



STATE OF NORTH CAROLINA

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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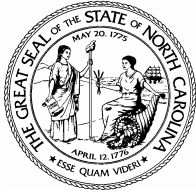
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STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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, 2006, 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 each 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

August 6, 2007

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INDEPENDENT AUDITOR'S REPORT

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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the 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 opinions, insofar as they relate 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, 2006, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2007, 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.

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

July 27, 2007

BRUNSWICK COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Brunswick Community College's (College's) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2006, with comparative data for the fiscal year ended June 30, 2005. This Management's Discussion and Analysis is designed to focus on current activities, resulting change, and currently known facts, and should be read in conjunction with the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Overview of the Financial Statements

The College's financial statements consist of three primary statements. The Statement of Net Assets, when compared with the prior year, indicates how effective the College has managed its overall assets in comparison to its liabilities, with the difference in the two being the College's net assets. Changes in current assets may measure, among other things, cash management, collections of accounts receivable, or fluctuations in inventories. Changes in noncurrent assets indicate improvements in buildings, equipment purchases and disposals, and depreciation, while the College's liabilities are primarily comprised of accrued employee vacation and outstanding capital debt. The Statement of Revenues, Expenses, and Changes in Net Assets helps the reader understand the financial resources available to the College, how those resources were used, and how expenses affected the net assets. The Statement of Cash Flows reflects to the reader the College's position in cash, overall liquidity, and financial stability and continuity.

The notes included in the statements should be referenced in order to provide detailed explanations of particular elements and activities. Through a summarized comparison of the fiscal year 2004-05 financial statements and those from the current fiscal year 2005-06, the reader may gain a contextual understanding of the College's overall financial position.

Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term expendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and net costs of College activities, which are supported mainly by State funds, county appropriations, and federal grants and contracts.

The financial statements summarize and simplify the user's analysis of the cost of various College services to students and the public.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 Fiscal Years Ended June 30, 2006, and June 30, 2005

| | 2006 | 2005 | Total Increase (Decrease) |
|-----------------------------|-------------------------|-------------------------|---------------------------------|
| Assets: | | | |
| Current Assets | \$ 1,160,876.30 | \$ 1,115,400.25 | \$ 45,476.05 |
| Capital Assets | 17,000,887.04 | 16,142,363.81 | 858,523.23 |
| Other Assets | 420,879.22 | 590,600.51 | (169,721.29) |
| Total Assets | 18,582,642.56 | 17,848,364.57 | 734,277.99 |
| Liabilities: | | | |
| Current Liabilities | 547,092.87 | 353,287.75 | 193,805.12 |
| Long-Term Liabilities | 413,633.13 | 285,918.08 | 127,715.05 |
| Total Liabilities | 960,726.00 | 639,205.83 | 321,520.17 |
| Net Assets | | | |
| Invested in Capital Assets, | 17,000,887.04 | 16,142,363.81 | 858,523.23 |
| Restricted | 1,043,858.97 | 836,320.14 | 207,538.83 |
| Unrestricted | (422,829.45) | 230,474.79 | (653,304.24) |
| Total Net Assets | \$ 17,621,916.56 | \$ 17,209,158.74 | \$ 412,757.82 |

Analysis of Assets, Liabilities, and Net Assets Comparison

During the current fiscal year the College's net assets increased by \$412,757.82. The College received financing for 12 construction projects through a \$30 million bond referendum passed by Brunswick County voters in November 2004, and began to receive revenue from those County bonds this year. Construction in progress increased by \$869,359.85 for architect expenditures associated with these projects. The increase in liabilities was largely driven by the accrued payables for construction payments for services performed in May and June 2006 in the amount of \$216,963.72. In addition, the liability for compensated absences increased \$91,988.32 in 2006. The College's leave liability decreased significantly in 2005 due to employee retirements and exhaustion of leave for illnesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative statement for fiscal years ending 2006 and 2005 reflects the amount of increase or decrease in reported revenues and expenses between years.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets Fiscal Years Ended June 30, 2006, and June 30, 2005

