



STATE OF NORTH CAROLINA

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, 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

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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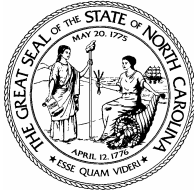
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STATE OF NORTH CAROLINA
Office of the State Auditor

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, 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 disclosed certain deficiencies that are detailed in the Audit Findings and Responses 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

May 12, 2008

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Leslie W. Merritt, Jr., CPA, CFP
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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, 2007, 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., the College's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based on the report of the other auditor.

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 the 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 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, contracts, and

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

April 28, 2008

BRUNSWICK COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

An important part of Brunswick Community College's (College's) financial statements is the Management's Discussion and Analysis of the College's financial activities for the fiscal year ended June 30, 2007. Management's Discussion and Analysis is designed to focus on current year results in comparison with the prior year and note any significant transactions that impact the financial condition of the college. Readers should consider this information in conjunction with the College's financial statements and related notes to the financial statements.

Overview of the Financial Statements

Brunswick Community College prepared its financial statements in accordance with GASB Statement 35, Basic Financial Statements – and Management's Discussion and Analysis - for Public Colleges and Universities. The College's activities are considered a single business-type entity and are reported within a single column in the basic financial statements. The financial statements include the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets. These statements include assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents all of the College's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the net assets changed during the fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. unearned revenue and earned but unused vacation leave).

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the statements and may be found at the end of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis

Statement of Net Assets

The following chart compares the College's assets, liabilities, and net assets for the last two fiscal years.

Comparative Condensed Statement of Net Assets
Fiscal Years Ended June 30, 2007 and June 30, 2006

	June 30, 2007	As Restated June 30, 2006	Total Increase (Decrease)
Current Assets	\$ 1,269,716.12	\$ 1,160,876.30	\$ 108,839.82
Noncurrent Assets			
Capital Assets, Net	18,967,451.29	18,696,664.35	270,786.94
Other Noncurrent Assets	402,027.37	420,879.22	(18,851.85)
Total Assets	20,639,194.78	20,278,419.87	360,774.91
Current Liabilities	415,567.54	547,092.87	(131,525.33)
Noncurrent Liabilities	332,336.67	413,633.13	(81,296.46)
Total Liabilities	747,904.21	960,726.00	(212,821.79)
Net Assets			
Invested in Capital Assets, Net	18,967,451.29	18,696,664.35	270,786.94
Restricted	1,024,157.67	1,043,858.97	(19,701.30)
Unrestricted	(100,318.39)	(422,829.45)	322,511.06
Total Net Assets	\$ 19,891,290.57	\$ 19,317,693.87	\$ 573,596.70

The largest assets of the College's net assets are reflected in invested in capital assets (land, buildings, machinery and equipment, general infrastructure, and other capital assets). The prior year capital assets were restated by \$1,791,197.58 due to a prior period adjustment to correct inadequate estimates of the useful lives of our assets. A restatement of \$95,420.27 was also made to adjust capital assets for items that had originally been recorded as construction in progress but the construction projects were terminated during the current period. The prior year current assets increased by \$108,839.82 largely due to an increase in cash and cash equivalents balances. Total liabilities at June 30, 2007, decreased by \$212,821.79 as compared to June 30, 2006. The College's accounts payable and accrued payroll balances decreased by \$141,186.68 and \$68,689.20, respectively. The decrease was due to the availability of funds at the end of the fiscal year to allow for the timely payment of invoices.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative statement for fiscal years ending 2007 and 2006 reflects the amount of increase or decrease in reported revenues and expenses between years.

Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended June 30, 2007, and June 30, 2006

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Total Increase (Decrease)</u>
Operating Revenues:			
Student Tuition and Fees	\$ 671,003.42	\$ 557,808.15	\$ 113,195.27
Federal Grants and Contracts	1,276,285.89	1,202,387.45	73,898.44
State and Local Grants and Contracts	389,374.89	392,251.17	(2,876.28)
Sales and Services	564,198.42	507,590.67	56,607.75
Other Operating Revenues	93,284.96	55,015.42	38,269.54
	<u>2,994,147.58</u>	<u>2,715,052.86</u>	<u>279,094.72</u>
Operating Expenses:	13,050,487.88	12,122,299.33	928,188.55
Nonoperating Revenues:			
State Aid	6,378,990.01	5,695,672.97	683,317.04
County Appropriations	2,464,361.00	2,197,819.00	266,542.00
Noncapital Grants	358,136.02	313,242.23	44,893.79
Noncapital Gifts	134,563.36	58,944.91	75,618.45
Investment Income	1,780.12	27,171.99	(25,391.87)
Other Revenues:			
State Capital Aid	508,144.49	288,447.22	219,697.27
County Capital Appropriations	60,500.00	111,998.00	(51,498.00)
Capital Grants	723,462.00	1,470,366.02	(746,904.02)
	<u>10,629,937.00</u>	<u>10,163,662.34</u>	<u>466,274.66</u>
Change in Net Assets	<u>573,596.70</u>	<u>756,415.87</u>	<u>(182,819.17)</u>
Net Assets - Beginning of Year	17,621,916.56	17,209,158.74	412,757.82
Restatements	1,695,777.31	(343,658.05)	2,039,435.36
Net Assets - End of Year	<u>\$ 19,891,290.57</u>	<u>\$ 17,621,916.56</u>	<u>\$ 2,269,374.01</u>

