



STATE OF NORTH CAROLINA

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Beaufort County Community College for the year ended June 30, 2007, 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 resulted in no audit findings.

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

Leslie W. Merritt, Jr.

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

March 6, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the accompanying basic financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Beaufort County Community College Foundation, Inc., which represent 6.2 percent, 6.5 percent, and 1.8 percent, respectively, of the assets, net assets, and revenues of the College. 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 the foundation, 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 Beaufort County 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 opinion.

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 financial position of Beaufort County Community College as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2008, 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,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

February 20, 2008

BEAUFORT COUNTY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of the Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007. This section should be read in conjunction with the College's basic financial statements and the related notes.

Basic Financial Statements

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

Statement of Net Assets: The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2007, and includes all assets and liabilities of the College. The focus of the Statement of Net Assets is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portions to give the users of these statements insight into the financial position of the College.

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

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

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

Condensed Financial Statements and Financial Analysis

This segment of the Management Discussion and Analysis gives information about the basic financial statements. Charts and graphs are utilized to provide further clarification.

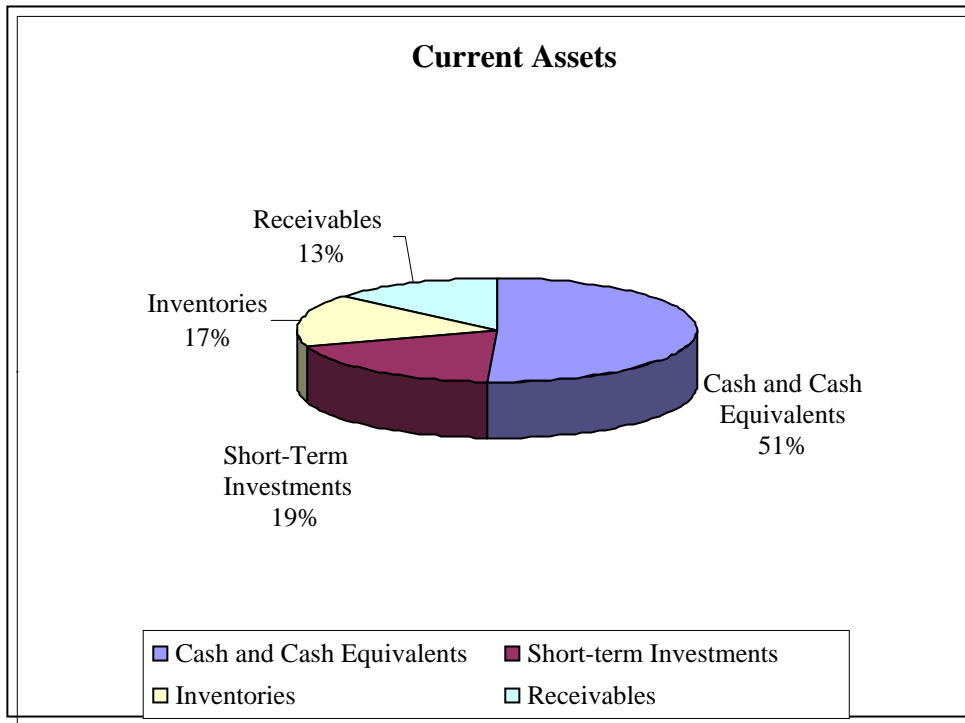
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of the Statement of Net Assets

Condensed Statement of Net Assets			(in thousands)
Assets	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Current Assets	\$ 1,089	\$ 663	\$ 426
Capital Assets, Net	15,602	15,649	(47)
Other Assets	<u>845</u>	<u>728</u>	<u>117</u>
Total Assets	<u>17,536</u>	<u>17,040</u>	<u>496</u>
Liabilities			
Current Liabilities	516	478	38
Noncurrent Liabilities	<u>398</u>	<u>383</u>	<u>15</u>
Total Liabilities	<u>914</u>	<u>861</u>	<u>53</u>
Net Assets			
Invested in Capital Assets	15,602	15,649	(47)
Restricted	1,434	898	536
Unrestricted	<u>(414)</u>	<u>(368)</u>	<u>(46)</u>
Total Net Assets	<u>\$ 16,622</u>	<u>\$ 16,179</u>	<u>\$ 443</u>

