



STATE OF NORTH CAROLINA

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Beaufort County Community College

We have completed a financial statement audit of Beaufort County Community College for the year ended June 30, 2009 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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the accompanying basic financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Beaufort County Community College Foundation, Inc., which represent 7.1 percent, 7.5 percent, and 1.6 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Beaufort County Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

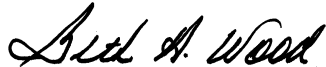
In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort County Community College as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* during the year ended June 30, 2009.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

May 6, 2010

BEAUFORT COUNTY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2009. This section should be read in conjunction with the College's basic financial statements and the related notes.

Basic Financial Statements

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

Statement of Net Assets: The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2009 and includes all assets and liabilities of the College. The focus of the Statement of Net Assets is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portions to give the users of these statements insight into the financial position of the College.

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

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

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

Condensed Financial Statements and Financial Analysis

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

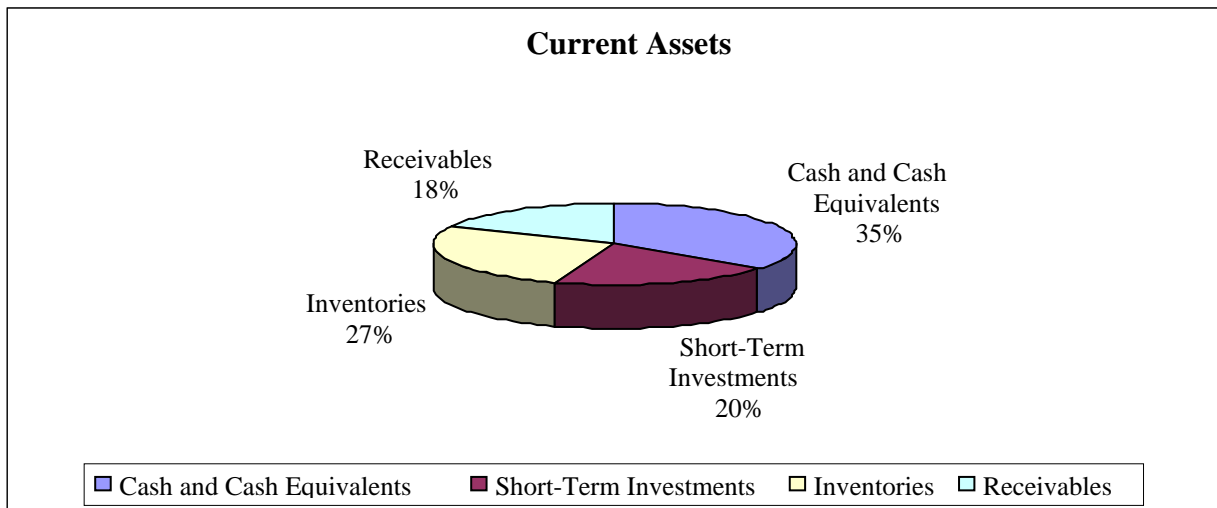
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of the Statement of Net Assets

(in thousands)

	2009	(restated) 2008	Variance
Assets			
Current Assets	\$ 783	\$ 1,100	\$ (317)
Capital Assets, Net	15,448	15,568	(120)
Other Assets	1,542	824	718
Total Assets	17,773	17,492	281
Liabilities			
Current Liabilities	540	546	(6)
Long-Term Liabilities	450	449	1
Total Liabilities	990	995	(5)
Net Assets			
Invested in Capital Assets	15,448	15,568	(120)
Restricted	1,687	1,510	177
Unrestricted	(352)	(581)	229
Total Net Assets	\$ 16,783	\$ 16,497	\$ 286

As shown in the condensed Statement of Net Assets table above, the College continues to build upon its strong financial foundation. Total Net Assets increased by approximately - \$286 thousand during fiscal year 2009. This increase is mainly attributable to an increase in cash associated with two large gifts received by the Beaufort County Community College Foundation, Inc. at the end of the fiscal year. These gifts also are the major component of the increases shown above in the Other Assets and Restricted Net Assets classifications. The decrease in current assets relates to decreases in short-term investments because of the volatility of the stock market and decreases in unrestricted cash available at year end because of the downturn in the States economy. The decreases shown in the Capital Assets, net and Invested in Capital Assets lines are mainly attributable to the depreciation of our assets.