Total revenues for 2006-07 were \$13,624,084.58, which represents a \$745,369.38 increase from 2005-06. This is due to a funding formula increase in state allotments for occupational, basic skills, and community service programs totaling \$271,131.00. In addition, the General Assembly provided instructional support funding for an additional financial aid position at each college. Total operating expenses increased by \$928,188.55, with over half of the increase attributable to personal services resulting from a 6% wage increase for faculty and professional staff and a 5.5% wage increase for all other staff, as well as a 2% bonus for faculty and professional staff, awarded by the North Carolina General Assembly.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

At June 30, 2007, the College reported \$24.93 million invested in capital assets less \$5.96 million in accumulated depreciation for net capital assets of \$18.97 million. The College's investment in buildings, construction-in-progress, and equipment constitutes over 90% of this total investment. Within two years, at the conclusion of the current \$30 million construction project, the College's investment in facilities and equipment will approach \$50 million.

A restatement of \$1,791,197.58 to accumulated depreciation was done to extend the useful lives of fully depreciated assets. Because depreciation is intended to allocate the cost of capital assets over its useful life, it normally is not appropriate to report assets still in service as fully depreciation. A restatement of \$95,420.27 to construction in progress was made to expense items that had originally been capitalized but the construction projects were terminated during the period ended June 30, 2007.

The following schedule reports capital assets for the fiscal years 2007 and 2006, net of accumulated depreciation.

	<u>June 30, 2007</u>	<u>June 30, 2006 (Restated)</u>	<u>Total Increase (Decrease)</u>
Land	\$ 436,754.02	\$ 436,754.02	\$ 0.00
Construction in Progress	1,363,018.34	773,939.58	589,078.76
Buildings	14,924,479.95	15,309,326.27	(384,846.32)
Machinery and Equipment	854,719.21	746,716.19	108,003.02
General Infrastructure	1,388,479.77	1,429,928.29	(41,448.52)
Totals	<u>\$ 18,967,451.29</u>	<u>\$ 18,696,664.35</u>	<u>\$ 270,786.94</u>

Construction Commitments

The College reported commitments on construction contracts for architect fees and general contractors in the amount of \$3.37 million. Construction on the addition to the Odell Williamson Auditorium began in May 2007, which represents the first building project utilizing funds from the \$30 million bond referendum passed by Brunswick County voters in November 2004. Construction on the Applied Plant Science Building began in late June and construction is anticipated to begin within the next six months on the Athletic and Aquatics Center. The College reported long-term liabilities of \$405,511 as of June 30, 2007. This balance represents accrued vacation leave liability, of which \$73,174 is reported as current.

Economic Factors and Next Year's Budget

The College's FTE enrollment has increased 16.3% from 2002-03 through 2006-07. This represents a much higher growth rate than North Carolina Community College System (NCCCS) projections. The population for Brunswick County has increased 40% in the last six years and is projected to continue to increase. The county is expected to experience continued economic growth with the proposal to build a \$100 million, 74-bed hospital with all

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

the amenities to replace its current hospital facility. In addition, the proposed North Carolina International Port is slated to be constructed on a 600 acre tract of land in the county. The development is expected to take eight to 10 years and the economic benefits the facility will generate are nearly 50,000 jobs statewide and more than \$50 million in local and state tax revenues annually.

A 1% budget reversion was required in February 2007 due to the shortfall in curriculum tuition and continuing education registration fees. A tuition increase is anticipated for the 2007-2008 fiscal year.

