STATE OF NORTH CAROLINA

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
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, Vance-Granville Community College

We have completed a financial statement audit of Vance-Granville 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.

Our consideration of internal control over financial reporting and compliance and other matters based on the audit of the financial statements disclosed an instance of noncompliance this is detailed in the Audit Findings and Responses section of this report. The College's response is included for the finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the accompanying financial statements of Vance-Granville 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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Vance-Granville 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 Vance-Granville Community College Endowment Fund Corporation, the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Vance-Granville Community College Endowment Fund Corporation 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vance-Granville Community College and its discretely presented component unit as of June 30, 2008, 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.

As discussed in Note 15 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 No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 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.

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

July 15, 2009

The Financial Statements

In accordance with GASB Statements No. 34 and 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of the College as a whole. As required, this report contains three basic financial statements and the Notes to the Financial Statements:

> Statement of Net Assets: This statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with nonfinancial facts such as enrollment levels. (Exhibit A-1)
>
> Statement of Revenues, Expenses and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)
>
> Statement of Cash Flows: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)
>
> Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

In accordance with GASB Statement No. 39, the enclosed report also contains the Vance-Granville Community College Endowment Fund Corporation's "Statement of Financial Position" (Exhibit B-1) and "Statement of Activities" (Exhibit B-2). GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* clarifies GASB Statement No. 14, *The Financial Reporting Entity,* as to which organizations affiliated with the College, but separately accountable, should be reported as a component unit based on the organization's nature and significance to the College. The Notes to the Financial Statements do not address the Corporation unless specified.

Financial Highlights

Below is a condensed comparative analysis between the June 30, 2008 Statement of Net Assets and the Statement of Net Assets for the fiscal year ended June 30, 2007, followed by a discussion on the changes in assets, liabilities, and net assets.

Statement of Net Assets
For the Year Ended June 30, 2008 with Comparative Data for the Year Ended June 30, 2007

			Change	
	2008	2007	Amount	Percentage
Assets				
Current	$ 5,122,690.43	$ 5,508,667.66	$ (385,977.23)	(7.01%)
Capital Assets, Net	28,821,637.17	29,234,363.30	(412,726.13)	(1.41%)
Other Noncurrent	1,868,622.34	1,475,892.69	392,729.65	26.61%
Total Assets	35,812,949.94	36,218,923.65	(405,973.71)	(1.12%)
Liabilities				
Current	685,751.96	950,909.38	(265,157.42)	(27.88%)
Noncurrent	2,076,942.70	1,763,012.64	313,930.06	17.81%
Total Liabilities	2,762,694.66	2,713,922.02	48,772.64	1.80%
Net Assets				
Invested in Capital Assets	28,821,637.17	29,234,363.30	(412,726.13)	(1.41%)
Restricted	299,717.96	36,244.41	263,473.55	726.94%
Unrestricted	3,928,900.15	4,234,393.92	(305,493.77)	(7.21%)
TOTAL NET ASSETS	**$ 33,050,255.28**	**$ 33,505,001.63**	**$ (454,746.35)**	(1.36%)

The College classifies its assets as current and noncurrent. Current assets include cash, receivables and inventories. Noncurrent assets include long-term investments, bond funds for construction due from the State, as well as buildings, infrastructure, and equipment with a historical cost of $5,000 or more. Other Noncurrent Assets increased 26.61% over the prior year primarily as a result of purchasing additional long-term investments.

Restricted Net Assets increased substantially over the prior year due to the fact that the College received proceeds from the 2000 State Bond Referendum during the 2008 fiscal year for the use of capital projects.

Current Assets			
Cash and Cash Equivalents	$	4,130,766.74	11.53%
Receivables		433,944.39	1.21%
Inventories		557,979.30	1.56%
Sub-Total Current		5,122,690.43	
Noncurrent Assets			
Due from Primary Government		58,350.74	0.16%
Investments		1,810,271.60	5.06%
Capital Assets, Net		28,821,637.17	80.48%
Sub-Total Noncurrent		30,690,259.51	
TOTAL ASSETS	$	**35,812,949.94**	100.00%

The composition of assets at June 30, 2008 is presented in the table to the left.

