



# **STATE OF NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**BRUNSWICK COMMUNITY COLLEGE**

**SUPPLY, 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**

**BRUNSWICK COMMUNITY COLLEGE**

**SUPPLY, NORTH CAROLINA**

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

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

**BOARD OF TRUSTEES**

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**HARRY YODER, VICE CHAIRMAN**

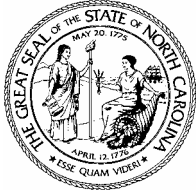
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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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, Brunswick Community College

We have completed a financial statement audit of Brunswick 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 disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the finding.

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

*Leslie W. Merritt, Jr.*

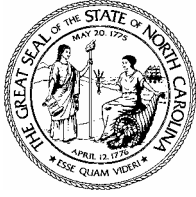
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 30, 2006

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets .....	6
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	7
A-3 Statement of Cash Flows .....	8
Component Unit Exhibits	
B-1 Statement of Financial Position... ..	10
B-2 Statement of Activities.....	11
Notes to the Financial Statements .....	13
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	27
AUDIT FINDINGS AND RECOMMENDATIONS .....	29
ORDERING INFORMATION .....	31



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Office of the State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Brunswick Community College  
Supply, North Carolina

We have audited the accompanying financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Brunswick Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brunswick Community College Foundation, Inc., which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Brunswick Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Brunswick Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 June 9, 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 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., CPA, CFP  
State Auditor

June 9, 2006

**BRUNSWICK COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of Brunswick Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2005. Management's Discussion and Analysis is designed to focus on current year results in comparison with the prior year and note any significant transactions that impact the financial condition of the College. The MD&A should be read in conjunction with the College's basic financial statements and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

**Financial Statement Presentation**

The Statement of Net Assets reports current (a period of time of one year or less) and noncurrent (a period of time greater than one year) assets and liabilities in a format similar to that used by corporations. The Statement of Revenues, Expenses, and Changes in Net Assets reports revenues earned and expenses incurred during the fiscal year. The revenues and expenses are categorized as either operating or nonoperating on the statement. State appropriations and gifts are required to be reported as nonoperating revenues even though these revenue sources are used to cover operating expenses.

**Statement of Net Assets**

The following condensed statement of net assets compares the current year information with the prior year and indicates the amount of increase or decrease between years.

**Condensed Statement of Net Assets**

	<b>2005</b>	<b>2004</b>	<b>Increase/ (Decrease)</b>
<b>Assets</b>			
Current Assets	\$ 1,115,400.25	\$ 1,316,257.50	\$ (200,857.25)
Capital Assets	16,142,363.81	16,678,576.28	(536,212.47)
Other Assets	590,600.51	474,735.61	115,864.90
Total Assets	17,848,364.57	18,469,569.39	(621,204.82)
<b>Liabilities</b>			
Current Liabilities	353,287.75	303,768.83	49,518.92
Long-Term Liabilities	285,918.08	370,034.64	(84,116.56)
Total Liabilities	639,205.83	673,803.47	(34,597.64)
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	16,142,363.81	16,678,576.28	(536,212.47)
Restricted	836,320.14	1,030,414.90	(194,094.76)
Unrestricted	230,474.79	86,774.74	143,700.05
Total Net Assets	\$ 17,209,158.74	\$ 17,795,765.92	\$ (586,607.18)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The following comparative statement for fiscal years ending 2005 and 2004 reflects the amount of increase or decrease in reported revenues and expenses between years.

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

	2005	2004	Increase/ (Decrease)
<b>Operating Revenues:</b>			
Student Tuition and Fees	\$ 537,761.00	\$ 609,642.12	\$ (71,881.12)
Federal Grants and Contracts	1,588,581.00	1,678,920.34	(90,339.34)
Other Operating Revenue	850,610.00	822,076.76	28,533.24
Total Operating Revenues	2,976,952.00	3,110,639.22	(133,687.22)
Total Operating Expenses	11,786,391.48	11,912,135.09	(125,743.61)
Operating Loss	(8,809,439.48)	(8,801,495.87)	(7,943.61)
<b>Nonoperating Revenues:</b>			
State Aid	5,452,340.69	5,182,948.11	269,392.58
County Appropriations	2,068,342.91	1,957,035.00	111,307.91
Noncapital Grants	229,840.00	187,433.86	42,406.14
Noncapital Gifts	75,447.80	55,553.19	19,894.61
Investment Income	15,331.00	12,372.98	2,958.02
Other Nonoperating Revenues	25,410.59	285,450.39	(260,039.80)
Other Revenues:			
State Capital Aid	252,172.31	523,427.00	(271,254.69)
County Capital Aid	103,947.00	128,500.00	(24,553.00)
Total Nonoperating Revenues	8,222,832.30	8,332,720.53	(109,888.23)
Decrease in Net Assets	(586,607.18)	(468,775.34)	(117,831.84)
Net Assets - Beginning of Year, As Restated	17,795,765.92	18,264,541.26	
Net Assets - June 30, 2005	\$ 17,209,158.74	\$ 17,795,765.92	\$ (586,607.18)