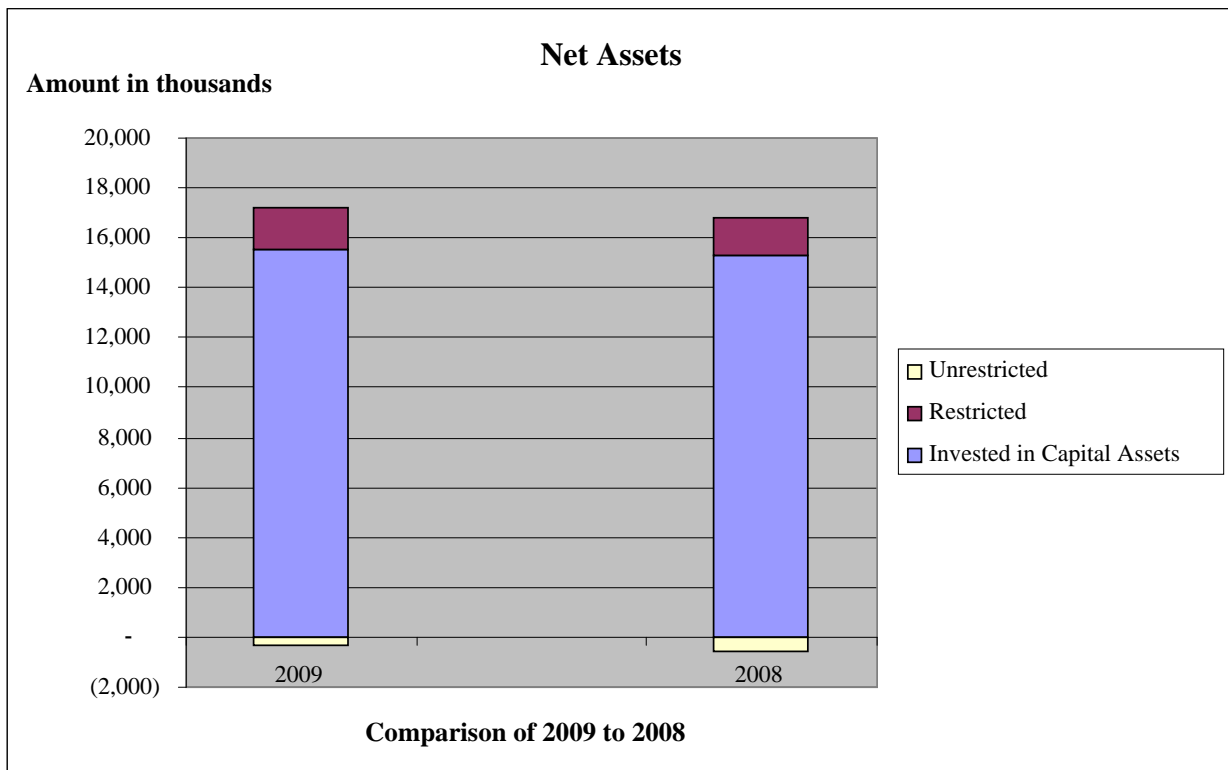
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

As can be seen from the chart above, current assets are fairly well distributed between cash and cash equivalents, inventories, short-term investments, and receivables.

Liabilities

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Accounts Payable	\$ 164	\$ 128	\$ 36
Accrued Payroll	291	344	(53)
Unearned Revenue	23	23	
Funds Held for Others	5	10	(5)
Compensated Absences	<u>507</u>	<u>490</u>	<u>17</u>
Total Liabilities	<u>\$ 990</u>	<u>\$ 995</u>	<u>\$ (5)</u>

The College’s overall liabilities decreased slightly during the year, primarily a result of a decrease in accrued payroll. The decrease in accrued payroll was caused by hiring restrictions placed on the College before year-end. The increase in accounts payable relates to a contracts payable for the public safety annex. The liability associated with compensated absences continues to grow because of salary and benefit increases. Salaries increased approximately 3.3% while benefits increased approximately 5.2%.



Net assets increased during fiscal 2009 partially due to a restatement associated with capital assets. The College also saw an increase in unrestricted net assets mainly due to improvements in the operations of the bookstore; however, options continue to be explored to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

increase unrestricted net assets further. Restricted net assets also increased due to several significant gifts to the Beaufort County Community College Foundation, Inc. during the fiscal year.

