



STATE OF NORTH CAROLINA

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

BOARD OF TRUSTEES

WILLIAM M. MARSHBURN, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. WILLIAM S. CARVER, PRESIDENT

ANNETTE DISHNER, VICE PRESIDENT OF FINANCE AND ADMINISTRATIVE SERVICES



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, Nash Community College

We have completed a financial statement audit of Nash Community College for the year ended June 30, 2008, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Notes to the Financial Statements	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Nash Community College
Rocky Mount, North Carolina

We have audited the accompanying basic financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

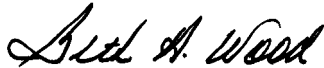
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nash Community College as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2009, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.



Beth A. Wood, CPA
State Auditor

June 11, 2009

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

This section of Nash Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ending June 30, 2008 and June 30, 2007. This Management's Discussion and Analysis focuses on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

The financial statements focus on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The Statement of Net Assets is designed to be similar to bottom line results for the College, combining and consolidating current financial resources with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported by State funds, county appropriations and other revenues. This approach summarizes and simplifies the user's analysis of costs of various College services to students and the public.

Financial Highlights

Statement of Net Assets

The Statement of Net Assets provides information regarding the College's assets, liabilities, and net assets as of June 30, 2008.

Condensed Financial Statements		
Statement of Net Assets		
	2008	Restated 2007
Assets:		
Current Assets	\$ 2,220,570.11	\$ 2,042,615.46
Noncurrent Assets:		
Other Noncurrent Assets	1,649,088.14	1,442,728.68
Capital Assets	17,194,349.16	17,632,410.04
Total Assets	21,064,007.41	21,117,754.18
Liabilities:		
Current Liabilities	918,050.85	555,595.98
Noncurrent Liabilities	1,202,320.01	1,066,255.11
Total Liabilities	2,120,370.86	1,621,851.09
Net Assets:		
Invested in Capital Assets	17,194,349.16	17,632,410.04
Restricted	2,424,781.89	2,155,664.21
Unrestricted	(675,494.50)	(292,171.16)
Total Net Assets	\$ 18,943,636.55	\$ 19,495,903.09

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As of June 30, 2008, the College's net assets were \$18.9 million; a decrease of \$552,266.54 from June 30, 2007. Total net assets as of June 30, 2008 consist of investment in capital assets, (90.8%) and restricted net assets (12.8%). There is a deficit balance in unrestricted net assets at June 30, 2008 in the amount of (\$675,494.50), which is primarily the result of the College recording a noncurrent liability of approximately \$1.2 million for unpaid leave benefits.

Current assets increased due to an increase in cash and cash equivalents, specifically noncurrent restricted cash. Restricted funds for Nash Community College Foundation Scholarships increased \$69,000. The College also received new endowments of \$84,000 and an increase to existing endowments of \$107,000 adding to the increase in cash and cash equivalents. The total assets recorded by the College as of June 30, 2008 were \$21,064,007.41.

As of June 30, 2008, the College had recorded \$25.6 million invested in capital assets, \$8.4 million in accumulated depreciation and \$17.2 million in net capital assets. These balances resulted from capital equipment additions of \$403,791.83, reductions of \$45,007.50, and annual depreciation of \$832,208.06.

In noncurrent liabilities, long-term liabilities are compensated absences, consisting of accumulated vacation and bonus leave that will not be paid within the next fiscal year.