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a decrease of \$586,607.18 in Net Assets at the end of the fiscal year.

The decrease in State Capital Aid is associated with the completion of the projects for the Brunswick Interagency Program, including expansions to the building and repairs and renovations to the building. These final phases of these projects were completed during the fiscal year, and because they were near completion, fewer funds were required to complete the projects.



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

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### **Capital Assets**

At June 30, 2005, the College reported \$22.84 million invested in capital assets less \$6.70 million in accumulated depreciation for net capital assets of \$16.14 million. Funds from the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System were received during the year and were used to complete the expansion of the Brunswick Interagency Program building. The final phase of the repair and renovation project was completed in March 2005. The final phase of the Brunswick Interagency Program building expansion was completed in September 2004. General obligation bonds of \$1,032,578 have been authorized for these projects.

The following schedule reports capital assets for the fiscal years 2005 and 2004, net of accumulated depreciation.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
Land	\$ 403,748.02	\$ 403,748.02	\$ 0.00
Construction in Progress		614,324.92	(614,324.92)
Buildings	14,081,365.74	13,869,617.36	211,748.38
Machinery and Equipment	553,881.07	589,751.56	(35,870.49)
General Infrastructure	1,103,368.98	1,201,134.42	(97,765.44)
Totals	<u>\$ 16,142,363.81</u>	<u>\$ 16,678,576.28</u>	<u>\$ (536,212.47)</u>

### **Economic Factors and Next Year's Budget**

The State economy has continued to show improvement as evidenced by an increase in Brunswick Community College's initial State budget for 2004-2005. Budget reversions were once again required this year. There was an initial reversion of .75% in November 2004 followed by an additional reversion of 1% in February 2005. Tuition increased for both in-state and out-of-state students from FY 2004 by approximately 10% in FY 2005. An additional 4% increase in tuition is expected for the 2005-2006 fiscal year.

In November 2004, Brunswick County voted and approved bonds to be issued by the County on behalf of Brunswick Community College in the amount of \$30 million in order to facilitate additional construction on the campus. An initial \$3.5 million in bonds were sold in March 2005 to fund the start up costs of the construction projects, and the remainder of the bonds are expected to be sold in March 2006.

***Brunswick Community College***  
***Statement of Net Assets***  
***June 30, 2005***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 444,898.12
Restricted Cash and Cash Equivalents	121,507.00
Receivables, Net (Note 3)	420,162.76
Due from State of North Carolina Component Units	50,233.37
Inventories	77,785.00
Prepaid Items	453.00
Notes Receivable	361.00
	<hr/>
Total Current Assets	1,115,400.25

Noncurrent Assets:

Restricted Cash and Cash Equivalents	528,646.88
Receivables	59,225.58
Restricted Due from Primary Government	2,728.05
Capital Assets - Nondepreciable, Net (Note 4)	403,748.02
Capital Assets - Depreciable, Net (Note 4)	15,738,615.79
	<hr/>
Total Noncurrent Assets	16,732,964.32
	<hr/>
Total Assets	17,848,364.57

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	251,370.21
Due to State of North Carolina Component Units	3,871.70
Deferred Revenue	19,537.00
Funds Held for Others	111.00
Long-Term Liabilities - Current Portion (Note 6)	78,397.84
	<hr/>
Total Current Liabilities	353,287.75

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	285,918.08
	<hr/>
Total Noncurrent Liabilities	285,918.08
	<hr/>
Total Liabilities	639,205.83

**NET ASSETS**

Invested in Capital Assets	16,142,363.81
Restricted for:	
Expendable:	
Scholarships and Fellowships	146,690.42
Loans	3,069.00
Capital Projects	516,905.86
Other	169,654.86
Unrestricted	230,474.79
	<hr/>
Total Net Assets	\$ 17,209,158.74