Brunswick Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 386,137.64
Restricted Cash and Cash Equivalents	532,663.39
Receivables, Net (Note 3)	302,924.04
Inventories	47,630.55
Notes Receivable	360.50
	<hr/>
Total Current Assets	1,269,716.12

Noncurrent Assets:

Restricted Cash and Cash Equivalents	399,775.91
Restricted Due from Primary Government	2,251.46
Capital Assets - Nondepreciable (Note 4)	1,799,772.36
Capital Assets - Depreciable, Net (Note 4)	17,167,678.93
	<hr/>
Total Noncurrent Assets	19,369,478.66
	<hr/>
Total Assets	20,639,194.78

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	259,850.96
Unearned Revenue	77,151.83
Funds Held for Others	5,390.33
Long-Term Liabilities - Current Portion (Note 6)	73,174.42
	<hr/>
Total Current Liabilities	415,567.54

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	332,336.67
	<hr/>
Total Noncurrent Liabilities	332,336.67
	<hr/>
Total Liabilities	747,904.21

NET ASSETS

Invested in Capital Assets	18,967,451.29
Restricted/Expendable for:	
Scholarships and Fellowships	140,467.75
Loans	2,808.21
Capital Projects	605,821.78
Specific Programs	173,540.03
Other	101,519.90
Unrestricted	(100,318.39)
	<hr/>
Total Net Assets	\$ 19,891,290.57

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 671,003.42
Federal Grants and Contracts	1,276,285.89
State and Local Grants and Contracts	389,374.89
Sales and Services	564,198.42
Other Operating Revenues	93,284.96

Total Operating Revenues	2,994,147.58
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EXPENSES

Operating Expenses:

Personal Services	8,548,777.84
Supplies and Materials	1,196,456.35
Services	1,641,488.12
Scholarships and Fellowships	678,508.34
Utilities	498,552.46
Depreciation	486,704.77

Total Operating Expenses	13,050,487.88
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Operating Loss	(10,056,340.30)
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NONOPERATING REVENUES

State Aid	6,378,990.01
County Appropriations	2,464,361.00
Noncapital Grants	358,136.02
Noncapital Gifts	134,563.36
Investment Income	1,780.12

Net Nonoperating Revenues	9,337,830.51
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Income Before Other Revenues	(718,509.79)
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State Capital Aid	508,144.49
County Capital Appropriations	60,500.00
Capital Grants	723,462.00

Increase in Net Assets	573,596.70
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NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	19,317,693.87
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Net Assets, June 30, 2007	\$ 19,891,290.57
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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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,066,552.27
Payments to Employees and Fringe Benefits	(8,668,260.19)
Payments to Vendors and Suppliers	(3,469,657.16)
Payments for Scholarships and Fellowships	(677,659.23)
Other Payments	(36,905.45)
	<u>(9,785,929.76)</u>
Net Cash Used by Operating Activities	<u>(9,785,929.76)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	6,378,990.01
County Appropriations	2,464,361.00
Noncapital Grants Received	364,390.05
Noncapital Gifts	134,563.36
	<u>9,342,304.42</u>
Net Cash Provided by Noncapital Financing Activities	<u>9,342,304.42</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	508,145.29
County Capital Appropriations	60,500.00
Capital Grants Received	795,356.89
Acquisition and Construction of Capital Assets	(746,629.71)
	<u>617,372.47</u>
Net Cash Provided by Capital and Related Financing Activities	<u>617,372.47</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,780.12
	<u>1,780.12</u>
Net Cash Provided by Investing Activities	<u>1,780.12</u>

Net Increase in Cash and Cash Equivalents	175,527.25
Cash and Cash Equivalents, July 1, 2006	1,143,049.69
	<u>1,318,576.94</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 1,318,576.94</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (10,056,340.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	486,704.77
Changes in Assets and Liabilities:	
Receivables, Net	769.21
Inventories	8,026.45
Accounts Payable and Accrued Liabilities	(209,875.88)
Unearned Revenue	30,188.81
Funds Held for Others	5,390.33
Compensated Absences	(50,793.15)
	<u>(9,785,929.76)</u>
Net Cash Used by Operating Activities	<u>\$ (9,785,929.76)</u>

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

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 386,137.64
Restricted Cash and Cash Equivalents	532,663.39
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>399,775.91</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 1,318,576.94</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 10,862.00
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The accompanying notes to the financial statements are an integral part of this statement.