Current liabilities increased \$362,454.87 primarily due to a large outstanding accounts payable bookstore invoice of \$118,000 and other outstanding invoices pending cash certification received after year-end. The total liabilities recorded by the College at June 30, 2008 were \$2,120,370.86. Current liabilities totaling \$918,050.85 included \$127,679.99 as the current portion of accrued leave, \$150,647.32 in accrued payroll, and \$437,143.79 in accounts payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities for the year ending June 30, 2008.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2008	Restated 2007
Operating Revenues:		
Total Operating Revenues	\$ 6,370,387.15	\$ 5,588,039.89
Less Operating Expenses	21,457,546.97	19,186,341.92
Net Operating Loss	(15,087,159.82)	(13,598,302.03)
Nonoperating Revenues:		
State Aid	11,089,170.14	10,040,822.08
County Appropriations	1,610,750.00	1,525,000.00
Noncapital Grants	236,828.61	254,287.12
Noncapital Gifts	331,207.81	343,924.41
Investment Income	144,539.60	127,063.59
Other Nonoperating Expenses	(7,209.78)	(4,003.99)
Net Nonoperating Revenues	13,405,286.38	12,287,093.21
Loss Before Other Revenues	(1,681,873.44)	(1,311,208.82)
Capital Aid, Appropriations, Gifts, and Grants	938,756.80	836,916.47
Additions to Endowments	190,850.10	237,232.93
Decrease in Net Assets	(552,266.54)	(237,059.42)
Net Assets, July 1 as Restated	19,495,903.09	19,732,962.51
Net Assets, June 30	\$ 18,943,636.55	\$ 19,495,903.09

Operating revenues at June 30, 2008 increased by approximately \$782,347.26. Operating revenues included an increase in the value of federal Pell awards of approximately 21.1% over the previous year, going from \$1.9 million in 2006-2007 to \$2.3 million in 2007-2008. While there was a significant increase in the dollar value of the awards, there was a decrease in the number of students served of approximately 3.9% with 937 students in FYE 2008 versus

974 students in FYE 2007. This increase in dollar value is due to an increase in the maximum allowable Pell award. The maximum award increased to \$4,310 per year – a 6.4% increase over the prior year. Tuition and fees revenues are net of scholarship allowances (to comply with the implementation of GASB Statements No. 34 & 35). Tuition increased to \$42.00 per credit hour for in-State students and \$233.30 for out-of-State students, resulting in an increase of \$372,588.06 in total tuition revenue. The following table charts operating revenues by source.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2007-2008</u>	<u>2006-2007</u>
Tuition & Fees, Net	\$ 1,869,622.64	\$ 1,497,034.58
Federal Grants & Contracts	2,735,814.16	2,443,816.14
State & Local Grants	398,582.82	375,115.80
Sales & Services, Net	1,362,621.53	1,268,823.37
Other Operating Revenue	<u>3,746.00</u>	<u>3,250.00</u>
TOTAL	<u><u>\$ 6,370,387.15</u></u>	<u><u>\$ 5,588,039.89</u></u>

Operating expenses at June 30, 2008 increased over the same period in fiscal year 2007. The largest category increase was in Personal Services due primarily to the addition of 10 permanent full-time employees. Also, all full-time faculty and staff received a salary increase of 5%. All increases were effective July 1, 2007. Additionally, there was a significant increase in the Services category, mostly attributable to a \$277,000 increase in contracted services for instruction. Scholarships & Fellowships also experienced a significant increase due primarily to the \$357,000 increase in Pell awards (see previous discussion in the increase of Pell awards). The following table details operating expenses.

	<u>2007-2008</u>	<u>Restated 2006-2007</u>
Personal Services	\$ 13,675,310.31	12,571,416.90
Supplies & Materials	2,793,533.68	2,539,356.33
Services	2,023,714.57	1,568,353.44
Scholarships & Fellowships	1,581,455.11	1,146,896.22
Utilities	551,325.24	556,782.19
Depreciation	<u>832,208.06</u>	<u>803,536.84</u>
TOTAL	<u><u>\$ 21,457,546.97</u></u>	<u><u>\$ 19,186,341.92</u></u>

Total operating expenses at June 30, 2008 were \$21,457,546.97 – an increase of 11.8% over the June 2007 total of \$19,186,341.92.