| | 2006 | 2005 | Total Increase (Decrease) |
|--------------------------------------|------------------|------------------|---------------------------------|
| Operating Revenues: | | | |
| Student Tuition and Fees | \$ 557,808.15 | \$ 537,761.00 | \$ 20,047.15 |
| Federal Grants and Contracts | 1,202,387.45 | 1,588,581.00 | (386,193.55) |
| State and Local Grants and Contracts | 392,251.17 | 412,206.00 | (19,954.83) |
| Sales and Services | 507,590.67 | 434,588.00 | 73,002.67 |
| Other Operating Revenues | 55,015.42 | 3,816.00 | 51,199.42 |
| Total Operating Revenues | 2,715,052.86 | 2,976,952.00 | (261,899.14) |
| Operating Expenses: | | | |
| Personal Services | 8,028,299.53 | 7,414,206.00 | 614,093.53 |
| Supplies and Materials | 1,053,260.29 | 1,109,732.83 | (56,472.54) |
| Services | 1,359,459.61 | 1,423,399.00 | (63,939.39) |
| Scholarships and Fellowships | 564,453.11 | 723,979.00 | (159,525.89) |
| Utilities | 481,865.63 | 442,023.00 | 39,842.63 |
| Depreciation | 634,961.16 | 673,051.65 | (38,090.49) |
| Total Operating Expenses | 12,122,299.33 | 11,786,391.48 | 335,907.85 |
| Nonoperating Revenues: | | | |
| State Aid | 5,695,672.97 | 5,452,340.69 | 243,332.28 |
| County Appropriations | 2,197,819.00 | 2,068,342.91 | 129,476.09 |
| Noncapital Grants | 313,242.23 | 229,840.00 | 83,402.23 |
| Noncapital Gifts | 58,944.91 | 75,447.80 | (16,502.89) |
| Investment Income | 27,171.99 | 15,331.00 | 11,840.99 |
| Other Nonoperating Revenues | | 25,410.59 | (25,410.59) |
| Other Revenues: | | | |
| State Capital Aid | 288,447.22 | 252,172.31 | 36,274.91 |
| County Capital Appropriations | 111,998.00 | 103,947.00 | 8,051.00 |
| Capital Grants | 1,470,366.02 | | 1,470,366.02 |
| Total Nonoperating Revenues | 10,163,662.34 | 8,222,832.30 | 1,940,830.04 |
| Change in Net Assets | 756,415.87 | (586,607.18) | 1,343,023.05 |
| Net Assets - Beginning of Year | 17,209,158.74 | 17,795,765.92 | (586,607.18) |
| Restatements | (343,658.05) | | (343,658.05) |
| Net Assets - End of Year | \$ 17,621,916.56 | \$ 17,209,158.74 | \$ 412,757.82 |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Statement of Revenues, Expenses, and Changes in Net Assets Comparison

While our curriculum enrollment increased slightly, the number of students eligible for full-time Pell declined, thus precipitating a decrease in federal grants and contracts. The College received \$1.2 million from the County bonds for the initial phase of the construction projects, which constituted the increase in capital grants.

Capital Assets

At June 30, 2006, the College reported \$24.26 million invested in depreciable and nondepreciable capital assets less \$7.26 million in accumulated depreciation for net capital assets of \$17.00 million.

The following schedule reports capital assets for the fiscal years 2006 and 2005, net of accumulated depreciation.

| | <u>2006</u> | <u>2005</u> | <u>Total Increase (Decrease)</u> |
|--------------------------|-------------------------|-------------------------|--|
| Land | \$ 436,754.02 | \$ 403,748.02 | \$ 33,006.00 |
| Construction in Progress | 869,359.85 | | 869,359.85 |
| Buildings | 14,130,164.90 | 14,081,365.74 | 48,799.16 |
| Machinery and Equipment | 547,313.85 | 553,881.07 | (6,567.22) |
| General Infrastructure | 1,017,294.42 | 1,103,368.98 | (86,074.56) |
| Totals | <u>\$ 17,000,887.04</u> | <u>\$ 16,142,363.81</u> | <u>\$ 858,523.23</u> |

Debt

The College reported commitments on construction contracts for architect fees for 8 of the 12 construction projects in the amount of \$1.1 million. Construction is anticipated to begin in late fall or early winter of 2006 and continue over the next four years. As construction contracts are awarded during the coming fiscal year, the commitments for capital expenditures will increase.