Brunswick Community College Foundation, Inc.
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents
Gifts In Kind

\$ 304,310.00
916,210.00

Total Current Assets

\$ 1,220,520.00

Endowed Investments:

Cash and Cash Equivalents
Investments

146,681.00
869,404.00

Total Endowed Investments

1,016,085.00

Total Assets

\$ 2,236,605.00

NET ASSETS

Unrestricted
Temporarily Restricted
Permanently Restricted

\$ 905,997.00
314,574.00
1,016,034.00

Total Liabilities and Net Assets

\$ 2,236,605.00

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, 2007

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 36,495.00
Fundraising Income	3,740.00
Interest Income	2,335.00
Gifts In Kind Income	601,168.00
Unrealized Holding Loss on Investment	(12,342.00)
Other	16.00
	<hr/>
Total Unrestricted Revenues and Gains	631,412.00
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	472,296.00
	<hr/>
Total Net Assets Released from Restrictions	472,296.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	1,103,708.00
	<hr/>
Expenses	
Scholarships	114,222.00
Program Expense	347,846.00
Administrative Expense	42,762.00
Gifts in Kind Expense	18,746.00
	<hr/>
Total Expenses	523,576.00
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Increase in Unrestricted Net Assets	580,132.00
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	527,670.00
Fundraising Income	2,862.00
Interest Income	37,269.00
Gifts In Kind Income	10,228.00
Other	1,672.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(472,296.00)
Net Assets Reclassified from Temporarily Restricted to Permanently Restricted	(7,200.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	100,205.00
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	30,120.00
Unrealized Holding Gain on Investments	11,972.00
Net Assets Reclassified from Temporarily Restricted to Permanently Restricted	7,200.00
	<hr/>
Increase in Permanently Restricted Net Assets	49,292.00
	<hr/>
Increase in Net Assets	729,629.00
Net Assets at Beginning of Year	1,506,976.00
	<hr/>
Net Assets at End of Year	\$ 2,236,605.00
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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, 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. 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize its 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 income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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, 2007, the Foundation distributed \$480,814 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 sale, are valued at the lower of cost or market 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 and/or units of output 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 North Carolina General Assembly. 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 \$ 1,318,228.71 and a bank balance of \$1,325,836.83.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

balance in excess of federal depository insurance coverage was covered under the pooling method.

Component Unit - Investments of the College's component unit, the 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. Because the foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The investments in the following analysis are composed of fixed income bonds, stocks, certificates of deposit, and money market funds:

	Market Value
Raymond James Endowed Investments	\$ 296,087.00
Raymond James Endowed Odell Williamson	491,321.00
Edward Jones Endowed Investments	33,254.00
Cash Value Life Insurance	48,742.00
 Total Fair Market Value of Investments	 \$ 869,404.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 81,840.64	\$ 39,216.01	\$ 42,624.63
Accounts	49,825.94		49,825.94
Intergovernmental	204,294.41		204,294.41
Other	6,179.06		6,179.06
 Total Current Receivables	 \$ 342,140.05	 \$ 39,216.01	 \$ 302,924.04

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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	Balance June 30, 2007
Capital Assets, Nondepreciable:			
Land	\$ 436,754.02	\$ 0.00	\$ 436,754.02
Construction in Progress	773,939.58	589,078.76	1,363,018.34
Total Capital Assets, Nondepreciable	1,210,693.60	589,078.76	1,799,772.36
Capital Assets, Depreciable:			
Buildings	19,759,409.99		19,759,409.99
Machinery and Equipment	1,510,206.51	168,412.95	1,678,619.46
General Infrastructure	1,688,555.99		1,688,555.99
Total Capital Assets, Depreciable	22,958,172.49	168,412.95	23,126,585.44
Less Accumulated Depreciation:			
Buildings	4,450,083.72	384,846.32	4,834,930.04
Machinery and Equipment	763,490.32	60,409.93	823,900.25
General Infrastructure	258,627.70	41,448.52	300,076.22
Total Accumulated Depreciation	5,472,201.74	486,704.77	5,958,906.51
Total Capital Assets, Depreciable, Net	17,485,970.75	(318,291.82)	17,167,678.93
Capital Assets, Net	\$ 18,696,664.35	\$ 270,786.94	\$ 18,967,451.29

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 209,868.72
Accrued Payroll	34,822.37
Contract Retainage	10,862.00
Intergovernmental Payables	4,297.87
Total Accounts Payable and Accrued Liabilities	\$ 259,850.96

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in 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	\$ 456,304.24	\$ 3,813.21	\$ 54,606.36	\$ 405,511.09	\$ 73,174.42

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - FUTURE RENTAL REVENUES

Future minimum lease revenue under non-cancelable operating leases related to wireless broadband services are recorded when earned. Minimum future revenues under non-cancelable agreements treated as operating leases as of June 30, 2007 consist of the following:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 15,618.00
2009	15,618.00
2010	15,618.00
2011	15,618.00
2012	15,618.00
2013-2016	<u>62,472.00</u>
Total Future Minimum Revenue	<u>\$ 140,562.00</u>

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Change in Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 1,244,170.79</u>	<u>\$ 641,824.83</u>	<u>\$ 68,657.46</u>	<u>\$ 671,003.42</u>

