |
| Noncapital Grants Received                       | 249,026.00          |
| Noncapital Gifts and Endowments Received         | 155,873.01          |
|  | <u>155,873.01</u>   |
| Cash Provided by Noncapital Financing Activities | <u>8,504,356.78</u> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

|   |                       |
|---|-----------------------|
| State Capital Aid Received                                    | 1,699,269.59          |
| County Capital Appropriations                                 | 514,891.05            |
| Capital Grants Received                                       | 84,168.97             |
| Proceeds from Sale of Capital Assets                          | 7,694.79              |
| Acquisition and Construction of Capital Assets                | (1,155,319.71)        |
|   | <u>(1,155,319.71)</u> |
| Net Cash Provided by Capital and Related Financing Activities | <u>1,150,704.69</u>   |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                    |
|---|--------------------|
| Proceeds from Sales and Maturities of Investments | 17,029.99          |
| Investment Income                                 | 42,430.56          |
| Purchase of Investments and Related Fees          | (90,451.98)        |
|   | <u>(90,451.98)</u> |
| Net Cash Used by Investing Activities             | <u>(30,991.43)</u> |

|   |                      |
|---|----------------------|
| Net Increase in Cash and Cash Equivalents | 16,929.64            |
| Cash and Cash Equivalents, July 1, 2004   | 592,854.43           |
|   | <u>592,854.43</u>    |
| Cash and Cash Equivalents, June 30, 2005  | <u>\$ 609,784.07</u> |

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

|   |                          |
|---|--------------------------|
| Operating Loss  | \$ (10,437,722.82)       |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: |                          |
| Depreciation Expense  | 586,894.96               |
| Changes in Assets and Liabilities:  |                          |
| Receivables   | 17,660.03                |
| Inventories   | 16,980.08                |
| Notes Receivable  | (526.12)                 |
| Accounts Payable and Accrued Liabilities  | 163,679.37               |
| Deferred Revenue  | (1,629.23)               |
| Funds Held for Others   | 3,618.76                 |
| Compensated Absences  | 43,904.57                |
|   | <u>43,904.57</u>         |
| Net Cash Used by Operating Activities   | <u>\$ (9,607,140.40)</u> |



**Beaufort County Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2005**

**Exhibit A-3**

**Page 2**

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

|   |    |                          |
|---|----|--------------------------|
| Current Assets:                                 |    |                          |
| Cash and Cash Equivalents                       | \$ | 136,219.44               |
| Restricted Cash and Cash Equivalents            |    | 456,052.33               |
| Noncurrent Assets:                              |    |                          |
| Restricted Cash and Cash Equivalents            |    | <u>17,512.30</u>         |
| Total Cash and Cash Equivalents - June 30, 2005 | \$ | <u><u>609,784.07</u></u> |

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

|  |    |            |
|--|----|------------|
| Assets Acquired through Assumption of a Liability      | \$ | 373,873.54 |
| Change in Fair Value of Investments                    |    | 62,862.47  |
| Capital Asset Write-Offs                               |    | 284,324.18 |
| Increase in Receivables Related to Nonoperating Income |    | 691,223.43 |

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, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

**Blended Component Unit** – 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 three 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) 940-6210. 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)

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- 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 (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 mutual funds held by the College. 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Depreciation is computed using the straight-line 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 July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 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 includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

**L. Net Assets** – The College’s net assets are classified as follows:

**Invested in Capital Assets** – This represents the College’s total investment in capital assets.

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

**Restricted Net Assets – Expendable** – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets** – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

**M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**N. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

**O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College as approved by the county commissioners.

### NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,153.00, and deposits in private financial institutions with a carrying value of \$50,842.30 and a bank balance of \$49,594.44.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. The College does not have a deposit policy for custodial credit risk. As of June 30, 2005, all of the College's bank balance was covered by federal depository insurance.

- 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.

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, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$557,788.77 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 1.41 years as of June 30, 2005. 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Investments of the College's component unit, Beaufort County Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments at June 30, 2005.

| <b>Investment Type</b> | <u>Fair<br/>Value</u> |
|------------------------|-----------------------|
| Mutual Funds           | <u>\$ 700,321.08</u>  |

*Interest Rate Risk:* Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk; however, the College's investments were not subject to interest rate risk.