Economic Factors and Next Year's Budget

The State economy is projected to remain stable with the unemployment rate continuing to decline and tax revenues increasing, as holds true for the regional economy. Employment in the region is growing more rapidly than unemployment. Brunswick County is one of the fastest growing counties in North Carolina, and although there has been some slowdown, the local economy continues to outperform both the state and national economies. The county is expected to experience continued economic growth with the proposal to build a \$100 million, 92-bed hospital with all the amenities to replace its current hospital facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Budget reversions were once again required this year due to the shortfall in curriculum tuition and continuing education registration fees. There was an initial reversion of 1% in November 2005 and an additional reversion of .50% in February 2006. Tuition increased for both in-State and out-of-State students from FY 2005 by approximately 4% in FY 2006. Although the tuition rates were increased, North Carolina Community College in-State tuition rates continue to be among the five lowest rates in the nation. An additional increase in tuition is not expected for the 2006-2007 fiscal year.

Brunswick Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

| | |
|--|---------------|
| Cash and Cash Equivalents | \$ 303,284.04 |
| Restricted Cash and Cash Equivalents | 480,364.27 |
| Receivables, Net (Note 3) | 319,519.17 |
| Due from State of North Carolina Component Units | 1,691.32 |
| Inventories | 55,657.00 |
| Notes Receivable | 360.50 |
| | <hr/> |
| Total Current Assets | 1,160,876.30 |

Noncurrent Assets:

| | |
|--|---------------|
| Restricted Cash and Cash Equivalents | 359,401.38 |
| Receivables | 59,225.58 |
| Restricted Due from Primary Government | 2,252.26 |
| Capital Assets - Nondepreciable (Note 4) | 1,306,113.87 |
| Capital Assets - Depreciable, Net (Note 4) | 15,694,773.17 |
| | <hr/> |
| Total Noncurrent Assets | 17,421,766.26 |

Total Assets

18,582,642.56

LIABILITIES

Current Liabilities:

| | |
|---|------------|
| Accounts Payable and Accrued Liabilities (Note 5) | 457,458.74 |
| Unearned Revenue | 46,963.02 |
| Long-Term Liabilities - Current Portion (Note 6) | 42,671.11 |
| | <hr/> |
| Total Current Liabilities | 547,092.87 |

Noncurrent Liabilities:

| | |
|--------------------------------|------------|
| Long-Term Liabilities (Note 6) | 413,633.13 |
| | <hr/> |

Total Liabilities

960,726.00

NET ASSETS

| | |
|------------------------------|------------------|
| Invested in Capital Assets | 17,000,887.04 |
| Restricted for: | |
| Expendable: | |
| Scholarships and Fellowships | 324,416.60 |
| Loans | 2,801.14 |
| Capital Projects | 635,211.93 |
| Other | 81,429.30 |
| Unrestricted | (422,829.45) |
| | <hr/> |
| Total Net Assets | \$ 17,621,916.56 |

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, 2006***

Exhibit A-2

REVENUES

| | |
|--|---------------|
| Operating Revenues: | |
| Student Tuition and Fees, Net (Note 8) | \$ 557,808.15 |
| Federal Grants and Contracts | 1,202,387.45 |
| State and Local Grants and Contracts | 392,251.17 |
| Sales and Services | 507,590.67 |
| Other Operating Revenues | 55,015.42 |
| | <hr/> |
| Total Operating Revenues | 2,715,052.86 |
| | <hr/> |

EXPENSES

| | |
|------------------------------|----------------|
| Operating Expenses: | |
| Personal Services | 8,028,299.53 |
| Supplies and Materials | 1,053,260.29 |
| Services | 1,359,459.61 |
| Scholarships and Fellowships | 564,453.11 |
| Utilities | 481,865.63 |
| Depreciation | 634,961.16 |
| | <hr/> |
| Total Operating Expenses | 12,122,299.33 |
| | <hr/> |
| Operating Loss | (9,407,246.47) |
| | <hr/> |