Total Assets decreased $405,974 over the prior year. This decrease is due in part to the overstatement in FY 2006 of a receivable from an estate in which the College was a beneficiary. The correction of this overstatement, together with an unrealized loss on investments, accounts for the majority of the decrease in total assets.

There was a decrease of $412,726 in capital assets this past fiscal year. This was a result of depreciation expense for the year exceeding the addition of new assets. There was also a decrease of $137,638 in "Due from Primary Government" which was a result of receiving the state bond funds reimbursed to the College upon completion of the construction project at our South Campus.

Additional details for the composition of assets are available in Exhibit A-1 and Notes to the Financial Statements 1-D, 1-E, 1-F, 1-G, 1-H, 1-I, 2, 3, and 4.

Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements.

Liabilities increased over the prior year by $48,773. The primary factor attributable to this increase was the increase in our long-term liability for compensated absences.

Current Liabilities			
Accounts Payable	$	227,220.79	8.22%
Compensated Absences		242,498.34	8.78%
Funds Held for Others		66,660.57	2.41%
Unearned Revenue		149,372.26	5.41%
Sub-Total Current		685,751.96	24.82%
Noncurrent Liabilities			
Compensated Absences		2,076,942.70	75.18%
Sub-Total Noncurrent		2,076,942.70	75.18%
TOTAL LIABILITIES	**$**	**2,762,694.66**	100.00%

The composition of liabilities on June 30, 2008 is presented in the table above.

Additional details for the composition of liabilities are available in Exhibit A-1 and Notes to the Financial Statements 1-J, 1-K, 5, and 6.

Total net assets are the difference between assets and liabilities. The composition of the College's net assets at June 30, 2008 are shown in the table below:

Net Assets			
Invested in Caital Assets	$	28,821,637.17	87.20%
Restricted Expendable		299,717.96	0.91%
Unrestricted		3,928,900.15	11.89%
TOTAL LIABILITIES	**$**	**33,050,255.28**	100.00%

Additional information on net assets is available in Exhibit A-1 and Notes to the Financial Statements 1-L and 4.

The table below is a condensed comparative analysis between the June 30, 2008 Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) contained herein and the year ended June 30, 2007, followed by discussion on the changes in revenues and expenses.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008 with Comparative Data for the Year Ended June 30, 2007

			Change	
	2008	2007	Amount	Percent
Operating Revenues	$ 11,009,519.64	$ 10,939,736.40	$ 69,783.24	0.64%
Operating Expenses	(33,769,542.14)	(33,605,860.56)	163,681.58	0.49%
Nonoperating Revenues (Expenses)	21,431,558.41	21,854,906.98	(423,348.57)	(1.94%)
Other Revenues	873,717.74	3,298,151.64	(2,424,433.90)	(73.51%)
INCREASE (DECREASE) IN NET ASSETS	**$ (454,746.35)**	**$ 2,486,934.46**	**$ (2,614,317.65)**	(105.12%)

Revenues are presented as operating and nonoperating. Operating revenues are derived from activities that are necessary and essential to the mission of the College. As the table above illustrates, operating revenues increased by only $69,783.

Operating expenses are all expenses except for those related to investing, capital and related financing and noncapital financing activities. Again, as the table above illustrates, operating expenses increased by only $163,682. The small increases in both operating revenues and operating expenses are due in large part to the change implemented this past fiscal year in the College's bookstore. A point of sale system was implemented which allowed students to charge their books in the bookstore against their financial aid awards. In the past, students received the balance of their financial aid awards in a check on the second day of class. They cashed their checks and subsequently used the cash to purchase their books. This change in procedure decreased both operating revenues and operating expenses when financial aid transactions for the purchase of books and supplies were netted against bookstore sales and scholarship expenses. Operating expenses are presented in Exhibit A-2 by classification – Personal Services, Supplies and Materials, etc. An analysis of expenses by their functional classification (i.e. instruction, financial aid, etc.) is shown in Note 9.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. For instance, a gift to the College is a nonexchange transaction because the College did not exchange a good or service to receive the gift. Net nonoperating revenues decreased by $423,349. This decrease was due in part to a decrease in noncapital grants as well as an unrealized loss on some of the College's investments.