As shown in the condensed Statement of Net Assets table above, the College continues to build upon its strong financial foundation. Total net assets increased by approximately \$443 thousand during fiscal year 2007. Approximately \$300 thousand of the increase in current assets related to increases in cash held by the College. A majority of the increase in cash related to grant funds held by the College and an increase in cash from local funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

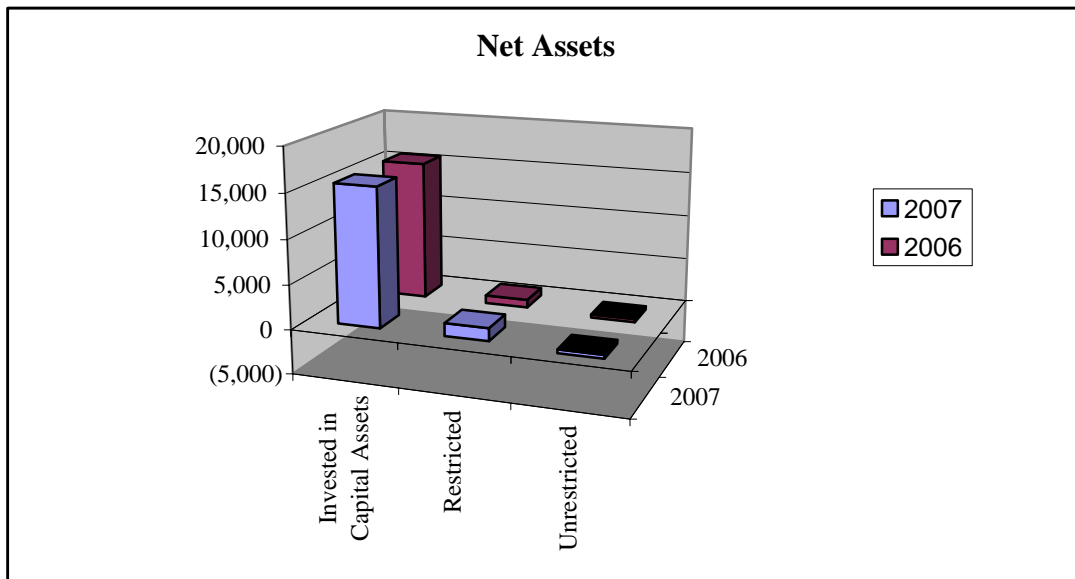


As can be seen from the chart above, cash and cash equivalents equal 51% of total current assets. Current receivables include \$34,541 remaining due from the Golden Leaf Foundation for the Division of Continuing Education's truck driving program.

Liabilities	(in thousands)		
	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Accounts Payable	\$ 165	\$ 95	\$ 70
Accrued Payroll and Other	268	215	53
Contracts Payable		47	(47)
Deferred Revenue	19	49	(30)
Funds Held for Others	9	9	
Compensated Absences	453	446	7
Total Liabilities	<u>\$ 914</u>	<u>\$ 861</u>	<u>\$ 53</u>

The College's overall liabilities increased during the year, primarily as a result of an increase in accounts payable and accrued payroll. Compensated absences liabilities continue to grow. The increases in compensated absences during recent years are attributable to the general assembly awarding bonus vacation days to College employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



The unrestricted net asset balance continues to reflect the effects of increases in liabilities associated with compensated absences. The College is currently exploring options to increase our unrestricted net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