NONOPERATING REVENUES

| | |
|-------------------------------|----------------|
| State Aid | 5,695,672.97 |
| County Appropriations | 2,197,819.00 |
| Noncapital Grants | 313,242.23 |
| Noncapital Gifts | 58,944.91 |
| Investment Income, Net | 27,171.99 |
| | <hr/> |
| Total Nonoperating Revenues | 8,292,851.10 |
| | <hr/> |
| Income Before Other Revenues | (1,114,395.37) |
| | <hr/> |
| State Capital Aid | 288,447.22 |
| County Capital Appropriations | 111,998.00 |
| Capital Grants | 1,470,366.02 |
| | <hr/> |
| Increase in Net Assets | 756,415.87 |

NET ASSETS

| | |
|--|------------------|
| Net Assets, July 1, 2005 as Restated (Note 14) | 16,865,500.69 |
| | <hr/> |
| Net Assets, June 30, 2006 | \$ 17,621,916.56 |
| | <hr/> <hr/> |

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, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-----------------|
| Received from Customers | \$ 2,962,270.11 |
| Payments to Employees and Fringe Benefits | (7,939,350.71) |
| Payments to Vendors and Suppliers | (2,657,369.27) |
| Payments for Scholarships and Fellowships | (828,553.23) |
| Loans Issued to Students | (360.50) |
| Collection of Loans to Students | 361.00 |
| Other Payments | (1,310.14) |
| | <hr/> |
| Net Cash Used by Operating Activities | (8,464,312.74) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------|
| State Aid Received | 5,695,672.97 |
| County Appropriations | 2,197,819.00 |
| Noncapital Grants Received | 371,862.64 |
| Noncapital Gifts | 58,944.91 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 8,324,299.52 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|----------------|
| State Capital Aid Received | 288,923.01 |
| County Capital Appropriations | 111,998.00 |
| Capital Grants Received | 1,253,402.30 |
| Acquisition and Construction of Capital Assets | (1,493,484.39) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 160,838.92 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-----------|
| Investment Income | 27,171.99 |
| | <hr/> |
| Cash Provided by Investing Activities | 27,171.99 |

| | |
|---|-----------------|
| Net Increase in Cash and Cash Equivalents | 47,997.69 |
| Cash and Cash Equivalents, July 1, 2005 | 1,095,052.00 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2006 | \$ 1,143,049.69 |
| | <hr/> <hr/> |

Brunswick Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

Page 2

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

| | |
|---|--------------------------|
| Operating Loss | \$ (9,407,246.47) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 634,961.16 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (45,508.03) |
| Inventories | 22,128.00 |
| Prepaid Items | 453.00 |
| Notes Receivable | 0.50 |
| Accounts Payable and Accrued Liabilities | 215,467.46 |
| Due to State of North Carolina Component Units | (3,871.70) |
| Unearned Revenue | 27,426.02 |
| Funds Held for Others | (111.00) |
| Compensated Absences | 91,988.32 |
| | <u>91,988.32</u> |
| Net Cash Used by Operating Activities | <u>\$ (8,464,312.74)</u> |

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|---|------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 303,284.04 |
| Restricted Cash and Cash Equivalents | 480,364.27 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | 359,401.38 |
| | <u>359,401.38</u> |
| Total Cash and Cash Equivalents - June 30, 2006 | <u>\$ 1,143,049.69</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--|--------------|
| Capital Asset Write-Offs | \$ 69,902.05 |
| Increase in Receivables Related to Nonoperating Income | 200,206.43 |

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, 2006

Exhibit B-1

ASSETS

| | |
|---------------------------|------------------------|
| Current Assets | |
| Cash and Cash Equivalents | \$ 205,606.00 |
| Gifts In Kind | <u>323,560.00</u> |
| Total Current Assets | 529,166.00 |
| Endowed Investments | |
| Cash and Cash Equivalents | 15,214.00 |
| Investments | <u>962,596.00</u> |
| Total Endowed Investments | <u>977,810.00</u> |
| Total Assets | <u>\$ 1,506,976.00</u> |

NET ASSETS

| | |
|----------------------------------|------------------------|
| Unrestricted | \$ 325,865.00 |
| Temporarily Restricted | 214,369.00 |
| Permanently Restricted | <u>966,742.00</u> |
| Total Liabilities and Net Assets | <u>\$ 1,506,976.00</u> |