An additional decrease to the net nonoperating revenues is due to a reduction in value of the funds donated to the College from the R. B. Butler estate. In 2006, the College recorded the funds not yet received from the estate as revenue and as a receivable. The amount accrued was based upon a letter that was received from the executer of the estate. The amount shown in the letter overstated the amount due to the College by $208,932. During 2008, the College reduced the receivable by this amount and recorded this reduction as nonoperating expense.

Other revenues are capital contributions to the College. The decrease of $2,424,434 in other revenues is the result of the reduction in bond funds received for construction in the current year. A major expansion project was completed at our Granville County campus during the previous fiscal year.

The table below and the following discussion presents the College's revenues for the fiscal year ended June 30, 2008.

Operating Revenues		
Student Tuition & Fees	$	3,957,597.78
Grants & Contracts (State & Federal)		5,458,755.07
Sales and Services, Net		1,588,321.83
Other Operating Revenues		4,844.96
Sub-Total Operating		11,009,519.64
Nonoperating Revenues		
State Aid		19,084,025.12
County Appropriation		1,909,631.56
Grants and Gifts (Noncapital)		674,343.15
Sub-Total Nonoperating		21,667,999.83
Other Revenues		
State Capital Aid		819,717.74
County Capital Aid		54,000.00
Sub-Total Other Revenues		873,717.74
TOTAL REVENUES	$	**33,551,237.21**

Operating revenues are presented net of scholarship discounts (Note 1-M). The College's largest operating revenues are Pell Grants at $4,130,509 or 37.52 % of total operating revenues. Nonoperating revenues are primarily State aid and also include county appropriations and noncapital grants and gifts. The State is by far the College's major source for nonoperating revenues as presented in the table to the left. More information on the composition of revenues can be found in Exhibit A-2 and Notes 1-N and 8.

The table below presents the College's operating expenses for the fiscal year ended June 30, 2008.

Operating Expenses		
Personal Services	$	21,867,286.96
Supplies and Materials		3,364,786.97
Services		2,094,509.34
Scholarships and Fellowships		4,863,258.79
Utilities		651,499.70
Depreciation		928,200.38
Total Operating Expenses	$	**33,769,542.14**

The change in net assets is the difference between total revenues and total expenses. The change in net assets, as presented in Exhibit A-2, is a decrease of $454,746 bringing the College's total net assets to $33,050,255 as follows:

Beginning Net Assets	$	33,505,001.63
Revenues		
Operating		11,009,519.64
Nonoperating		21,667,999.83
Other		873,717.74
Sub-Total Revenues		33,551,237.21
Expenses		
Operating		33,769,542.14
Nonoperating		236,441.42
Sub-Total Expenses		34,005,983.56
Change in Net Assets		(454,746.35)
ENDING NET ASSETS	$	**33,050,255.28**

The decrease in net assets is primarily the result of decreased State capital aid. State capital aid decreased by $2,289,829 due to not receiving any bond funds this past fiscal year. The College currently has no new construction projects underway. Explanations for the increases in both revenues and expenses were previously disclosed. Other factors affecting net assets are the reversion of State aid and the non-reversion of unexpended County appropriations. Unexpended State aid reverts at fiscal year end and, therefore, only increases the College's net assets through capital asset additions, that is, equipment costing $5,000 or greater and State funded construction. On the other hand, unexpended County appropriations do not revert and therefore increase net assets. Federal funding does not typically affect the change in net assets since federal awards are primarily for financial assistance. Other federal grants are funded on a reimbursement basis and therefore do not significantly contribute to the College's financial position.

Capital Assets

As of June 30, 2008, the College recorded $38,277,679 invested in capital assets, $9,456,042 in accumulated depreciation, resulting in net capital assets of $28,821,637. The composition of net capital assets is detailed in Note 4.