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

***Brunswick 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)	\$ 537,761.00
Federal Grants and Contracts	1,588,581.00
State and Local Grants and Contracts	412,206.00
Sales and Services	434,588.00
Other Operating Revenues	3,816.00
	<hr/>
Total Operating Revenues	2,976,952.00

**EXPENSES**

Operating Expenses:	
Personal Services	7,414,206.00
Supplies and Materials	1,109,732.83
Services	1,423,399.00
Scholarships and Fellowships	723,979.00
Utilities	442,023.00
Depreciation	673,051.65
	<hr/>
Total Operating Expenses	11,786,391.48
	<hr/>
Operating Loss	(8,809,439.48)

**NONOPERATING REVENUES**

State Aid	5,452,340.69
County Appropriations	2,068,342.91
Noncapital Grants	229,840.00
Noncapital Gifts	75,447.80
Investment Income	15,331.00
Other Nonoperating Revenues	25,410.59
	<hr/>
Nonoperating Revenues	7,866,712.99
	<hr/>
Loss Before Other Revenues	(942,726.49)
State Capital Aid	252,172.31
County Capital Appropriations	103,947.00
	<hr/>
Decrease in Net Assets	(586,607.18)

**NET ASSETS**

Net Assets, July 1, 2004 as Restated (Note 15)	<hr/>
	17,795,765.92
Net Assets, June 30, 2005	<hr/>
	\$ 17,209,158.74

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

***Brunswick 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	\$ 2,787,262.85
Payments to Employees and Fringe Benefits	(7,381,398.45)
Payments to Vendors and Suppliers	(2,966,513.08)
Payments for Scholarships and Fellowships	(723,979.00)
Other Receipts	24,215.21
	<hr/>
Net Cash Used by Operating Activities	(8,260,412.47)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	5,452,340.69
County Appropriations	2,068,342.91
Noncapital Grants Received	245,516.06
Noncapital Gifts Received	75,447.80
	<hr/>
Cash Provided by Noncapital Financing Activities	7,841,647.46

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

State Capital Aid Received	724,179.87
County Capital Appropriations	103,947.00
Capital Grants Received	5,945.83
Acquisition and Construction of Capital Assets	(213,702.77)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	620,369.93

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	15,331.00
	<hr/>
Cash Provided by Investing Activities	15,331.00

Net Increase in Cash and Cash Equivalents	216,935.92
Cash and Cash Equivalents, July 1, 2004	878,116.08
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 1,095,052.00

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

Operating Loss	\$ (8,809,439.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	673,051.65
Other Nonoperating Revenue	25,410.59
Changes in Assets and Liabilities:	
Receivables, Net	(154,254.88)
Inventories	(33,929.29)
Prepaid Items	755.55
Accounts Payable and Accrued Liabilities	96,192.81
Due to Primary Government	(696.83)
Dut to State of North Carolina Component Units	1,227.11
Deferred Revenue	(35,434.27)
Funds Held for Others	(1,195.38)
Compensated Absences	(22,100.05)
	<hr/>
Net Cash Used by Operating Activities	\$ (8,260,412.47)

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

***Exhibit A-3***

***Page 2***

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 444,898.12
Restricted Cash and Cash Equivalents	121,507.00
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>528,646.88</u>
Total Cash and Cash Equivalents - June 30, 2005	<u>\$ 1,095,052.00</u>

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

Increase in Receivables Related to Nonoperating Income	\$ 50,233.37
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The accompanying notes to the financial statements are an integral part of this statement.

***Brunswick Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2005***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	125,392.00
Investments		16,679.00
In-Kind Gifts		8,000.00

Total Current Assets 150,071.00

Endowed Investments:

Cash and Cash Equivalents		9,173.00
Investments		979,690.00

Total Endowed Investments 988,863.00

Total Assets \$ 1,138,934.00

**LIABILITIES**

Current Liabilities:

Credit Cards Payable	\$	77.00
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**NET ASSETS**

Unrestricted		46,681.00
Temporarily Restricted		109,987.00
Permanently Restricted		982,189.00