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

Brunswick Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

| | |
|---|--------------|
| Revenues and Gains: | |
| Contributions | \$ 15,184.00 |
| Fundraising Income | 2,897.00 |
| Interest Income | 307.00 |
| Gifts In Kind Income | 317,806.00 |
| | <hr/> |
| Total Unrestricted Revenues and Gains | 336,194.00 |
| | <hr/> |
| Net Assets Released from Restrictions: | |
| Satisfaction of Program Restrictions | 272,400.00 |
| | <hr/> |
| Total Net Assets Released from Restrictions | 272,400.00 |
| | <hr/> |
| Total Unrestricted Revenues, Gains, and Other Support | 608,594.00 |
| | <hr/> |
| Expenses | |
| Scholarships | 62,795.00 |
| Program Expense | 208,866.00 |
| Administrative Expense | 33,950.00 |
| Custodial Funds Paid Out | 739.00 |
| Gifts in Kind Expense | 23,310.00 |
| | <hr/> |
| Total Expenses | 329,660.00 |
| | <hr/> |
| Increase in Unrestricted Net Assets | 278,934.00 |
| | <hr/> |

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

| | |
|---|--------------|
| Contributions | 320,089.00 |
| Fundraising Income | 541.00 |
| Custodial Funds Received | 470.00 |
| Interest Income | 34,679.00 |
| Gifts In Kind Income | 21,003.00 |
| Net Assets Released from Restrictions: | |
| Satisfaction of Program Restrictions | (272,400.00) |
| | <hr/> |
| Increase in Temporarily Restricted Net Assets | 104,382.00 |
| | <hr/> |

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

| | |
|---|-----------------|
| Contributions | 1,000.00 |
| Unrealized Holding Loss on Investments | (16,447.00) |
| | <hr/> |
| Increase in Permanently Restricted Net Assets | (15,447.00) |
| | <hr/> |
| Increase in Net Assets | 367,869.00 |
| Net Assets at Beginning of Year | 1,139,107.00 |
| | <hr/> |
| Net Assets at End of Year | \$ 1,506,976.00 |
| | <hr/> <hr/> |

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

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BRUNSWICK COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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. (the 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 incomes 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and 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, 2006, the Foundation distributed \$334,001.61 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from The College's Foundation Office, 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, and cash on deposit with private bank 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 governments, and private sources in connection with reimbursement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 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 include 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)

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)

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 AND INVESTMENTS

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 \$348.23, and deposits in private financial institutions with a carrying value of \$1,142,701.46 and a bank balance of \$1,968,202.67. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Component Units - Investments of the College's component unit, Brunswick 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.

Investments of the foundation are stated at fair value and are summarized as follows as of June 30, 2006:

| | Fair Value |
|---|----------------------|
| Raymond James Endowed Investments | \$ 387,426.00 |
| Raymond James Endowed Odell Williamson Auditorium (OWA) Investments | 481,223.00 |
| Edward Jones Endowed Investments | 32,607.00 |
| Cash Value Life Insurance | 61,340.00 |
| Total Fair Market Value of Investments | \$ 962,596.00 |

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

| | Gross Receivables | Allowance for Doubtful Accounts | Net Receivables |
|----------------------------------|----------------------|---------------------------------------|----------------------|
| Current Receivables: | | | |
| Students | \$ 197,228.57 | \$ 107,873.47 | \$ 89,355.10 |
| Accounts | 3,864.68 | | 3,864.68 |
| Intergovernmental | 219,051.52 | | 219,051.52 |
| Other | 7,247.87 | | 7,247.87 |
| Total Current Receivables | \$ 427,392.64 | \$ 107,873.47 | \$ 319,519.17 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