As mentioned previously, the College receives funding from County and State sources. County appropriations and State aid increased from \$1,545,000 and \$10,821,905.55 in 2006-2007 to \$1,710,750 and \$11,872,868.32 in 2007-2008, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Other Information

The Full Time Equivalent's (FTE) that generate the College's State budget (budget FTEs) increased overall from 2006-2007 to 2007-2008:

	<u>2007-2008</u>	<u>2006-2007</u>	<u>Increase/ (Decrease)</u>
Curriculum	\$ 1,910	\$ 1,691	\$ 219
Occupational Extension	362	377	(15)
Basic Skills	<u>214</u>	<u>224</u>	<u>(10)</u>
TOTAL	<u>\$ 2,486</u>	<u>\$ 2,292</u>	<u>\$ 194</u>

Nash Community College added new programs for 2007-2008 including Advertising & Graphic Design and Simulation & Game Development. These programs had a good first year – earning 6.2 and 2.2 calculated FTE respectively.

Other curriculum programs showed growth over the previous fiscal year. The Certified Medical Assisting program was in its second year of existence and showed excellent growth to 12.9 calculated FTE versus 1.3 in the first year. The Criminal Justice program added a Latent Evidence concentration in the fall of 2006. This concentration started strong earning 9.9 calculated FTE for the first year and continued strong in fiscal year 2008 with an increase to 13.8 calculated FTE. The Culinary program at Nash Community College continues to have increased interest earning 22.0 FTE for the year ended June 30, 2008. This is an increase of 14.1 FTE over the prior fiscal year.

In the Continuing Education area, the Commercial Driver's License (CDL) truck driver program celebrated the graduation of its 100th student, the City of Rocky Mount turned over all of their training to Nash Community College, and the community partnership with Nash General Hospital continued as we conducted a special class of Nurse Aide I and II training for their employees.

The Early College program provides students with a smooth transition from high school to college. This program is in its fourth year and the enrollment has increased to 198 students for the fiscal year ended June 30, 2008. This is an increase of 64 students over fiscal year ended 2007. Currently, every student enrolled in the Early College is enrolled in at least one college class.

The College is gearing up for the 2011 (Southern Association of College and Schools) SACS visit. Data collection is underway and a Quality Enhancement Plan Leadership Team has been formed.

The College expects this enrollment to continue to increase. The addition of new program offerings demonstrates the College's efforts to attract citizens into higher education.

Nash Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 852,248.73
Restricted Cash and Cash Equivalents	758,242.52
Short-Term Investments	183,430.48
Receivables (Note 4)	172,566.02
Due from State of North Carolina Component Units	20,000.00
Inventories	234,082.36

Total Current Assets	2,220,570.11
----------------------	--------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,649,088.14
Capital Assets - Nondepreciable (Note 5)	663,251.30
Capital Assets - Depreciable, Net (Note 5)	16,531,097.86

Total Noncurrent Assets	18,843,437.30
-------------------------	---------------

Total Assets	21,064,007.41
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	587,791.11
Due to Primary Government	37,216.38
Unearned Revenue	76,462.01
Funds Held for Others	88,901.36
Long-Term Liabilities - Current Portion (Note 7)	127,679.99

Total Current Liabilities	918,050.85
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,202,320.01
--------------------------------	--------------

Total Noncurrent Liabilities	1,202,320.01
------------------------------	--------------

Total Liabilities	2,120,370.86
-------------------	--------------

NET ASSETS

Invested in Capital Assets	17,194,349.16
----------------------------	---------------

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	1,401,371.41
Expendable:	
Scholarships and Fellowships	340,421.59
Loans	28,205.14
Capital Projects	324,200.04
Restricted for Specific Programs	330,583.71