During the 1999–2000 Session, the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State to provide for capital improvements to community colleges. Vance-Granville Community College's share of the general obligation bonds was $17,070,446 with $15,797,311 designated for new construction and $1,273,135 designated for repairs and renovations. Since bond issuance, the College has expended $16,286,395 of the bond appropriation for various projects at its main and satellite campuses, leaving a balance of $784,051 yet to be spent.

During fiscal year 2007–2008, the College completed several repair and renovation projects throughout all four campuses that were paid for with either State bond funds or county capital funds.

In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with positive experience rating, temporarily reduced the unemployment insurance tax by twenty percent for most employers, and substituted an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to purchase equipment. At June 30, 2008, the College has $1,121,110 remaining from its original House Bill 275 equipment appropriation. The College intends to carry this appropriation into future years in order to purchase equipment and furniture for its new facilities.

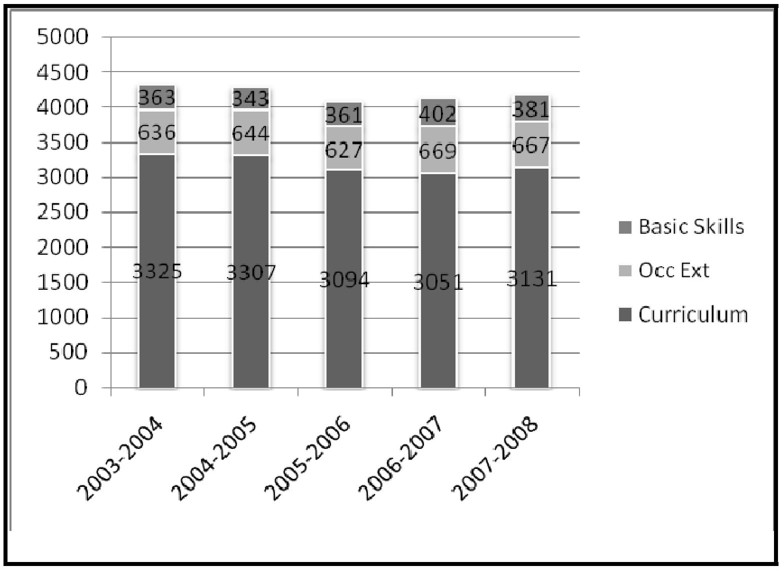
The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are State and County appropriations and the Federal Vocational Education Grant. Construction expenditures are funded by State issued general obligation bonds and matching local funds, as required.

The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, Federal, and County support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year. To ensure the fiscal stability of community colleges, State support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year prior to the budget year or the average of the three prior year's FTE. The table on the following page illustrates the actual FTE for the past five years.

ACTUAL FULL TIME EQUIVALENCY



The State appropriation for 2008–2009 for curriculum, basic skills and occupational extension is based on actual FTE for the prior year. Budget FTE for 2008–2009 is 3,131 for curriculum, 381 for basic skills, and 667 for occupational extension.

In each of these categories, the prior year's actual FTE was higher than the average of the previous three years.

Appropriations from Vance, Granville, Warren and Franklin counties are primarily for plant operations and maintenance. For the budget year 2008–2009 county appropriations increased by 6.1% from the prior year. This increase includes both capital appropriations and appropriations for current expenses.

Historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. As the economy improves, job availability increases and community colleges see a decline in enrollment. Vance-Granville Community College was following this trend until the past couple of years. The increased enrollment in curriculum was greater than the decline in enrollment in basic skills and occupational extension and netted an increase in overall FTE.

The College anticipates additional growth in the upcoming year. The College's Board of Trustees voted to approve Vance-Granville Community College's participation in intercollegiate athletics for the 2008-2009 season. The Board also voted to join the National Junior College Athletic Association (NJCAA). In the fall of 2007, the College kicked off an International Speakers Series, co-sponsored by the Vance-Granville Community College Global Awareness Committee and the University of North Carolina's World View program. Additionally, the Board of Trustees voted in January 2008 to offer Early College high school programs in conjunction with Vance County and Warren County public schools. Both high schools opened on Vance-Granville Community College campuses in the Fall of 2008. The Early College program will allow high school students to take both high school and college-level credit classes. The 2007-2008 year also saw the launch of a new state program that enhanced Vance-Granville Community College's partnerships with local high schools. Learn & Earn Online allows public high school students to earn college credits through online classes at no cost to them or their families.