| | Balance July 1, 2005 | Increases | Decreases | Balance June 30, 2006 |
|---|-------------------------|----------------------|------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 403,748.02 | \$ 33,006.00 | \$ 0.00 | \$ 436,754.02 |
| Construction in Progress | | 869,359.85 | | 869,359.85 |
| Total Capital Assets, Nondepreciable | <u>403,748.02</u> | <u>902,365.85</u> | | <u>1,306,113.87</u> |
| Capital Assets, Depreciable: | | | | |
| Buildings | 19,242,315.99 | 517,094.00 | | 19,759,409.99 |
| Machinery and Equipment | 1,506,084.02 | 74,024.54 | 69,902.05 | 1,510,206.51 |
| General Infrastructure | 1,688,555.99 | | | 1,688,555.99 |
| Total Capital Assets, Depreciable | <u>22,436,956.00</u> | <u>591,118.54</u> | <u>69,902.05</u> | <u>22,958,172.49</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 5,160,950.25 | 468,294.84 | | 5,629,245.09 |
| Machinery and Equipment | 952,202.95 | 80,591.76 | 69,902.05 | 962,892.66 |
| General Infrastructure | 585,187.01 | 86,074.56 | | 671,261.57 |
| Total Accumulated Depreciation | <u>6,698,340.21</u> | <u>634,961.16</u> | <u>69,902.05</u> | <u>7,263,399.32</u> |
| Total Capital Assets, Depreciable, Net | <u>15,738,615.79</u> | <u>(43,842.62)</u> | | <u>15,694,773.17</u> |
| Capital Assets, Net | <u>\$ 16,142,363.81</u> | <u>\$ 858,523.23</u> | <u>\$ 0.00</u> | <u>\$ 17,000,887.04</u> |

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 351,055.40 |
| Accrued Payroll | 103,511.57 |
| Intergovernmental Payables | 2,891.77 |
| Total Accounts Payable and Accrued Liabilities | <u>\$ 457,458.74</u> |

NOTE 6 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2005 | Additions | Reductions | Balance June 30, 2006 | Current Portion |
|----------------------|-------------------------|--------------|-------------|--------------------------|--------------------|
| Compensated Absences | \$ 364,315.92 | \$ 95,923.74 | \$ 3,935.42 | \$ 456,304.24 | \$ 42,671.11 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease revenue under noncancelable operating leases consists of the following at June 30, 2006:

| Fiscal Year | Amount |
|------------------------------|---------------|
| 2007 | \$ 15,618.00 |
| 2008 | 15,618.00 |
| 2009 | 15,618.00 |
| 2010 | 15,618.00 |
| 2011 | 15,618.00 |
| 2012-2016 | 78,090.00 |
| 2017-2021 | 78,090.00 |
| 2022-2026 | 78,090.00 |
| 2027-2031 | 78,090.00 |
| 2032-2036 | 78,090.00 |
| Total Minimum Lease Payments | \$ 468,540.00 |

NOTE 8 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Net Revenues |
|----------------------------|-------------------|----------------------------------|-----------------|
| Operating Revenues: | | | |
| Student Tuition and Fees | \$ 1,203,613.44 | \$ 645,805.29 | \$ 557,808.15 |

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Personal Services | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|-------------------------------------|----------------------|------------------------------|-----------------|------------------------------------|---------------|---------------|------------------|
| Instruction | \$ 4,603,634.67 | \$ 706,897.79 | \$ 418,849.96 | \$ 0.00 | \$ 943.37 | \$ 0.00 | \$ 5,730,325.79 |
| Academic Support | 808,664.23 | 34,363.58 | 50,283.13 | | | | 893,310.94 |
| Student Services | 356,807.11 | 14,104.40 | 59,259.07 | | | | 430,170.58 |
| Institutional Support | 1,497,905.93 | 70,109.02 | 270,706.44 | | | | 1,838,721.39 |
| Operations and Maintenance of Plant | 708,978.95 | 214,622.57 | 394,587.18 | | 480,922.26 | | 1,799,110.96 |
| Student Financial Aid | | | 346.17 | 564,453.11 | | | 564,799.28 |
| Auxiliary Enterprises | 52,308.64 | 13,162.93 | 165,427.66 | | | | 230,899.23 |
| Depreciation | | | | | | 634,961.16 | 634,961.16 |
| Total Operating Expenses | \$ 8,028,299.53 | \$ 1,053,260.29 | \$ 1,359,459.61 | \$ 564,453.11 | \$ 481,865.63 | \$ 634,961.16 | \$ 12,122,299.33 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$6,584,785.46, of which \$4,987,971.91 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$299,278.45 and \$116,718.54, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$116,718.54, \$98,171.88, and \$9,252.11, 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)

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 \$600.00 for the year ended June 30, 2006.

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, 2006, were \$2,787.13. The voluntary contributions by employees amounted to \$48,064.00 for the year ended June 30, 2006.

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 \$61,980.00 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$189,542.93. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** – The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$25,937.45.