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

Analysis of Operating Revenues

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 792	\$ 798	\$ (6)
Sales and Services, Net	555	407	148
Other	5	3	2
	<u>1,352</u>	<u>1,208</u>	<u>144</u>
Total Operating Revenues	<u>\$ 1,352</u>	<u>\$ 1,208</u>	<u>\$ 144</u>

Total operating revenues show an increase of approximately \$144 thousand from fiscal year 2008. This increase is mainly attributable to an increase of \$148 thousand in our sales and services line. The large increase in enrollment led to more sales in the bookstore which is the main revenue driver in this account.

Analysis of Operating Expenses

	<u>2009</u>	<u>2008</u>	<u>Variance</u>
Operating Expenses			
Personal Services	\$ 11,320	\$ 10,901	\$ 419
Supplies and Materials	1,478	1,684	(206)
Services	819	965	(146)
Scholarships and Fellowships	2,143	1,556	587
Other	1,092	1,067	25
	<u>16,852</u>	<u>16,173</u>	<u>679</u>
Total Operating Expenses	<u>\$ 16,852</u>	<u>\$ 16,173</u>	<u>\$ 679</u>

Operating expenses increased by approximately \$679 thousand from fiscal year 2008. Expenses related to Personal Services increased due to pay increases to faculty and staff members along with increases in benefits expenses for full-time employees. Scholarships and Fellowships also increased dramatically during the fiscal year because of the large increase experienced in enrollment and the associated financial aid for those students. Expenses for Supplies and Materials and Services decreased as a result of purchasing and travel restrictions in place during the fiscal year.

Analysis of Nonoperating and Other Revenues

	<u>2009</u>	(restated) <u>2008</u>	<u>Variance</u>
Non-Operating and Other Revenues			
State Aid	\$ 8,956	\$ 8,644	\$ 312
County Appropriations	1,877	1,781	96
State Capital Aid	226	576	(350)
County Capital Appropriations	435	306	129
Grants and Contracts	3,860	3,085	775
Other	431	224	207
	<u>15,785</u>	<u>14,616</u>	<u>1,169</u>
Total Nonoperating and Other Revenues	<u>\$ 15,785</u>	<u>\$ 14,616</u>	<u>\$ 1,169</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating and other revenues increased by approximately \$1.2 million from fiscal year 2008. Approximately \$775 thousand of this increase is associated with increases in grants and contracts. The increased enrollment we experienced during the past fiscal year led to increases in financial aid received for our students. State and county funding to the College increased from fiscal year 2008 to 2009. County Capital Aid also increased because the county funded the construction of a 4,000 square foot metal classroom building for the College in our 2009 budget.

Analysis of the Statement of Cash Flows (in thousands)

Condensed Statement of Cash Flows

	2009	2008	Variance
Cash Provided (Used) by:			
Operating Activities	\$ (15,024)	\$ (11,483)	\$ (3,541)
Noncapital Financing Activities	15,358	11,036	4,322
Capital Financing Activities	173	567	(394)
Investing Activities	(28)	(140)	112
Net Change in Cash and Cash Equivalents	479	(20)	499
Cash and Cash Equivalents, Beginning of Year	556	576	(20)
Cash and Cash Equivalents, End of Year	<u>\$ 1,035</u>	<u>\$ 556</u>	<u>\$ 479</u>

Cash and cash equivalents increased by approximately \$479 thousand during fiscal year 2009. Most of this increase was related to additions to a permanent endowment received during the end of the fiscal year. During the month of June 2009, the BCCC Foundation received \$380 thousand in gifts. These gifts were originally invested in the State Treasurer's Investment Fund at year-end and were then moved to other investments during the first part of fiscal year 2010.

Analysis of Capital Assets (in thousands)

	2009	(restated) 2008	Variance
Capital Assets			
Land	\$ 370	\$ 370	\$ 0
Construction in Progress	466		466
Buildings	11,580	11,901	(321)
Machinery and Equipment	1,994	2,214	(220)
General Infrastructure	1,039	1,084	(45)
Total Capital Assets	<u>\$ 15,449</u>	<u>\$ 15,569</u>	<u>\$ (120)</u>

Capital Assets decreased slightly during 2009. The only increase relates to construction in progress for the Public Safety Annex, which was completed in July of 2009. A review of Capital Assets was conducted during 2009, which led to a restatement associated with prior errors in capitalization of assets with acquisition costs of less than \$5,000 and errors related to accumulated depreciation expense. These changes are reflected above. The remaining

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

changes from fiscal year 2008 relate to depreciation expense. BCCC expects to receive funding during fiscal year 2010 to construct a new Allied Health and Nursing Building. Current estimates indicate the building will cost approximately \$7 million to construct.