Total Net Assets 1,138,857.00

Total Liabilities and Net Assets \$ 1,138,934.00

See Note 1 in the Notes to the Financial Statements

***Brunswick Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2005***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Public Support and Revenues:	
Contributions Income	\$ 37,887.00
Fundraising Income	4,637.00
Interest Income	193.00
Gifts in Kind Income	2,970.00
	<hr/>
Total Unrestricted Revenues and Gains	45,687.00
	<hr/>
Net Assets Released from Restrictions	254,096.00
	<hr/>
Total Unrestricted Public Support and Revenues	299,783.00
	<hr/>
Expenses:	
Program Services:	
Program Expense	159,300.00
Scholarships Expense	47,502.00
Support Services:	
Administrative Expenses	32,754.00
Custodial Funds Paid Out	1,049.00
Gifts in Kind Expense	40,315.00
	<hr/>
Total Expenses	280,920.00
	<hr/>
Increase in Unrestricted Net Assets	18,863.00
	<hr/>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions Income	212,516.00
Fundraising Income	2,474.00
Interest Income	33,966.00
Custodial Funds Received	1,045.00
Gifts in Kind Income	45,345.00
Net Assets Released from Restrictions	(254,096.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	41,250.00
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions Income	15,000.00
Net Unrealized Holding Gain on Investments	62,666.00
	<hr/>
Increase in Permanently Restricted Net Assets	77,666.00
	<hr/>
Increase in Net Assets	137,779.00
Net Assets as of Beginning of Year	
As Previously Reported	1,001,078.00
	<hr/>
Net Assets at End of Year	<u>\$ 1,138,857.00</u>

See Note 1 in the Notes to the Financial Statements

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

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The Brunswick Community College Foundation, Inc. is discretely presented in the financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Unit** – Brunswick Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2005, the Foundation distributed \$206,802.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Robert Turner, Director of Institutional Resource Development, Brunswick Community College, PO Box 30, Supply, NC 28462 or by calling (910) 755-7305.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and money market accounts.
- E. 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. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at lower of cost or market value using the first-in, first-out method.
- G. 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 5 to 15 years for equipment.

- H. 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.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**K. 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 – 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.

**L. Scholarship Discounts** – Student tuition and fees revenues 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.

**M. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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

### NOTE 2 - DEPOSITS

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. At year end, cash on hand was \$730.00. The carrying amount of cash on deposit was \$1,094,322.00 and the bank balance was \$1,285,283.34. All of the cash was on deposit with private financial institutions.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College does not have a deposit policy

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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for custodial credit risk. As of June 30, 2005, the College's bank balance was exposed to custodial credit risk.

Of the cash on deposit with private financial institutions at June 30, 2005, \$300,000.00 of the bank balance was covered by federal depository insurance and \$985,283.34 was uninsured and uncollateralized.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 383,926.11	\$ 1,081.68	\$ 382,844.43
Accounts	10,373.42		10,373.42
Intergovernmental	14,219.05		14,219.05
Other	12,725.86		12,725.86
<b>Total Current Receivables</b>	<u>\$ 421,244.44</u>	<u>\$ 1,081.68</u>	<u>\$ 420,162.76</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 403,748.02	\$ 0.00	\$ 0.00	\$ 403,748.02
Construction in Progress	614,324.92	80,187.30	694,512.22	
<b>Total Capital Assets, Nondepreciable</b>	<u>1,018,072.94</u>	<u>80,187.30</u>	<u>694,512.22</u>	<u>403,748.02</u>
Capital Assets, Depreciable:				
Buildings	18,547,803.77	694,512.22		19,242,315.99
Machinery and Equipment	1,449,432.10	80,714.04	24,062.12	1,506,084.02
General Infrastructure	1,688,555.99			1,688,555.99
<b>Total Capital Assets, Depreciable</b>	<u>21,685,791.86</u>	<u>775,226.26</u>	<u>24,062.12</u>	<u>22,436,956.00</u>
Less Accumulated Depreciation:				
Buildings	4,678,186.41	482,763.84		5,160,950.25
Machinery and Equipment	859,680.54	92,522.41		952,202.95
General Infrastructure	487,421.57	97,765.44		585,187.01
<b>Total Accumulated Depreciation</b>	<u>6,025,288.52</u>	<u>673,051.69</u>		<u>6,698,340.21</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>15,660,503.34</u>	<u>102,174.57</u>	<u>24,062.12</u>	<u>15,738,615.79</u>
<b>Capital Assets, Net</b>	<u>\$ 16,678,576.28</u>	<u>\$ 182,361.87</u>	<u>\$ 718,574.34</u>	<u>\$ 16,142,363.81</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 132,548.44
Accrued Payroll	106,551.07
Intergovernmental Payables	12,270.70
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 251,370.21</u>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 386,415.97	\$ 237,392.16	\$ 259,492.21	\$ 364,315.92	\$ 78,397.84