Unrestricted	(675,494.50)
--------------	--------------

Total Net Assets	\$ 18,943,636.55
------------------	------------------

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

***Nash Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,869,622.64
Federal Grants and Contracts	2,735,814.16
State and Local Grants and Contracts	398,582.82
Sales and Services, Net (Note 9)	1,362,621.53
Other Operating Revenues	3,746.00
	<hr/>
Total Operating Revenues	6,370,387.15
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	13,675,310.31
Supplies and Materials	2,793,533.68
Services	2,023,714.57
Scholarships and Fellowships	1,581,455.11
Utilities	551,325.24
Depreciation	832,208.06
	<hr/>
Total Operating Expenses	21,457,546.97
	<hr/>
Operating Loss	(15,087,159.82)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	11,089,170.14
County Appropriations	1,610,750.00
Noncapital Grants	236,828.61
Noncapital Gifts	331,207.81
Investment Income	144,539.60
Other Nonoperating Expenses	(7,209.78)
	<hr/>
Net Nonoperating Revenues	13,405,286.38
	<hr/>
Income Before Other Revenues	(1,681,873.44)
	<hr/>
State Capital Aid	783,698.18
County Capital Aid	100,000.00
Capital Grants	46,058.62
Capital Gifts	9,000.00
Additions to Endowments	190,850.10
	<hr/>
Decrease in Net Assets	(552,266.54)
	<hr/>

NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 17)	<hr/>
	19,495,903.09
Net Assets, June 30, 2008	\$ <hr/> <hr/>
	18,943,636.55

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

***Nash Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,365,356.97
Payments to Employees and Fringe Benefits	(13,563,248.72)
Payments to Vendors and Suppliers	(5,039,072.17)
Payments for Scholarships and Fellowships	(1,582,846.91)
Other Receipts	<u>12,816.56</u>
Net Cash Used by Operating Activities	<u>(13,806,994.27)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,089,170.14
County Appropriations	1,610,750.00
Noncapital Grants Received	278,365.83
Noncapital Gifts and Endowments Received	<u>522,057.91</u>
Cash Provided by Noncapital Financing Activities	<u>13,500,343.88</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	853,744.76
County Capital Aid	100,000.00
Capital Grants Received	46,058.62
Capital Gifts Received	9,000.00
Acquisition of Capital Assets	<u>(403,791.83)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>605,011.55</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	22,840.99
Investment Income	<u>144,539.60</u>
Cash Provided by Investing Activities	<u>167,380.59</u>

Net Increase in Cash and Cash Equivalents	465,741.75
Cash and Cash Equivalents, July 1, 2007	<u>2,793,837.64</u>
Cash and Cash Equivalents, June 30, 2008	<u><u>\$ 3,259,579.39</u></u>

***Nash Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008***

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

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

Operating Loss	\$ (15,087,159.82)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	832,208.06
Miscellaneous Nonoperating Income	2,434.87
Changes in Assets and Liabilities:	
Receivables	(29,207.38)
Inventories	(23,789.77)
Accounts Payable and Accrued Liabilities	383,265.83
Due to Primary Government	(3,300.45)
Unearned Revenue	14,214.98
Funds Held for Others	10,290.61
Compensated Absences	94,048.80
	<u>94,048.80</u>
Net Cash Used by Operating Activities	<u><u>\$ (13,806,994.27)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 852,248.73
Restricted Cash and Cash Equivalents	758,242.52
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,649,088.14</u>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 3,259,579.39</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	\$ 45,007.50
--------------------------	--------------

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

[This Page Left Blank Intentionally]

NASH COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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 (GAAP), 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. Nash 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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 funds held in the North Carolina Capital Management Trust, an SEC registered mutual fund. Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) 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 governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value without provision for doubtful accounts considered necessary.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the average cost inventory method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 45 years for general

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

infrastructure, 25 to 40 years for buildings, and 5 to 36 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 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the Print Shop. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. 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