Analysis of the Overall Financial Position

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

Future Financial Influences

The College's financial position continues to be affected by various funding issues. Beaufort County continues to provide strong financial support for the College; however, the overall budget provided for the College for fiscal year 2010 will decrease by approximately 9%. A majority of this decrease is associated with increased funding received in the previous fiscal year for the Public Safety Annex building. The State's fiscal situation continues to provide uncertainty for the amount of state funding to be received by BCCC. During fiscal year 2009, community colleges were required to revert approximately 5.5% of their budgets. It is anticipated that reversions will be required in fiscal year 2010.

The Beaufort County Board of County Commissioners voted in the spring of 2009 to seek a USDA loan in the amount of \$4.5 million and a \$500 thousand grant to assist with the construction of the proposed new Allied Health and Nursing Building. BCCC and Beaufort County have also applied for a \$2.5 million EDA grant for this project. It is anticipated the College will be notified in the fall of 2009 if the EDA grant has been funded. The College also continues to work on other funding sources for this construction project.

BCCC previously received funding for the expansion of nursing programs from a variety of sources. A small amount of carryover funding remains for fiscal year 2010, but no other sources of funding are currently available to make up for the loss of these funding sources.

The Department of Education has modified the funding cycle for the Student Support Services (TRIO) grant and BCCC has been awarded a one-year extension of that grant. BCCC has been awarded \$360 thousand for tutorial services along with academic, career, and personal counseling for fiscal year 2010.

The Carl Perkins Tech Prep grant supports Beaufort and Hyde County Schools. In the second year of the grant with Beaufort County Schools, \$20 thousand has been granted to be used in support of high school students entering health care programs at Beaufort County Community College. In accordance with the agreement with Hyde County Schools, \$19 thousand has been granted to develop and implement an Agriculture Biotechnology program.

The Division of Continuing Education offers a variety of programs to its students. The Basic Skills program serves to help students acquire skills needed to participate as productive members of society. Reading, writing, entry-level employment skills, and aid in studying for the General Education Development test are some of the programs offered. The fiscal

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

year 2010 budget approved by the General Assembly dramatically increased registration fees for continuing education courses. It is unclear what affect this increase will have on enrollment.

In partnership with the Governor's office, the NC Community College System, and the NC Division of Workforce Development, BCCC received \$200 thousand from the American Recovery and Reinvestment Act of 2009 (Stimulus Funding) for participation in the JobsNOW 12 in 6 program. BCCC has developed a listing of program offerings in Truck Driver Training, Construction Trades, Welding, and Basic Law Enforcement Training (BLET) to be offered as part of this program.

Community colleges are seeing record enrollment during these tough economic times. Enrollment increased by over 10% for academic year 2008-2009 at Beaufort County Community College. Current estimates are that enrollment for the fall of 2009 has increased by over 10% from fall of 2008. Studies continue to show that many high school graduates lean towards the more affordable education offered by community colleges versus the more expensive four-year universities. Increasing unemployment rates also continue to affect enrollment.

Contacting the College's Financial Management

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

Beaufort County Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 58,498.11
Restricted Cash and Cash Equivalents	220,270.21
Short-Term Investments	23,939.00
Restricted Short-Term Investments	130,753.80
Receivables, Net (Note 4)	138,980.16
Inventories	211,171.40
	<hr/>
Total Current Assets	783,612.68

Noncurrent Assets:

Restricted Cash and Cash Equivalents	756,462.11
Restricted Due from Primary Government	90,000.00
Restricted Investments	695,105.20
Capital Assets - Nondepreciable (Note 5)	835,931.65
Capital Assets - Depreciable, Net (Note 5)	14,612,428.47
	<hr/>
Total Noncurrent Assets	16,989,927.43