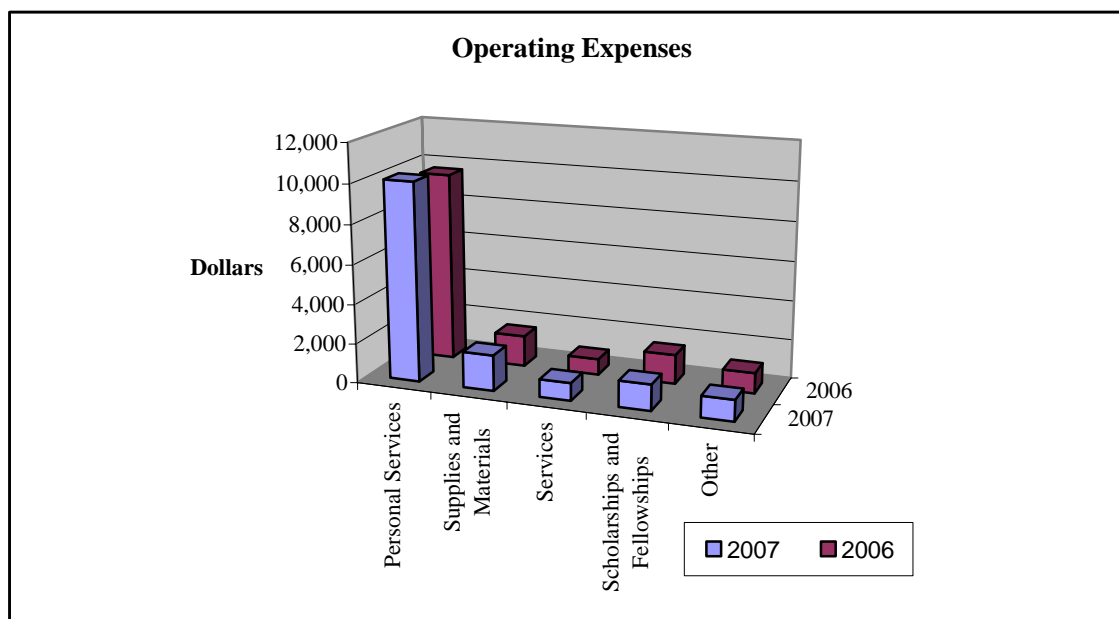
Analysis of the Statement of Revenues, Expenses, and Changes in Net Assets

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

	2007	2006	(in thousands) Variance
Operating Revenues			
Student Tuition and Fees, Net	\$ 814	\$ 953	\$ (139)
Grants and Contracts	2,311	2,807	(496)
Sales and Services, Net	419	487	(68)
Other	2	3	(1)
Total Operating Revenues	3,546	4,250	(704)
Operating Expenses			
Personal Services	10,078	9,628	450
Supplies and Materials	1,811	1,571	240
Services	892	808	84
Scholarships and Fellowships	1,315	1,488	(173)
Other	1,067	1,032	35
Total Operating Expenses	15,163	14,527	636
Nonoperating Revenues			
State Aid	8,111	7,461	650
County Appropriations	1,540	1,438	102
Other	790	398	392
Net Nonoperating Revenues	10,441	9,297	1,144
Other Revenues			
State Capital Aid	798	1,726	(928)
County Capital Appropriations	526	329	197
Other	295	52	243
Total Other Revenues	1,619	2,107	(488)
Net Assets			
Net Assets, July 1	16,179	15,052	1,127
Net Assets, June 30	\$ 16,622	\$ 16,179	\$ 443

Total operating revenues decreased from fiscal year 2006. This decrease was mainly attributable to a decrease in grants and contracts caused by the end of a federal title III grant. BCCC had received approximately \$350 thousand per year related to this grant for the previous five fiscal years. A net increase in nonoperating and other revenues of approximately \$656 thousand results from increases in investment income, county appropriations, capital and noncapital gifts and additions to endowments. The decrease in state capital aid was caused by BCCC not having any major 2000 Series State Bond projects during fiscal year 2007. The last major project to be funded with 2000 Series Bond funds, the public service buildings, was completed in January of 2006. Beaufort County continues to provide increasing financial support as is evidenced by the College's 2006-2007 budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Operating expenses increased by \$636 thousand from fiscal year 2006. This is primarily due to an increase in personal services expenses as a result of an approximate six percent wage increase for full-time employees.

Analysis of the Statement of Cash Flows

Statement of Cash Flows			
	2007	2006	(in thousands) Variance
Cash Provided (Used) by:			
Operating Activities	\$ (10,988)	\$ (9,643)	\$ (1,345)
Noncapital Financing Activities	10,303	9,250	1,053
Capital Financing Activities	1,010	43	967
Investing Activities	20	17	3
Net Change in Cash and Cash Equivalents	345	(333)	678
Cash and Cash Equivalents, Beginning of Year	277	610	(333)
Cash and Cash Equivalents, End of Year	<u>\$ 622</u>	<u>\$ 277</u>	<u>\$ 345</u>

Cash and cash equivalents increased by approximately \$345,000 during fiscal year 2007. The increase was attributable to the College receiving and having cash on hand from several grants aimed at expanding our nursing programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Capital Assets

Capital Assets	Capital Assets		(in thousands)
	2007	2006	Variance
Land	\$ 370	\$ 180	190
Buildings	12,267	12,599	(332)
Machinery and Equipment	1,857	1,732	125
General Infrastructure	1,108	1,138	(30)
Total Capital Assets	<u>\$ 15,602</u>	<u>\$ 15,649</u>	<u>\$ (47)</u>

Analysis of the Overall Financial Position

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

Future Financial Influences

The College's financial position continues to be affected by various funding issues. Beaufort County continues to be a strong financial support for the College. The overall county budget for the fiscal year 2008 will be one percent higher than the budget for the fiscal year ending 2007. However, the current expense budget has increased by 15 percent.