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	<u>\$ 8,470.30</u>
Total Minimum Lease Payments	<u><u>\$ 8,470.30</u></u>

Rental expense for all operating leases during the year was \$47,450.26.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
Student Tuition and Fees	<u>\$ 1,225,649.30</u>	<u>\$ 687,888.30</u>	<u>\$ 537,761.00</u>

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	<u>Personal Services</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 4,304,059.67	\$ 435,269.28	\$ 470,685.44	\$ 0.00	\$ 3,488.00	\$ 0.00	\$ 5,213,502.39
Academic Support	624,515.52	16,345.26	29,971.58				670,832.36
Student Services	315,175.45	18,312.47	50,636.44				384,124.36
Institutional Support	1,433,457.01	49,662.78	333,086.91				1,816,206.70
Operations and Maintenance of Plant	736,998.35	590,143.04	364,215.80		438,535.00		2,129,892.19
Student Financial Aid			1,511.58	723,979.00			725,490.58
Auxiliary Enterprises			173,291.25				173,291.25
Depreciation						673,051.65	673,051.65
<b>Total Operating Expenses</b>	<u>\$ 7,414,206.00</u>	<u>\$ 1,109,732.83</u>	<u>\$ 1,423,399.00</u>	<u>\$ 723,979.00</u>	<u>\$ 442,023.00</u>	<u>\$ 673,051.65</u>	<u>\$ 11,786,391.48</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$6,135,365.32, of which \$4,524,049.91 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$271,443.00 and \$98,171.88, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$98,171.88, \$9,252.11, 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 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*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*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 \$26,975.00 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). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2005, were \$2,377.36. The voluntary contributions by employees amounted to \$35,374.00 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 Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$73,925.00 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'

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was \$144,769.60. 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 \$20,132.02. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$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. The College also maintains general liability coverage in the amount of \$3,000,000, a commercial umbrella policy in the amount of \$1,000,000, commercial auto coverage for cars in the amount of \$1,000,000, and business auto coverage for vans in the amount of \$1,000,000.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 from employee dishonesty losses by contracts with private insurance companies paid with county and institutional funds.

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.

The College maintains Healthcare Practitioner's/Services Professional Liability Insurance for the EMT program in the amount of \$1,000,000. The College also maintains Commercial Liability Coverage for the Nursing Program in the amount of \$1,000,000.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$0.00 and on other purchases were \$28,334.12 at June 30, 2005.
- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. 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 \$2,728.05 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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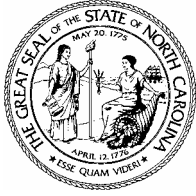
**NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

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.

**NOTE 15 - NET ASSET RESTATEMENT**

As of July 1, 2004, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2004 Net Assets as Previously Reported	\$ 17,627,295.10
Restatements (For Accumulated Depreciation due to past errors and reclass of useful lives)	<u>168,470.82</u>
July 1, 2004 Net Assets as Restated	<u><u>\$ 17,795,765.92</u></u>



Leslie W. Merritt, Jr., CPA, CFP  
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  
Brunswick Community College  
Supply, North Carolina

We have audited the financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 9, 2006. We did not audit the financial statements of Brunswick Community College Foundation, Inc., which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Brunswick Community College Foundation, Inc., is based on the report of the other auditors.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant

**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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deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

**Finding**

Deficiencies in Financial Reporting

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

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

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., CPA, CFP  
State Auditor

June 9, 2006



## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

#### 1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Brunswick Community College contained significant misstatements. As a result, users of the financial statements could be misled about the College's financial condition and results of operations.

During our audit of the 2005 financial statements the following conditions resulting in significant misstatements were noted:

- The College's financial statements were not supported by the general ledger. Adjustments were made to the financial statements that were not posted to the general ledger. There was no supporting documentation for these adjustments resulting in extensive analysis and investigation to determine if the adjustments were necessary to fairly present the financial position of the College.
- Entries were incorrectly posted to net assets on the general ledger which resulted in the general ledger being out of balance. The College made inappropriate adjustments to balance the financial statements. As a result, unrestricted net assets were misstated on the financial statements by \$164,440.20 and other nonoperating expenses were misstated by \$589,061.83.

There was limited management review of the financial statements and the notes to the financial statements prior to submission to Office of the State Controller and the Office of the State Auditor. This review was not adequate to identify misstatements on the financial statements or the notes.

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

*College's Response:* The College agrees with the audit finding and understands it was a non-material finding. The College will place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness and accuracy of the financial statements.

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