Total Assets	<hr/> <hr/> 17,773,540.11
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	454,452.75
Unearned Revenue	23,834.60
Funds Held for Others	5,188.53
Long-Term Liabilities - Current Portion (Note 7)	56,967.98
	<hr/>
Total Current Liabilities	540,443.86

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	450,059.75
	<hr/>

Total Liabilities	990,503.61
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NET ASSETS

Invested in Capital Assets	15,448,360.12
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,075,155.20
Expendable:	
Scholarships and Fellowships	149,863.00
Loans	1,497.25
Capital Projects	288,505.84
Restricted for Specific Programs	163,293.22
Other	8,459.85
Unrestricted	<hr/> (352,097.98)
Total Net Assets	<hr/> <hr/> \$ 16,783,036.50

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

***Beaufort County Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 791,655.02
Sales and Services, Net (Note 8)	555,225.40
Other Operating Revenues	5,179.85
	<hr/>
Total Operating Revenues	1,352,060.27
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	11,319,293.83
Supplies and Materials	1,478,163.50
Services	819,189.14
Scholarships and Fellowships	2,143,355.58
Utilities	472,566.19
Depreciation	619,600.30
	<hr/>
Total Operating Expenses	16,852,168.54
	<hr/>
Operating Loss	(15,500,108.27)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	8,535,225.53
State Aid - Federal Recovery Funds	421,290.72
County Appropriations	1,876,550.00
Noncapital Grants - Federal Student Financial Aid	2,905,306.27
Noncapital Grants	901,903.35
Noncapital Gifts	257,211.94
Investment Loss	(218,083.44)
Other Nonoperating Expenses	(69,212.78)
	<hr/>
Net Nonoperating Revenues	14,610,191.59
	<hr/>
Loss Before Other Revenues	(889,916.68)
	<hr/>
State Capital Aid	226,257.40
County Capital Aid	435,000.00
Capital Grants	52,662.57
Additions to Endowments	461,113.71
	<hr/>
Increase in Net Assets	285,117.00

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 15)	16,497,919.50
	<hr/>
Net Assets, June 30, 2009	\$ 16,783,036.50
	<hr/> <hr/>

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

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,329,688.90
Payments to Employees and Fringe Benefits	(11,355,102.14)
Payments to Vendors and Suppliers	(2,849,499.16)
Payments for Scholarships and Fellowships	(2,143,355.58)
Other Payments	(5,177.78)
	<u>(15,023,445.76)</u>
Net Cash Used by Operating Activities	<u>(15,023,445.76)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,535,225.53
State Aid Received - Federal Recovery Funds	421,290.72
County Appropriations	1,876,550.00
Noncapital Grants Received	3,806,709.62
Noncapital Gifts and Endowments Received	718,325.65
	<u>15,358,101.52</u>
Cash Provided by Noncapital Financing Activities	<u>15,358,101.52</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	136,257.40
County Capital Aid	435,000.00
Capital Grants Received	52,662.57
Proceeds from Sale of Capital Assets	846.68
Acquisition and Construction of Capital Assets	(452,190.53)
	<u>172,576.12</u>
Net Cash Provided by Capital and Related Financing Activities	<u>172,576.12</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	41,135.59
Investment Income	55,964.55
Purchase of Investments and Related Fees	(124,990.58)
	<u>(27,890.44)</u>
Net Cash Used by Investing Activities	<u>(27,890.44)</u>

Net Increase in Cash and Cash Equivalents	479,341.44
Cash and Cash Equivalents, July 1, 2008	<u>555,888.99</u>
Cash and Cash Equivalents, June 30, 2009	<u>\$ 1,035,230.43</u>

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (15,500,108.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	619,600.30
Changes in Assets and Liabilities:	
Receivables, Net	(21,800.16)
Inventories	27.90
Accounts Payable and Accrued Liabilities	(134,512.78)
Unearned Revenue	1,208.31
Funds Held for Others	(5,177.78)
Compensated Absences	17,316.72
	<u>17,316.72</u>
Net Cash Used by Operating Activities	<u>\$ (15,023,445.76)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 58,498.11
Restricted Cash and Cash Equivalents	220,270.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>756,462.11</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 1,035,230.43</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 117,393.31
Change in Fair Value of Investments	(274,047.99)
Increase in Receivables Related to Nonoperating Income	90,000.00

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

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BEAUFORT COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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. Beaufort County Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

Blended Component Unit - Although legally separate, Beaufort County Community College Foundation, Inc. is reported as if it was part of the College. The Foundation is governed by a 27-member board consisting of 3 ex officio directors and 24 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Beaufort County Community College Board of Trustees and the Foundation's sole purpose is to benefit Beaufort County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the Beaufort County Community College Accounting Office, P. O. Box 1069, Washington, NC 27889 or by calling (252) 940-6214. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 net of estimated uncollectible amounts.