The College completed a re-roofing project during the fiscal year 2007 at a total cost of \$240 thousand. The project was financed by 2000 Series State Higher Education Bond funds. This would be the final completed project to utilize these funds. As of this time, the College has not found an additional source of funds to replace the \$7.2 million received for construction projects from this bond series.

As a whole, the College received \$1.15 million in new and continuation grants during the fiscal year ended June 30, 2007. Funded nursing grants include a Duke Endowment grant totaling \$63 thousand (first year of a three-year \$140 thousand grant). The grant was in support of faculty expansion in the nursing program. Beaufort County Hospital also committed \$50,000 in support of the expansion project. University Health Systems awarded \$45 thousand for the year 2007 (second year of a three-year \$149 thousand continuation grant). The award was in support of nursing instructors on educational leave as part of the expansion project. The Kate B. Reynolds Foundation awarded \$63 thousand (first year of a three-year \$140 thousand grant) in support of the expansion project. The grant was also in support of current nursing faculty and the hopes of hiring three new full-time nursing faculty with Master's degrees.

Other grants currently in progress include the NCCCS Allied Health Enhancement Project. The College was awarded \$100 thousand on November 20, 2006, in support of the Medical

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Lab Technology program. The donation will help replace old equipment with new equipment linked to a computerized laboratory information system.

Medical Laboratory Technology (MLT) continues to be a strong regional program for the College. In April 2007, the College received re-accreditation by the National Accrediting Agency of Clinical Laboratory Sciences. The accreditation is valid for seven years. Fourteen students graduated from this Associate Degree in 2007 and all are employed in MLT related jobs.

The Welding Technology program continues to train workers for new and current employers in Beaufort and surrounding counties. Over the last 7 years, over 150 students have been placed in full-time jobs in our region. Another 30+ students have been placed in part-time positions while they continue their studies. Enrollment in welding is high in both the daytime and evening programs and the afternoon program for high school students is at full capacity. The College has doubled the size of its welding labs over the past 3 years and utilized grant funds to purchase over \$300 thousand of equipment for its new fabrication lab. The major manufacturing industries in Beaufort County all employ welders in their production process. The availability of skilled welders trained through the College is a key contributor to the successes in attracting and retaining these employers locally.

Renovations to Building Three on the BCCC campus permitted the expansion of both the Associate Degree Nursing and Practical Nursing programs at the College. During the 2006-2007 academic year, an additional cohort of ADN students were added, representing a 42% increase in new students admitted to that program. The Practical Nursing program admitted ten additional students to its Fall 2007 class, a 50% increase.

A new curriculum program potentially on the rise is an Agricultural Biotechnology program. The program's objective would be to train Quality Control technicians for agricultural and biotechnical firms throughout eastern North Carolina. Approval to begin all necessary planning processes is hoped to be given as early as spring 2008, but more likely by fall 2008.

Outside of curriculum programs, other grants have been awarded in support of the growing Continuing Education programs. The Golden Leaf Foundation awarded a grant to the College for the Commercial Truck Driving program. The award totaled \$173 thousand and was received on November 2, 2006. The grant will support the CDL program and its goal to increase the number of truck drivers available to companies in northeastern North Carolina.

The Division of Continuing Education offers a variety of programs to its students. The Basic Skills program serves to help students acquire skills needed to participate as productive members of society. Reading, writing, entry-level employment skills, and aid in studying for the General Education Development test are some of the programs offered. There were 120 students who graduated with their GED diplomas for the 2007 school year. Funding generated from FTE in the Basic Skills Program continues to grow.

The Division also offers a variety of courses in the Occupational Extension department. Law enforcement programs are provided by the NC Department of Justice Training and Standards

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Division. The College provided mandated and non-mandated in-service training to area law enforcement agencies including municipal police departments, sheriff's offices, highway patrol, and marine fisheries.