The College's Financial Future

The College expects enrollment to continue to increase. It remains confident in its ability to maintain its fiscal stability and to attract citizens into higher education, as demonstrated by the addition of new program offerings and expanded recruitment and retention efforts. The College's Board of Trustees and administration are dedicated in its efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum programs, occupational training, and continuing education; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to institutional goals, freeing up resources to support change, and growing new programs and opportunities. As a result, Vance-Granville Community College is positioned to increase enrollment strategically, and when appropriate, eliminate programs, partner with the State in economic development and meet public expectations, while remaining financially sound.

Vance-Granville Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,814,981.11
Restricted Cash and Cash Equivalents		315,785.63
Receivables (Note 3)		433,944.39
Inventories		557,979.30
Total Current Assets		5,122,690.43
Noncurrent Assets:		
Restricted Due from Primary Government		58,350.74
Investments		1,810,271.60
Capital Assets - Nondepreciable (Note 4)		788,258.99
Capital Assets - Depreciable, Net (Note 4)		28,033,378.18
Total Noncurrent Assets		30,690,259.51
Total Assets		35,812,949.94
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		225,469.18
Due to Primary Government		1,751.61
Unearned Revenue		149,372.26
Funds Held for Others		66,660.57
Long-Term Liabilities - Current Portion (Note 6)		242,498.34
Total Current Liabilities		685,751.96
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		2,076,942.70
Total Noncurrent Liabilities		2,076,942.70
Total Liabilities		2,762,694.66
NET ASSETS		
Invested in Capital Assets		28,821,637.17
Restricted for:		
Expendable:		
Scholarships and Fellowships		31,012.41
Loans		14,922.00
Capital Projects		252,940.89
Other		842.66
Unrestricted		3,928,900.15
Total Net Assets	$	33,050,255.28

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

Vance-Granville 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 8)	$ 3,957,597.78
Federal Grants and Contracts	4,802,224.20
State and Local Grants and Contracts	656,530.87
Sales and Services, Net (Note 8)	1,588,321.83
Other Operating Revenues	4,844.96
Total Operating Revenues	11,009,519.64
EXPENSES	
Operating Expenses:	
Personal Services	21,867,286.96
Supplies and Materials	3,364,786.97
Services	2,094,509.34
Scholarships and Fellowships	4,863,258.79
Utilities	651,499.70
Depreciation	928,200.38
Total Operating Expenses	33,769,542.14
Operating Loss	(22,760,022.50)
NONOPERATING REVENUES (EXPENSES)	
State Aid	19,084,025.12
County Appropriations	1,909,631.56
Noncapital Grants	655,343.15
Noncapital Gifts	19,000.00
Investment Loss, Net	(32,589.49)
Other Nonoperating Expenses	(203,851.93)
Net Nonoperating Revenues	21,431,558.41
Loss Before Other Revenues (Expenses)	(1,328,464.09)
State Capital Aid	819,717.74
County Capital Aid	54,000.00
Decrease in Net Assets	(454,746.35)
NET ASSETS	
Net Assets, July 1, 2007	33,505,001.63
Net Assets, June 30, 2008	$ 33,050,255.28

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

Vance-Granville 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	$ 11,001,678.59
Payments to Employees and Fringe Benefits	(21,655,594.74)
Payments to Vendors and Suppliers	(5,885,739.76)
Payments for Scholarships and Fellowships	(4,859,347.21)
Other Payments	(270,317.61)
Net Cash Used by Operating Activities	(21,669,320.73)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	19,084,025.12
County Appropriations	1,909,631.56
Noncapital Grants Received	655,343.15
Noncapital Gifts Received	19,000.00
Cash Provided by Noncapital Financing Activities	21,667,999.83
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	957,355.76
County Capital Aid	54,000.00
Acquisition and Construction of Capital Assets	(651,781.50)
Net Cash Provided by Capital and Related Financing Activities	359,574.26
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	5,011,121.60
Investment Income	158,816.06
Purchase of Investments and Related Fees	(3,350,000.00)
Net Cash Provided by Investing Activities	1,819,937.66
Net Increase in Cash and Cash Equivalents	2,178,191.02
Cash and Cash Equivalents, July 1, 2007	1,952,575.72
Cash and Cash Equivalents, June 30, 2008	$ 4,130,766.74