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)

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. The employer contribution rate was .16% for the current fiscal year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 13 - COMMITMENTS

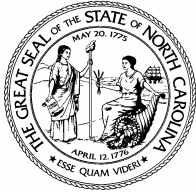
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,099,560.47 and on other purchases were \$515.32 at June 30, 2006.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2005, net assets as previously reported were restated as follows:

| | <u>Amount</u> |
|---|--------------------------------|
| July 1, 2005, Net Assets as Previously Reported | \$ 17,209,158.74 |
| Restatement: Correction of Accounts Receivable Balances | <u>(343,658.05)</u> |
| July 1, 2005, Net Assets as Restated | <u><u>\$ 16,865,500.69</u></u> |

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STATE OF NORTH CAROLINA
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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**

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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated July 27, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Brunswick Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Brunswick Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 reportable conditions. Reportable conditions involve matters coming to our attention relating to significant 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.

**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)**

Findings

1. Deficiencies in Financial Reporting
2. Inadequate Segregation of Duties in Accounts Payable Process
3. Inadequate Control Over Cafeteria Receipts

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 none of the reportable conditions described above is 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, which are reported in the Audit Findings and Recommendations section of this report, 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, and the General Assembly, 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

July 27, 2007

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Brunswick Community College contained numerous misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

- a. The College did not record the receipt of one federal wire transfer in the general ledger. This caused the cash and federal grants and revenue accounts to be understated by \$42,868. This omission was identified by the College during the preparation of the June 2006 bank statement reconciliation. However, due to delays in completing the bank reconciliation, the error was not detected until after the financial statements had been completed and submitted.
- b. The College did not eliminate accounts receivables for students whose tuition had been waived. As a result, accounts receivable were overstated by \$298,399.
- c. The College did not record an appropriate allowance for doubtful accounts for student receivables deemed uncollectible at year-end. As a result, student receivables were overstated by \$105,516.
- d. The College inappropriately recorded \$1,202,496 of county bond money as State and local grants and contracts revenue rather than as capital grants.
- e. The College did not record a receivable for bond money due from the county for construction project invoices received in May and June. As a result, intergovernmental receivables were understated by \$216,964.

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 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.

2. INADEQUATE SEGREGATION OF DUTIES IN ACCOUNTS PAYABLE PROCESS

Duties related to the accounts payable process were not adequately segregated. One employee in the Business Office had responsibility for access to vendor maintenance

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

files, the ability to create requisitions, purchase orders, print checks, and post journal entries. The employee also completed the bank reconciliation. Segregation of duties is a basic internal control that doesn't allow one individual to initiate, process, and record transactions without the review and approval of another individual.

Transactions prepared by this individual were reviewed and approved by another person but the current review procedures did not ensure that all transactions processed were submitted for review.

These conditions increase the risk of unauthorized or unrecorded transactions as well as transactions recorded in error.

Recommendation: The College should implement proper policies and procedures to ensure that duties are adequately segregated for all critical processes.

College's Response: The College agrees with the finding. The College will implement proper policies and procedures to ensure that duties are adequately segregated for all critical processes.

3. INADEQUATE CONTROL OVER CAFETERIA RECEIPTS

Procedures were not in place to ensure that all cafeteria sales were recorded or that all money collected was deposited. Cafeteria sales recorded during the audit year totaled \$218,670.

The cashiers did not always ring up sales during busy times and the money collected from these sales was sometimes laid aside and not put in the cash drawer at the time of sale. At the end of the day when the cash register was closed out, if there was a cash overage, the excess amount was rung up as a sale. If there was a shortage, money was taken from the change fund to make up the difference. The report that was designed to show cash over and short was not properly utilized as no overages or shortages were ever shown. If shortages were taken from the change fund, these would be replenished the following day by not ringing up sales to cover the amount borrowed.

The lack of controls in this process provides an opportunity for cash to be misappropriated. Unless all sales are entered in the cash register and the cash reconciled with the amount of sales, the College cannot be sure that all funds have been deposited.

Recommendation: The College should implement proper policies and procedures to ensure that all sales are recorded. Sales should be reconciled with cash and any cash overages or shortages should be documented.

College's Response: The College agrees with the finding. The College will implement proper policies and procedures to ensure that all sales are recorded and that sales are reconciled with cash and any cash overages or shortages.

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