The Community College System assisted the Division of Continuing Education with a significant workforce development opportunity. Through the availability of Focused Industrial Training (FIT) funds, the College purchased a leading edge software system known as SolidWorks. The program is a 3-D modeling system used by several employers in many different industries. This system will be used by local businesses and should lead to a better trained, more productive workforce in our service area.

Other new developments at the College that are expected to favorably affect FTE's (full-time equivalent student count) include the College Academy and the Wachovia Partnership East/East Carolina University agreement.

Curriculum classes for the fall 2007 semester began August 15, 2007. FTEs increased 8%.

Beaufort County Community College celebrated its anniversary of forty years of service in December 2007. The College commemorated this day with a ceremony and open house of the entire campus. A budget of \$10 thousand was set aside for the ceremony and all of its related activities. The new community college system president was in attendance at the event.

Contacting the College's Financial Management

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

Beaufort County Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 284,586.98
Restricted Cash and Cash Equivalents	269,308.67
Short-Term Investments	33,663.00
Restricted Short-Term Investments	174,106.90
Receivables (Note 4)	112,236.15
Due from State of North Carolina Component Units	34,541.00
Inventories	180,892.42
	<hr/>
Total Current Assets	1,089,335.12
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	68,012.87
Restricted Due from Primary Government	23,332.00
Endowment Investments	748,802.10
Notes Receivable (Note 4)	4,957.03
Capital Assets - Nondepreciable (Note 5)	369,899.72
Capital Assets - Depreciable, Net (Note 5)	15,232,155.72
	<hr/>
Total Noncurrent Assets	16,447,159.44
	<hr/>
Total Assets	17,536,494.56
	<hr/>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	433,633.38
Unearned Revenue	18,825.88
Long-Term Liabilities - Current Portion (Note 7)	64,116.23
	<hr/>
Total Current Liabilities	516,575.49
	<hr/>
Noncurrent Liabilities:	
Funds Held for Others	9,061.08
Long-Term Liabilities (Note 7)	388,879.20
	<hr/>
Total Noncurrent Liabilities	397,940.28
	<hr/>
Total Liabilities	914,515.77
	<hr/>

NET ASSETS

Invested in Capital Assets	15,602,055.44
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	803,913.35
Expendable:	
Scholarships and Fellowships	100,424.23
Loans	10,674.31
Capital Projects	322,366.05
Restricted for Specific Programs	195,705.62
Other	1,035.48
Unrestricted	(414,195.69)
	<hr/>
Total Net Assets	\$ 16,621,978.79
	<hr/>

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

***Beaufort County Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 814,412.91
Federal Grants and Contracts	2,178,593.72
State and Local Grants and Contracts	132,698.00
Sales and Services, Net (Note 8)	419,105.36
Other Operating Revenues	2,098.86

Total Operating Revenues	3,546,908.85
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EXPENSES

Operating Expenses:

Personal Services	10,078,039.13
Supplies and Materials	1,811,276.91
Services	891,987.23
Scholarships and Fellowships	1,314,685.02
Utilities	450,607.10
Depreciation	616,204.50

Total Operating Expenses	15,162,799.89
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Operating Loss	(11,615,891.04)
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NONOPERATING REVENUES

State Aid	8,110,992.32
County Appropriations	1,540,211.00
Noncapital Grants	213,801.32
Noncapital Gifts	363,560.04
Investment Income	212,298.03

Net Nonoperating Revenues	10,440,862.71
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Loss Before Other Revenues	(1,175,028.33)
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State Capital Aid	797,837.75
County Capital Aid	526,000.00
Capital Grants	92,508.48
Capital Gifts	137,950.24
Additions to Endowments	63,764.96

Increase in Net Assets	443,033.10
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NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	16,178,945.69
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Net Assets, June 30, 2007	\$ 16,621,978.79
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The accompanying notes to the financial statements are an integral part of this statement.

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,500,336.64
Payments to Employees and Fringe Benefits	(10,020,698.78)
Payments to Vendors and Suppliers	(3,154,062.69)
Payments for Scholarships and Fellowships	(1,314,685.02)
Collection of Loans to Students	282.48
Other Receipts	500.00
	<hr/>
Net Cash Used by Operating Activities	(10,988,327.37)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,110,992.32
County Appropriations	1,540,211.00
Noncapital Grants Received	224,133.01
Noncapital Gifts and Endowments Received	427,325.00
	<hr/>
Cash Provided by Noncapital Financing Activities	10,302,661.33