- 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 \$1,274.00, and deposits in private financial institutions with a carrying value of \$549,500.17, and a bank balance of \$646,148.90.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,708,805.22, 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 2.9 years as of June 30, 2008. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The College's investment outside the State Treasurer's Short Term Investment Fund (STIF) is in the North Carolina Capital Management Trust Fund (NCCMT), an SEC registered mutual fund. The fair value of NCCMT investment at June 30, 2008 is \$183,430.48, with a maturity of one year or less. The investment is subject to interest rate risk at June 30, 2008. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk nor credit risk. As of June 30, 2008, the College's investments in the NCCMT were rated AAAM by Standard & Poor's.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	\$	1,274.00
Carrying Amount of Deposits with Private Financial Institutions		549,500.17
Investments in the Short Term Investment Fund		2,708,805.22
Other Investments: North Carolina Capital Management Trust		<u>183,430.48</u>
Total Deposits and Investments	\$	<u><u>3,443,009.87</u></u>
Current:		
Cash and Cash Equivalents	\$	852,248.73
Restricted Cash and Cash Equivalents		758,242.52
Short-Term Investments		183,430.48
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>1,649,088.14</u>
Total	\$	<u><u>3,443,009.87</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2008, net appreciation of \$60,049.33 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Receivables
Current Receivables:	
Students	\$ 53,365.04
Accounts	55,316.80
Intergovernmental	50,312.34
Other	13,571.84
Total Current Receivables	\$ 172,566.02

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (As Restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 663,251.30	\$ 0.00	\$ 0.00	\$ 663,251.30
Total Capital Assets, Nondepreciable	663,251.30	0.00	0.00	663,251.30
Capital Assets, Depreciable:				
Buildings	20,249,195.66		0.00	20,249,195.66
Machinery and Equipment	2,337,234.16	403,791.83	45,007.50	2,696,018.49
General Infrastructure	1,946,018.69			1,946,018.69
Total Capital Assets, Depreciable	24,532,448.51	403,791.83	45,007.50	24,891,232.84
Less Accumulated Depreciation:				
Buildings	5,373,808.31	507,214.76		5,881,023.07
Machinery and Equipment	1,024,244.85	247,228.90	35,362.85	1,236,110.90
General Infrastructure	1,165,236.61	77,764.40		1,235,001.01
Total Accumulated Depreciation	7,563,289.77	832,208.06	35,362.85	8,360,134.98
Total Capital Assets, Depreciable, Net	16,969,158.74	(428,416.23)	9,644.65	16,531,097.86
Capital Assets, Net	\$ 17,632,410.04	\$ (428,416.23)	\$ 9,644.65	\$ 17,194,349.16

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The capital asset schedule above includes land and buildings valued at a cost of \$5,821,482.82 for which the College does not currently hold the title. In 1997, Nash County provided capital appropriations for the construction of the College's Business and Industry Center and Child Development Center. In order for the county to obtain the private financing needed to provide the resources to the College, the College transferred title of the land to the county until the debt has been paid off, at which time the title reverts back to the College.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 437,143.79
Accrued Payroll	<u>150,647.32</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 587,791.11</u></u>

NOTE 7 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 1,235,951.20</u>	<u>\$ 827,132.83</u>	<u>\$ 733,084.03</u>	<u>\$ 1,330,000.00</u>	<u>\$ 127,679.99</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE REVENUE

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	\$ 9,898.00
2010	9,898.00
2011	9,898.00
2012	9,898.00
2013	9,898.00
2014-2018	49,490.00
2019-2023	49,490.00
2024-2028	49,490.00
2029-2033	49,490.00
2034-2036	29,694.00
Total Minimum Lease Payments	\$ 277,144.00

Rental revenue for the operating lease during the year was \$9,897.96.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,660,628.95	\$ 0.00	\$ 791,006.31	\$ 1,869,622.64
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Food Service	\$ 162,668.28	\$ 0.00	\$ 0.00	\$ 162,668.28
Vending	23,651.11			23,651.11
Print Shop	89,374.31	89,374.31		0.00
Bookstore	1,296,746.95		484,810.32	811,936.63
Child Development Center	271,751.32			271,751.32
Brown Auditorium	64,953.23			64,953.23
Other	10,549.21			10,549.21
Sales and Services of Education and Related Activities - Cosmetology	17,111.75			17,111.75
Total Sales and Services	\$ 1,936,806.16	\$ 89,374.31	\$ 484,810.32	\$ 1,362,621.53