*Credit Risk:* The College does not have a formal policy that addresses credit risk. As of June 30, 2005, the College's investments were not rated.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2005, is as follows:

|   |    |                     |
|---|----|---------------------|
| Cash on Hand                                  | \$ | 1,153.00            |
| Carrying Amount of Deposits                   |    | 50,842.30           |
| Investments in the Short Term Investment Fund |    | 557,788.77          |
| Other Investments                             |    | 700,321.08          |
| Total Deposits and Investments                | \$ | <u>1,310,105.15</u> |
| Current:                                      |    |                     |
| Cash and Cash Equivalents                     | \$ | 136,219.44          |
| Restricted Cash and Cash Equivalents          |    | 456,052.33          |
| Short-Term Investments                        |    | 30,134.00           |
| Restricted Short-Term Investments             |    | 118,300.03          |
| Noncurrent:                                   |    |                     |
| Restricted Cash and Cash Equivalents          |    | 17,512.30           |
| Endowment Investments                         |    | 551,887.05          |
| Total   | \$ | <u>1,310,105.15</u> |

### 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 an adopted spending policy which limits spending to 80% of the prior year interest earnings unless the donor has stipulated otherwise. At June 30, 2005, net appreciation of \$118,300.03 was available to be spent, of which \$102,732.65 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

|                                       | Receivables         |
|---------------------------------------|---------------------|
| <b>Current Receivables:</b>           |                     |
| Students                              | \$ 18,769.98        |
| Accounts                              | 29,831.88           |
| Intergovernmental                     | 24,033.48           |
| Interest on Loans                     | 2,789.28            |
| Other                                 | 3,316.90            |
| <b>Total Current Receivables</b>      | <b>\$ 78,741.52</b> |
| <b>Notes Receivable - Noncurrent:</b> |                     |
| Institutional Student Loan Programs   | <b>\$ 6,731.14</b>  |

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

|   | Balance<br>July 1, 2004 | Adjustments        | Increases            | Decreases           | Balance<br>June 30, 2005 |
|---|-------------------------|--------------------|----------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable:               |                         |                    |                      |                     |                          |
| Land  | \$ 129,283.53           | \$ 0.00            | \$ 50,887.50         | \$ 0.00             | \$ 180,171.03            |
| Construction in Progress                      | 172,045.60              | (28,210.00)        | 1,280,385.27         |                     | 1,424,220.87             |
| <b>Total Capital Assets, Nondepreciable</b>   | <b>301,329.13</b>       | <b>(28,210.00)</b> | <b>1,331,272.77</b>  |                     | <b>1,604,391.90</b>      |
| Capital Assets, Depreciable:                  |                         |                    |                      |                     |                          |
| Buildings                                     | 12,353,233.70           | 28,210.00          |                      |                     | 12,381,443.70            |
| Machinery and Equipment                       | 2,943,996.28            |                    | 197,920.48           | 377,137.58          | 2,764,779.18             |
| General Infrastructure                        | 1,328,125.57            |                    |                      |                     | 1,328,125.57             |
| <b>Total Capital Assets, Depreciable</b>      | <b>16,625,355.55</b>    | <b>28,210.00</b>   | <b>197,920.48</b>    | <b>377,137.58</b>   | <b>16,474,348.45</b>     |
| Less Accumulated Depreciation:                |                         |                    |                      |                     |                          |
| Buildings                                     | 4,635,845.04            |                    | 327,065.70           |                     | 4,962,910.74             |
| Machinery and Equipment                       | 1,993,258.82            |                    | 188,107.38           | 311,779.17          | 1,869,587.03             |
| General Infrastructure                        | 716,418.86              |                    | 71,721.88            |                     | 788,140.74               |
| <b>Total Accumulated Depreciation</b>         | <b>7,345,522.72</b>     |                    | <b>586,894.96</b>    | <b>311,779.17</b>   | <b>7,620,638.51</b>      |
| <b>Total Capital Assets, Depreciable, Net</b> | <b>9,279,832.83</b>     | <b>28,210.00</b>   | <b>(388,974.48)</b>  | <b>65,358.41</b>    | <b>8,853,709.94</b>      |
| <b>Capital Assets, Net</b>                    | <b>\$ 9,581,161.96</b>  | <b>\$ 0.00</b>     | <b>\$ 942,298.29</b> | <b>\$ 65,358.41</b> | <b>\$ 10,458,101.84</b>  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

|   | Amount               |
|---|----------------------|
| Accounts Payable                                      | \$ 137,116.69        |
| Accrued Payroll                                       | 229,173.07           |
| Contracts Payable                                     | 397,664.74           |
| <b>Total Accounts Payable and Accrued Liabilities</b> | <b>\$ 763,954.50</b> |