- G. Inventories** - Inventories, consisting of expendable supplies, and merchandise for resale are valued at lower of cost or market using last invoice cost.
- 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated 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 50 years for general infrastructure, 15 to 50 years for buildings, and 3 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 resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

carried forward at the previous July 1 plus the leave earned, less the leave taken between July 30 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 June 30 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cash equivalents includes cash on hand totaling \$1,200.00, and deposits in private financial institutions with a carrying value of \$235,911.58, and a bank balance of \$233,597.24.

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, 2009, all of the College's bank balance was covered by federal depository insurance (FDIC).

- 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$798,118.85, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

All investments are held by the College's blended component unit, Beaufort County Community College Foundation, Inc. Investments of the Foundation are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Foundation's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation's investment policy recommends that the investment committee avoid bunching the maturity dates of its investments. Additionally, the policy sets defined limit amounts for the types of investments to be held.

	Investment Maturities (in Years)	
	Fair Value	Less Than 1
Investment Type		
Debt Securities		
Mutual Bond Funds	\$ 49,308.00	\$ 49,308.00
		\$ 49,308.00
Other Securities		
Mutual Funds	800,489.00	
Other	1.00	
Total Investments	\$ 849,798.00	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy lists authorized investment categories and defines quantity and limit amounts. The policy states that mutual fund shares must be registered with the SEC and its investments must be restricted to those that conform to regulations. As of June 30, 2009, the Foundation's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below
Mutual Bond Funds	\$ 49,308.00	\$ 28,194.31	\$ 2,391.44	\$ 6,158.57	\$ 8,382.36	\$ 4,181.32

Rating Agency: Moody's

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

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2009 is as follows:

Cash on Hand	\$ 1,200.00
Carrying Amount of Deposits with Private Financial Institutions	235,911.58
Investments in the Short-Term Investment Fund	798,118.85
Other Investments	849,798.00
Total Deposits and Investments	\$ 1,885,028.43
Current:	
Cash and Cash Equivalents	\$ 58,498.11
Restricted Cash and Cash Equivalents	220,270.21
Short-Term Investments	23,939.00
Restricted Short-Term Investments	130,753.80
Noncurrent:	
Restricted Cash and Cash Equivalents	756,462.11
Restricted Investments	695,105.20
Total	\$ 1,885,028.43

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the Foundation's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the “Uniform Prudent Management of Institutional Funds Act” (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the Foundation’s endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure.

Investment return of the Foundation’s endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the Foundation’s endowment funds are based on an adopted spending policy which limits spending to 80% of the prior year interest earnings unless the donor has stipulated otherwise. At June 30, 2009, endowment net assets of \$130,753.80 were available to be spent, all of which was restricted to specific purposes.

During the current year, the Foundation incurred investment losses that exceeded the related endowment’s available accumulated income and net appreciation. These losses resulted in a reduction to the specific nonexpendable endowment balance. At June 30, 2009, the amount of investment losses reported against the nonexpendable endowment balances were \$43,843.01.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 125,406.29	\$ 43,441.43	\$ 81,964.86
Accounts	6,785.41		6,785.41
Intergovernmental	47,440.61		47,440.61
Interest on Loans	<u>2,789.28</u>		<u>2,789.28</u>
Total Current Receivables	<u>\$ 182,421.59</u>	<u>\$ 43,441.43</u>	<u>\$ 138,980.16</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 369,899.72	\$ 0.00	\$ 0.00	\$ 369,899.72
Construction in Progress		466,031.93		466,031.93
Total Capital Assets, Nondepreciable	369,899.72	466,031.93		835,931.65
Capital Assets, Depreciable:				
Buildings	16,691,741.37			16,691,741.37
Machinery and Equipment	3,526,129.16	103,551.91	191,407.27	3,438,273.80
General Infrastructure	1,386,577.93			1,386,577.93
Total Capital Assets, Depreciable	21,604,448.46	103,551.91	191,407.27	21,516,593.10
Less Accumulated Depreciation/Amortization for:				
Buildings	4,791,565.49	320,552.85		5,112,118.34
Machinery and Equipment	1,311,969.01	253,870.93	121,347.81	1,444,492.13
General Infrastructure	302,377.64	45,176.52		347,554.16
Total Accumulated Depreciation	6,405,912.14	619,600.30	121,347.81	6,904,164.63
Total Capital Assets, Depreciable, Net	15,198,536.32	(516,048.39)	70,059.46	14,612,428.47
Capital Assets, Net	\$ 15,568,436.04	\$ (50,016.46)	\$ 70,059.46	\$ 15,448,360.12