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(22,760,022.50)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		928,200.38
Miscellaneous Nonoperating Expense		(203,851.93)
Changes in Assets and Liabilities:		
Receivables		26,397.26
Inventories		154,876.17
Accounts Payable and Accrued Liabilities		(19,045.84)
Due to Primary Government		(405.04)
Unearned Revenue		(30,326.73)
Funds Held for Others		(66,465.68)
Compensated Absences		301,323.18
Net Cash Used by Operating Activities	$	(21,669,320.73)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,814,981.11
Restricted Cash and Cash Equivalents		315,785.63
Total Cash and Cash Equivalents - June 30, 2008	$	4,130,766.74

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	10,000.00
Change in Fair Value of Investments		(261,673.79)
Capital Asset Write-Offs		146,028.22

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

Vance-Granville Community College Endowment Fund Corporation
Statement of Financial Position
June 30, 2008 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	342,168.00
Total Current Assets		342,168.00
Endowment Investments:		
Cash and Cash Equivalents		211,572.00
Investments		3,366,026.00
Total Endowment Investments		3,577,598.00
Total Assets	$	3,919,766.00
NET ASSETS		
Unrestricted	$	65,288.00
Temporarily Restricted		276,880.00
Permanently Restricted		3,577,598.00
Total Net Assets	$	3,919,766.00

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

Vance-Granville Community College Endowment Fund Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2008 — ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Contributions	$ 31,592.00
In-Kind Contributions	97,764.00
Total Unrestricted Revenues and Gains	129,356.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	119,536.00
Total Net Assets Released from Restrictions	119,536.00
Total Unrestricted Revenues, Gains, and Other Support	248,892.00
Expenses and Losses:	
Scholarships	75,722.00
Other	9,099.00
Management and General	85,315.00
Fund Raising	24,476.00
Total Expenses	194,612.00
Increase in Unrestricted Net Assets	54,280.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	19,359.00
Investment Expenses	(34,716.00)
Interest and Dividend Income	204,718.00
Net Assets Releasted from Restriction	(119,536.00)
Transfer from Permanently Restricted Net Assets	60,500.00
Increase in Temporarily Restricted Net Assets	130,325.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	192,074.00
Transfer to Temporarily Restricted Net Assets	(60,500.00)
Unrealized Losses on Long-Term Investments	(458,862.00)
Decrease in Permanently Restricted Net Assets	(327,288.00)
Decrease in Net Assets	(142,683.00)
Net Assets at Beginning of Year	4,062,449.00
Net Assets at End of Year	$ 3,919,766.00

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

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. Vance-Granville 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, Vance-Granville Community College Endowment Fund Corporation, is discretely presented in the financial statements. The discretely presented component units' financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Vance-Granville Community College Endowment Fund Corporation (the "Corporation") 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 Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Corporation board consists of 18 members including the College's President serving as chair. Although the College does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Corporation can only be used by, or for the benefit of the College, the Corporation 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 Vance-Granville Community College Endowment Fund Corporation 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 (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2008, the Corporation distributed $75,722 to the College for both restricted and unrestricted purposes. Complete financial statements for the Corporation can be obtained from the College's Vice-President of Finance and Operations at P.O. Box 917, Henderson, NC 27536 or by calling (252) 738-3221.

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 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 a balanced 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using the first-in, first-out 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and unexpended capital contributions 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 are 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 - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

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

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

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

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

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 $3,925.00, and deposits in private financial institutions with a carrying value of $708,415.87, and a bank balance of $763,652.94.

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, 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 $3,418,425.87, 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.

The College's investments were in a balanced mutual fund and had a fair value of $1,810,271.60 at June 30, 2008.