### NOTE 7 - LONG-TERM LIABILITIES

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

|                      | Balance<br>July 1, 2004 | Additions     | Reductions    | Balance<br>June 30, 2005 | Current<br>Portion |
|----------------------|-------------------------|---------------|---------------|--------------------------|--------------------|
| Compensated Absences | \$ 367,016.52           | \$ 354,423.33 | \$ 310,518.76 | \$ 410,921.09            | \$ 31,640.92       |

### NOTE 8 - REVENUES

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

|  | Gross<br>Revenues | Less<br>Scholarship<br>Discounts | Net<br>Revenues |
|--|-------------------|----------------------------------|-----------------|
| <b>Operating Revenues:</b>                             |                   |                                  |                 |
| <b>Student Tuition and Fees</b>                        | \$ 1,267,071.60   | \$ 314,584.50                    | \$ 952,487.10   |
| <b>Sales and Services:</b>                             |                   |                                  |                 |
| Sales and Services of Auxiliary Enterprises:           |                   |                                  |                 |
| Bookstore  | \$ 672,674.78     | \$ 196,935.02                    | \$ 475,739.76   |
| Vending  | 14,478.09         |                                  | 14,478.09       |
| Sales and Services of Education and Related Activities | 28,747.50         |                                  | 28,747.50       |
| <b>Total Sales and Services</b>                        | \$ 715,900.37     | \$ 196,935.02                    | \$ 518,965.35   |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

|                                     | Personal<br>Services   | Supplies<br>and<br>Materials | Services             | Scholarships<br>and<br>Fellowships | Utilities            | Depreciation         | Total                   |
|-------------------------------------|------------------------|------------------------------|----------------------|------------------------------------|----------------------|----------------------|-------------------------|
| Instruction                         | \$ 5,245,536.69        | \$ 809,006.38                | \$ 293,506.56        | \$ 0.00                            | \$ 0.00              | \$ 0.00              | \$ 6,348,049.63         |
| Academic Support                    | 934,993.78             | 119,371.32                   | 74,814.83            |                                    |                      |                      | 1,129,179.93            |
| Student Services                    | 653,904.15             | 11,880.90                    | 50,551.10            |                                    |                      |                      | 716,336.15              |
| Institutional Support               | 1,711,666.64           | 72,400.52                    | 250,445.96           |                                    |                      |                      | 2,034,513.12            |
| Operations and Maintenance of Plant | 548,677.13             | 292,714.28                   | 138,717.32           |                                    | 354,126.75           |                      | 1,334,235.48            |
| Student Financial Aid               | 188,461.51             | 3,038.61                     | 6,685.11             | 1,686,508.42                       |                      |                      | 1,884,693.65            |
| Auxiliary Enterprises               | 73,953.08              | 559,277.01                   | 3,644.51             |                                    |                      |                      | 636,874.60              |
| Depreciation                        |                        |                              |                      |                                    |                      | 586,894.96           | 586,894.96              |
| Total Operating Expenses            | <u>\$ 9,357,192.98</u> | <u>\$ 1,867,689.02</u>       | <u>\$ 818,365.39</u> | <u>\$ 1,686,508.42</u>             | <u>\$ 354,126.75</u> | <u>\$ 586,894.96</u> | <u>\$ 14,670,777.52</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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$7,823,109.90, of which \$6,371,695.06 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$382,266.69 and \$138,265.78, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$138,265.78, \$13,286.34, and \$0.00, 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)

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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 \$4,752.00 for the year ended June 30, 2005.

**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 G.S. 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, 2005, were \$3,781.92 and total employer contributions on behalf of permanent full-time employees were \$63,688.11. The voluntary contributions by employees amounted to \$248,600.38 for the year ended June 30, 2005.

**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)

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Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$8,233.20 for the year ended June 30, 2005.

### 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was \$203,894.24. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$28,354.05. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$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 \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. 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 (CONTINUED)

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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. There were no employer contributions required for the current fiscal year.

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

### NOTE 13 - COMMITMENTS 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 \$2,649,113.49 and on other purchases were \$132,302.44 at June 30, 2005.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 \$1,700,504.00 is

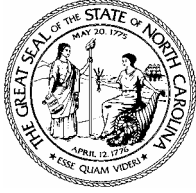
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

### **NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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Office of the State Auditor

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

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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, 2005, and have issued our report thereon dated January 31, 2006.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being 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.

**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)**

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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 the Board of Trustees, the State Board of Community Colleges, management 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 31, 2006

## ORDERING INFORMATION

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Copies of this report 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

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