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009 were as follows:

	Amount
Accounts Payable	\$ 143,023.01
Accrued Payroll	291,383.58
Contract Retainage	20,046.16
Total Accounts Payable and Accrued Liabilities	\$ 454,452.75

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009 is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 489,711.01	\$ 441,141.78	\$ 423,825.06	\$ 507,027.73	\$ 56,967.98

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 1,518,836.64	\$ 705,967.28	\$ 21,214.34	\$ 791,655.02
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 931,037.11	\$ 436,196.29	\$ 0.00	\$ 494,840.82
Other	15,070.58			15,070.58
Sales and Services of Education and Related Activities	45,314.00			45,314.00
Total Sales and Services	\$ 991,421.69	\$ 436,196.29	\$ 0.00	\$ 555,225.40

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	\$ 6,232,960.65	\$ 401,655.81	\$ 276,254.20	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,910,870.66
Academic Support	1,010,474.26	109,893.96	42,922.39				1,163,290.61
Student Services	835,712.17	8,900.72	43,657.11	10,849.14			899,119.14
Institutional Support	2,150,270.56	72,314.98	223,360.33				2,445,945.87
Operations and Maintenance of Plant	708,462.47	100,873.92	194,878.22		472,566.19		1,476,780.80
Student Financial Aid	281,335.45	13,186.66	19,138.90	2,132,506.44			2,446,167.45
Auxiliary Enterprises	100,078.27	771,337.45	18,977.99				890,393.71
Depreciation						619,600.30	619,600.30
Total Operating Expenses	\$ 11,319,293.83	\$ 1,478,163.50	\$ 819,189.14	\$ 2,143,355.58	\$ 472,566.19	\$ 619,600.30	\$ 16,852,168.54

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

actuarial valuations. For the year ended June 30, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,295,635.16, of which \$7,879,222.51 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$264,741.88 and \$472,753.35, respectively.

Required employer contribution rates for the years ended June 30, 2008 and 2007 were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007 which were \$264,741.88, \$223,050.31, and \$180,772.81, 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 "Proceed directly to OSC's index page," then "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 \$45,396.00 for the year ended June 30, 2009.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan are the responsibility of the Plan participants. The College provides a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e) and a 1% employer contribution for all permanent full-time employees. Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2009 were \$5,115.62 and total employer contributions on behalf of permanent full-time employees were \$78,516.66. The voluntary contributions by employees amounted to \$258,217.05 for the year ended June 30, 2009.

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 \$7,230.27 for the year ended June 30, 2009.

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 *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the Teachers' and State Employees' Retirement System and contributions to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008 and 2007 were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007 which were \$323,048.12, \$299,838.12, and \$258,175.44, 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 "Proceed directly to OSC's index page," then "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, 2009, 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, 2008 and 2007 were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007 which were \$40,971.96, \$38,028.25, and \$35,329.27, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, including 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the \$10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected for losses from employee dishonesty for employees paid by county and institutional funds by contracts with private insurance companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 \$10,411.56 and on other purchases were \$49,169.03 at June 30, 2009.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2008 net assets, as previously reported, was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets, as Previously Reported	\$ 16,251,964.05
Restatements:	
Correction of Error Related to the Estimated Useful Lives of Capital Assets	176,377.19
Correction of Error Related to Duplicate Removal of Disposed Assets	<u>69,578.26</u>
July 1, 2008 Net Assets, as Restated	<u><u>\$ 16,497,919.50</u></u>

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009 and have issued our report thereon dated May 6, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* during the year ended June 30, 2009.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Beaufort County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Beaufort County Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 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 General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

May 6, 2010

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:

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