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	<u>Personal Services</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 5,035,749.26	\$ 861,802.10	\$ 484,579.69	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,382,131.05
Academic Support	776,238.62	34,098.14	56,113.24				866,450.00
Student Services	391,138.16	20,688.53	74,475.74				486,302.43
Institutional Support	1,578,719.59	90,592.34	310,424.55				1,979,736.48
Operations and Maintenance of Plant	701,769.51	163,260.39	476,081.08		498,552.46		1,839,663.44
Student Financial Aid			592.50	678,508.34			679,100.84
Auxiliary Enterprises	65,162.70	26,014.85	239,221.32				330,398.87
Depreciation						486,704.77	486,704.77
Total Operating Expenses	<u>\$ 8,548,777.84</u>	<u>\$ 1,196,456.35</u>	<u>\$ 1,641,488.12</u>	<u>\$ 678,508.34</u>	<u>\$ 498,552.46</u>	<u>\$ 486,704.77</u>	<u>\$ 13,050,487.88</u>

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 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 \$7,239,983.59, of which \$5,417,445.93 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$325,046.76 and \$144,104.06, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$144,104.06, \$116,718.54, and \$98,171.88, 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 \$1,350.00 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). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2007, were \$3,087.06. The voluntary contributions by employees amounted to \$51,310.00 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 Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$65,710.00 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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$205,862.95. 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 \$28,170.72.

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 a 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 \$75,000 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

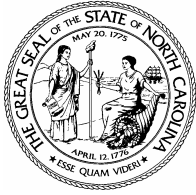
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$3,369,214.46 and on other purchases were \$2,772.50 at June 30, 2007.

NOTE 14 - NET ASSET RESTATEMENTS

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	\$ 17,621,916.56
Restatement: Error in Establishing Useful Lives of Capital Assets When Reporting Model Implemented	1,791,197.58
Restatement: Correction to construction in progress for expense items that had originally been capitalized but the construction projects were terminated during the period ended June 30, 2007.	<u>(95,420.27)</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 19,317,693.87</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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 28, 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 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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 (CONTINUED)**

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. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

**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)**

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

April 28, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. All findings below were also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Brunswick Community College contained a number of 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) Errors were made by the College when reclassifying cash because of interfund borrowing. This caused current restricted cash to be overstated by \$52,708, and current unrestricted cash to be understated by \$52,708.
- b) Cash totaling \$89,593 that was designated by the College to be used for scholarships was classified as restricted but should have been classified as unrestricted since these funds were not restricted by an external party.
- c) The College failed to reverse a prior year entry that recorded an allowance for doubtful accounts. This caused current receivables and student tuition and fees to be understated by \$107,873.
- d) Other misstatements were noted in the financial statements and notes.

In addition, the student receivable balance recorded on the financial statements did not reconcile to the subsidiary ledger. The amount recorded on the financial statements was \$152,925 less than the amount in the subsidiary ledger. Reconciliations of recorded receivables to the subsidiary ledger are necessary to ensure the accuracy of the receivables balance.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the accuracy of the financial statements. Management should implement policies and procedures to reconcile financial records to the underlying subsidiary ledgers.

College's Response: Brunswick Community College agrees with the audit finding. The college will place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the accuracy of the financial statements. The college will implement policies and procedures to reconcile financial records to the underlying subsidiary ledgers.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

2. INADEQUATE SEGREGATION OF DUTIES IN ACCOUNTS PAYABLE PROCESS

In our prior audit we noted a weakness with internal controls over accounts payable. Management has taken action to correct the weakness; however, the issue continued to exist during a significant portion of the current audit period. The specific weakness is as follows.

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

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

This finding is resolved. Management has taken action to address the issue noted above. In June 2007, they changed the employee's access from maintenance to inquiry capability to resolve the audit finding.

3. INADEQUATE CONTROL OVER CAFETERIA RECEIPTS

In our prior audit we noted a weakness with internal controls over cash receipts. Management has taken action to correct the weakness; however, the issue continued to exist during a significant portion of the current audit period. The specific weakness is as follows.

Procedures were not in place to ensure that all cafeteria sales were recorded or that money collected for all sales was deposited. The cashiers did not always ring up sales during busy times and the money collected from these sales was laid aside. At the end of the day, if there was an overage, the excess amount was rung up. 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 taken and not detected.

This finding is resolved: Management has taken action to address the audit finding noted above. In June 2007, they instituted an over/short section on the cafeteria close-out report for staff to complete before turning in. Management also set up an over/short account in the general ledger to post and track these daily shortages and overages of receipts.

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