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. One hundred percent (100%) of the College's long-term investments are in Alliance Bernstein balanced mutual funds.

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

Cash on Hand	$ 3,925.00
Carrying Amount of Deposits with Private Financial Institutions	708,415.87
Investments in the Short Term Investment Fund	3,418,425.87
Investments	1,810,271.60
Total Deposits and Investments	$ 5,941,038.34
Current:	
Cash and Cash Equivalents	$ 3,814,981.11
Restricted Cash and Cash Equivalents	315,785.63
Noncurrent:	
Investments	1,810,271.60
Total	$ 5,941,038.34

Vance-Granville Community College Endowment Fund Corporation's Investments: Investments of the College's component unit, Vance-Granville Community College Endowment Fund Corporation, 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. During the year ended June 30, 2008, the Corporation invested $3,330,147 in Alliance Bernstein Balance Wealth Str. A and Alliance Bernstein Exchange Reserve A, mutual funds that had fair values on June 30, 2008 of $3,262,166 and $103,860, respectively. The investments were not secured.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Receivables
Current Receivables:	
Students	$ 244,646.60
Accounts	78,507.35
Intergovernmental	22,279.44
Other	88,511.00
Total Current Receivables	$ 433,944.39

NOTE 4 - 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	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 788,258.99	$ 0.00	$ 0.00	$ 788,258.99
Total Capital Assets, Nondepreciable	788,258.99			788,258.99
Capital Assets, Depreciable:				
Buildings	32,089,675.74	158,151.11		32,247,826.85
Machinery and Equipment	3,427,828.60	245,174.30	146,028.22	3,526,974.68
General Infrastructure	1,602,469.93	112,148.84		1,714,618.77
Total Capital Assets, Depreciable	37,119,974.27	515,474.25	146,028.22	37,489,420.30
Less Accumulated Depreciation:				
Buildings	7,086,494.00	642,847.96		7,729,341.96
Machinery and Equipment	1,259,520.00	251,801.53	146,028.22	1,365,293.31
General Infrastructure	327,855.96	33,550.89		361,406.85
Total Accumulated Depreciation	8,673,869.96	928,200.38	146,028.22	9,456,042.12
Total Capital Assets, Depreciable, Net	28,446,104.31	(412,726.13)		28,033,378.18
Capital Assets, Net	$ 29,234,363.30	$ (412,726.13)	$ 0.00	$ 28,821,637.17

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 157,745.85
Accrued Payroll	57,723.33
Contract Retainage	10,000.00
Total Accounts Payable and Accrued Liabilities	$ 225,469.18

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 2,018,117.86	$ 1,551,657.00	$ 1,250,333.82	$ 2,319,441.04	$ 242,498.34

NOTE 7 - LEASE OBLIGATIONS

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Amount
Facilities	$ 8,000.00
Equipment	5,041.51
Total Rental Expense	$ 13,041.51

NOTE 8 - REVENUES

A summary of scholarship discounts by revenue classification is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 5,568,445.74	$ 1,610,847.96	$ 3,957,597.78
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	$ 1,909,960.19	$ 852,267.14	$ 1,057,693.05
Facilities Rentals	99,076.53		99,076.53
Vending	40,759.38		40,759.38
Sales and Services of Education and Related Activities	390,792.87		390,792.87
Total Sales and Services	$ 2,440,588.97	$ 852,267.14	$ 1,588,321.83

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 13,422,400.96	$ 899,029.64	$ 478,832.01	$ 0.00	$ 0.00	$ 0.00	$ 14,800,262.61
Public Service	16,245.41	402.66	1,742.75				18,390.82
Academic Support	1,645,122.02	79,437.34	119,777.57				1,844,336.93
Student Services	1,800,823.70	33,704.86	143,898.07				1,978,426.63
Institutional Support	4,016,913.49	472,298.51	1,066,730.08				5,555,942.08
Operations and Maintenance of Plant	799,001.58	207,027.33	249,429.06		651,499.70		1,906,957.67
Student Financial Aid				4,863,258.79			4,863,258.79
Auxiliary Enterprises	166,779.80	1,672,886.63	34,099.80				1,873,766.23
Depreciation						928,200.38	928,200.38
Total Operating Expenses	$ 21,867,286.96	$ 3,364,786.97	$ 2,094,509.34	$ 4,863,258.79	$ 651,499.70	$ 928,200.38	$ 33,769,542.14

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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 $18,017,077.47, of which $15,266,712.85 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $465,634.74 and $916,002.77, 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 $465,634.74, $403,767.77, and $335,411.81, 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.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 $1,750.00 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 $272,853.00 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 $16,800.00 for the year ended June 30, 2008.