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	822,786.80
County Capital Aid	526,000.00
Capital Grants Received	92,508.48
Capital Gifts Received	137,950.24
Acquisition and Construction of Capital Assets	(568,915.69)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,010,329.83

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	33,696.34
Investment Income	20,183.63
Purchase of Investments and Related Fees	(33,662.94)
	<hr/>
Net Cash Provided by Investing Activities	20,217.03

Net Increase in Cash and Cash Equivalents	344,880.82
Cash and Cash Equivalents, July 1, 2006	277,027.70
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 621,908.52

***Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3
Page 2***

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

Operating Loss	\$ (11,615,891.04)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	616,204.50
Changes in Assets and Liabilities:	
Receivables, Net	(16,194.55)
Inventories	(26,319.49)
Notes Receivable, Net	282.48
Accounts Payable and Accrued Liabilities	76,050.86
Unearned Revenue	(30,377.66)
Funds Held for Others	500.00
Compensated Absences	7,417.53
	<u>7,417.53</u>
Net Cash Used by Operating Activities	<u><u>\$ (10,988,327.37)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 284,586.98
Restricted Cash and Cash Equivalents	269,308.67
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	68,012.87
	<u>68,012.87</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 621,908.52</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 158,418.06
Capital Asset Write-Offs	(31,834.41)

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

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BEAUFORT COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College. 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.

Blended Component Unit - Although legally separate, Beaufort County Community College Foundation, Inc. is reported as if it were part of the College. The Foundation is governed by a 27-member board consisting of three ex officio directors and 24 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Beaufort County Community College Board of Trustees and the Foundation's sole purpose is to benefit Beaufort County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Accounting Office, P.O. Box 1069, or by calling (252) 940-6214. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes mutual funds held by the College. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- I. Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30 reduced by the amount of vacation leave transferred to sick leave.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. Net Assets - The College's net assets are classified as follows:

Invested in Capital Assets - This represents the College's total investment in capital assets.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,200.00, and deposits in private financial institutions with a carrying value of \$253,169.26, and a bank balance of \$253,175.20.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the dedicated method.

- B. Investments** - In addition to donated securities held by the College, the College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$367,539.26, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. Assets and shares of the Short-Term Investment Fund are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Investments of the College's component unit, Beaufort County Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. At June 30, 2007, Beaufort County Community College Foundation, Inc., held \$956,572.00 in investments.

Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation's investment policy recommends that the investment committee avoid bunching the maturity dates of its investments. Additionally, the policy sets defined limit amounts of the types of investments to be held. All investments are in mutual funds not subject to interest rate risk.

Credit Risk: The College does not have a formal policy that addresses credit risk. The Foundation's investment policy lists authorized investment categories and defines quality and limit amounts. The policy states that mutual fund shares must be registered with the SEC and its investments must be restricted to those that confirm to regulations. All investments are in mutual funds not subject to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy that addresses custodial credit risk. The Foundation's investment policy states that all securities are to be kept in safekeeping with the authorized investment advisors approved by the Board.

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. The Foundation places the following limits on the following types of investments: bankers acceptances - up to 10% of investments, corporate bonds - up to 10% of investments, and commercial paper - up to 20% of investments. In addition the Foundation limits the amount of exposure to certificate of deposits to less than 25%. A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$	1,200.00
Carrying Amount of Deposits with Private Financial Institutions		253,169.26
Investments in the Short Term Investment Fund		367,539.26
Other Investments		956,572.00
		956,572.00
 Total Deposits and Investments	 \$	 <u><u>1,578,480.52</u></u>
 Current:		
Cash and Cash Equivalents	\$	284,586.98
Restricted Cash and Cash Equivalents		269,308.67
Short-Term Investments		33,663.00
Restricted Short-Term Investments		174,106.90
 Noncurrent:		
Restricted Cash and Cash Equivalents		68,012.87
Endowment Investments		748,802.10
		748,802.10
 Total	 \$	 <u><u>1,578,480.52</u></u>

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

endowment funds are based on an adopted spending policy which limits spending to 80% of the prior year interest earnings unless the donor had stipulated otherwise. At June 30, 2007, net appreciation of \$174,106.90 was available to be spent, of which \$131,426.56 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Receivables
Current Receivables:	
Students	\$ 23,292.36
Accounts	38,227.01
Intergovernmental	46,519.50
Interest on Loans	2,789.28
Other	1,408.00
Total Current Receivables	\$ 112,236.15
Notes Receivable - Noncurrent:	
Institutional Student Loan Programs	\$ 4,957.03