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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	\$ 8,763,853.01	\$ 1,098,302.50	\$ 849,581.95	\$ 8,367.90	\$ 0.00	\$ 0.00	\$ 10,720,105.36
Academic Support	896,985.98	49,356.57	18,303.50				964,646.05
Student Services	1,095,084.64	22,821.14	112,631.88	29,504.30			1,260,041.96
Institutional Support	1,955,613.07	141,453.94	533,968.55	1,492.89			2,632,528.45
Operations and Maintenance of Plant	493,085.20	209,645.77	346,730.34		551,325.24		1,600,786.55
Student Financial Aid			2,055.00	1,541,090.02			1,543,145.02
Auxiliary Enterprises	470,688.41	1,271,953.76	160,443.35	1,000.00			1,904,085.52
Depreciation						832,208.06	832,208.06
Total Operating Expenses	<u>\$ 13,675,310.31</u>	<u>\$ 2,793,533.68</u>	<u>\$ 2,023,714.57</u>	<u>\$ 1,581,455.11</u>	<u>\$ 551,325.24</u>	<u>\$ 832,208.06</u>	<u>\$ 21,457,546.97</u>

NOTE 11 - 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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,344,664.77, of which \$9,657,224.83 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$294,545.36 and \$579,433.49, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$294,545.36, \$235,079.52, and \$183,646.91, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.ncosc.net/> 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 \$17,480.00 for the year ended June 30, 2008.

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. The voluntary contributions by employees amounted to \$155,809.98 for the year ended June 30, 2008.

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 \$14,480.00 for the year ended June 30, 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$395,946.22, \$335,827.89, and \$298,230.02, respectively. 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*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$50,217.57, \$49,955.39, and \$40,810.42, respectively. 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 13 - 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 \$1,000,000 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.

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 \$10,000,000 self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the deductible. Effective August 28, 2008, for employees paid with non-State funds, the college has acquired computer fraud coverage of \$100,000 per occurrence with a \$500 deductible.

The College supplements the State's liability coverage by acquiring additional general liability coverage up to \$6,000,000 with a self retention of \$10,000. As part of the College's insurance portfolio, professional liability coverage is provided for the Board of Trustees, faculty, and staff up to \$1,000,000 with retention of \$1,000. Additional coverage of \$3,000,000 with a retention of \$10,000 is provided via the College's excess liability policy.

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.

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. The College's contribution for the benefit was \$15,452.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchases were \$428,404.02 at June 30, 2008.
- B. Contingent Liabilities** - The College has conveyed to the U.S. Department of Commerce, Economic Development Administration (EDA) a mortgage lien on the Science & Technology Center in the amount of \$1,000,000. This lien secures the EDA's investment in this building should the College no longer use the building for educational or economic development purposes. This mortgage lien shall terminate and be dismissed 20 years from September 1, 2004.

NOTE 15 - RELATED PARTIES

Foundation – The Nash Community College Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$424,948.90 for the year ended June 30, 2008.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2007, Net Assets as Previously Reported	\$ 19,696,950.88
Restatements: Correct Errors in the Omission and Calculation of Depreciation Expense for Capital Assets	<u>(201,047.79)</u>
July 1, 2007, Net Assets as Restated	<u><u>\$ 19,495,903.09</u></u>

[This Page Left Blank Intentionally]



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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
Nash Community College
Rocky Mount, North Carolina

We have audited the financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, and have issued our report thereon dated June 11, 2009.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting 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.

**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)**

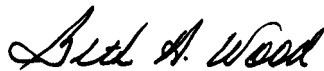
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of 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*.

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, 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.



Beth A. Wood, CPA
State Auditor

June 11, 2009

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647