NOTE 11 - 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 $625,935.23, $576,811.10, and $544,685.85, 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 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 $79,386.91, $78,932.04, and $74,535.96, 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 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 $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.

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. 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. The College purchases dishonesty/crime insurance for employees whose salaries or wages are paid by the Board solely from county or 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.

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

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $10,000.00 and on other purchases were $37,628.14 at June 30, 2008.

NOTE 14 - 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	49,488.00
2019-2023	49,488.00
2024-2028	49,488.00
2029-2033	49,488.00
2034-2036	29,693.00
Total Minimum Lease Revenues	$ 277,135.00

NOTE 15 - 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):

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 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 16 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Material Violations of Finance-Related Legal or Contractual Provisions – At June 30, 2008, Vance-Granville Community College had funds invested with Alliance Bernstein in a balanced mutual fund that may not qualify as an allowable investment option under *North Carolina General Statute* 159-30(c) and other statutes referenced therein.

On behalf of the College, General Counsel for the North Carolina Community College System Office has requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion from the Department of Justice indicates this investment is not allowable, the College will divest from this mutual fund as soon as it is economically prudent to do so.

NOTE 17 - SUBSEQUENT EVENTS

In the months subsequent to the College's fiscal year end of June 30, 2008, there has been significant decline in the world's financial markets. As of December 31, 2008, the College's investments declined approximately $470,000 since fiscal year end. In addition, the Vance-Granville Community College Endowment Fund Corporation's (a discretely presented component unit) investments declined approximately $850,000 since fiscal year end.

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
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
Vance-Granville Community College
Henderson, North Carolina

We have audited the financial statements of Vance-Granville 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, 2008, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 15, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 15 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

<u>Internal Control Over Financial Reporting</u>

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

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)

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.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards,* and which is described the Audit Findings and Responses section of this report.

The College's response to the finding identified in our audit is 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.

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

Beth A. Wood, CPA
State Auditor

July 15, 2009

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes conditions that represent noncompliance with laws and regulations.

NONCOMPLIANCE WITH STATUTORY INVESTMENT REQUIREMENTS

The College invested in a mutual fund that may not qualify as an allowable investment option under *North Carolina General Statute* 159-30(c) and other statutes referenced therein. College staff researched the allowability of the investment and concluded that it met the statutory requirements; however, we concluded based on our reading of the law that this is not the case. At June 30, 2008, the fair value of the investment was $1,810,272, which represented 100% of the College's investments.

General Counsel for the North Carolina Community College System Office has requested an opinion from the North Carolina Department of Justice on this matter. This opinion may differ from our interpretation.

Recommendation: If the legal opinion received from the Department of Justice indicates that the investment is not allowable, the College may have to divest its funds from the unauthorized mutual fund. However, we believe that this should only occur when those responsible for the College's investment decisions feel it is economically prudent to do so.

College Response: The College disagrees with the North Carolina State Auditor's interpretation that the referenced mutual fund is not an allowable investment option under *North Carolina General Statutes*. The College in consultation with its attorney has reevaluated and researched the General Statutes and concludes that *North Carolina General Statute* 115D-58.6(a) & (d) does authorize such investments. General Counsel for The North Carolina Community College System Office agrees that the College's interpretation is reasonable. Further, given the potential ambiguity of the statute, General Counsel has requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion received from the Department of Justice does indicate that the investment is not allowable, the College will follow the recommendation made by the State Auditor and divest itself from this mutual fund as soon as it is economically prudent to do so.

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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