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 180,171.03	\$ 189,728.69	\$ 0.00	\$ 369,899.72
Total Capital Assets, Nondepreciable	180,171.03	189,728.69		369,899.72
Capital Assets, Depreciable:				
Buildings	16,604,565.86			16,604,565.86
Machinery and Equipment	3,042,316.14	379,187.00	31,834.41	3,389,668.73
General Infrastructure	1,395,125.57			1,395,125.57
Total Capital Assets, Depreciable	21,042,007.57	379,187.00	31,834.41	21,389,360.16
Less Accumulated Depreciation:				
Buildings	4,005,197.71	332,091.32		4,337,289.03
Machinery and Equipment	1,309,969.85	254,267.24	31,834.41	1,532,402.68
General Infrastructure	257,666.79	29,845.94		287,512.73
Total Accumulated Depreciation	5,572,834.35	616,204.50	31,834.41	6,157,204.44
Total Capital Assets, Depreciable, Net	15,469,173.22	(237,017.50)		15,232,155.72
Capital Assets, Net	\$ 15,649,344.25	\$ (47,288.81)	\$ 0.00	\$ 15,602,055.44

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 165,516.86
Accrued Payroll	265,065.09
Other	3,051.43
Total Accounts Payable and Accrued Liabilities	\$ 433,633.38

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 445,577.90	\$ 354,454.78	\$ 347,037.25	\$ 452,995.43	\$ 64,116.23

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,249,283.75	\$ 434,870.84	\$ 814,412.91
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 611,027.57	\$ 247,502.74	\$ 363,524.83
Vending	16,550.53		16,550.53
Sales and Services of Education and Related Activities	39,030.00		39,030.00
Total Sales and Services	\$ 666,608.10	\$ 247,502.74	\$ 419,105.36

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,190,865.10	\$ 689,852.98	\$ 327,736.86	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,208,454.94
Academic Support	1,071,576.53	89,051.70	48,215.20				1,208,843.43
Student Services	797,198.12	10,791.07	51,509.02				859,498.21
Institutional Support	2,007,704.49	77,930.82	275,266.78		10,400.00		2,371,302.09
Operations and Maintenance of Plant	677,512.72	407,465.13	162,442.01		440,207.10		1,687,626.96
Student Financial Aid	251,663.17	5,046.05	19,512.38	1,314,685.02			1,590,906.62
Auxiliary Enterprises	81,519.00	531,139.16	7,304.98				619,963.14
Depreciation						616,204.50	616,204.50
Total Operating Expenses	<u>\$ 10,078,039.13</u>	<u>\$ 1,811,276.91</u>	<u>\$ 891,987.23</u>	<u>\$ 1,314,685.02</u>	<u>\$ 450,607.10</u>	<u>\$ 616,204.50</u>	<u>\$ 15,162,799.89</u>

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$8,342,373.94, of which \$6,794,090.59 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$407,645.91 and \$180,722.81, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$180,722.81, \$138,157.62, and \$138,265.78, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan -The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$4,752.00 for the year ended June 30, 2007.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College’s law enforcement officers, which is mandated under G.S. 143-166.30(e) and a 1% employer contribution for all permanent full-time employees. Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2007, were \$4,135.56 and total employer contributions on behalf of permanent full-time employees were \$67,745.06. The voluntary contributions by employees amounted to \$284,145.62 for the year ended June 30, 2007.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$6,900.48 for the year ended June 30, 2007.

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' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$258,175.44. 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. Disability Income -** 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, 2007, the College's total contribution to the DIPNC was \$35,329.27. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$75,000 deductible. The College is protected for losses from employee dishonesty for employees paid by county and institutional funds by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS

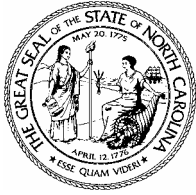
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$90,816.26 and on other purchases were \$132,605.35 at June 30, 2007.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 13,600,108.74
Restatement:	
Correction of an error related to the estimated useful lives of capital assets	<u>2,578,836.95</u>
July 1, 2006, Net Assets as Restated	<u>\$ 16,178,945.69</u>

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 20, 2008. 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 Beaufort County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Beaufort County 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the College in a separate letter dated February 21, 2008.

This report is intended solely for the information and use of management of the College, the Board of Trustees, the State Board of Community Colleges, 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

February 20, 2008

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