STATE OF NORTH CAROLINA

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Brunswick Community College
Supply, North Carolina

We have audited the accompanying financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Brunswick Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, 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 Brunswick Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Brunswick Community College and its discretely presented component unit as of June 30, 2009, 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. 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 18, 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

Beth A. Wood, CPA
State Auditor

May 18, 2010

This section of Brunswick Community College's (College's) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2009, with comparative data for fiscal year ended June 30, 2008. This management's discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The three financial statements presented include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the College as of the end of the fiscal year. It is a point of time financial statement.

The Statement of Revenues, Expenses, and Changes in Net Assets reports the College's results of operation for the fiscal year. It presents the revenues received by the College and the expenses paid by the College, both operating and nonoperating, and any other revenues received by the College. It is intended to summarize and simplify the user's analysis of the cost of various College services to students and the public.

The financial statements also include the Statement of Cash Flows. This statement is used to identify the College's sources and uses of cash. The ending cash on the Statement of Cash Flows agrees to the total cash reported on the Statement of Net Assets. Also, this statement reconciles the net operating loss reported in the Statement of Revenues, Expenses, and Changes in Net Assets to the net cash used by operating activities.

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

Financial Highlights

Statement of Net Assets

Taken as a whole, the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows are one measure of an organization's overall financial health and value. Individually, the Statement of Net Assets is a static view of financial value while the other two depict the movement of key elements from one period to the next, with a specific focus on the organization's net assets and cash and cash equivalents.

As summarized in the following table by major category, a comparison of net assets as of June 30, 2009 to that of the prior year yields several significant changes.

Condensed Statement of Net Assets

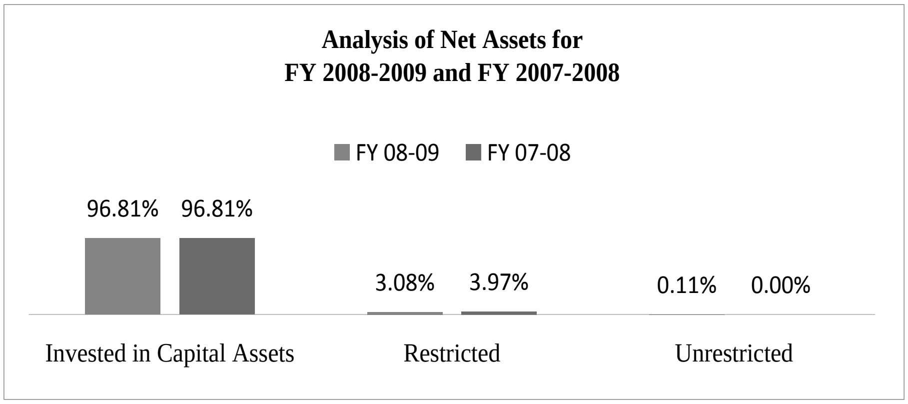
	June 30, 2009	June 30, 2008 (as restated)	Increase (Decrease)
Current Assets	$ 1,863,482.09	$ 3,350,788.59	$ (1,487,306.50)
Noncurrent Capital Assets	41,162,031.54	30,334,557.62	10,827,473.92
Other Noncurrent Assets	1,197,653.67	711,771.66	485,882.01
Total Assets	44,223,167.30	34,397,117.87	9,826,049.43
Current Liabilities	1,243,072.66	2,637,050.43	(1,393,977.77)
Noncurrent Liabilities	460,565.35	426,946.53	33,618.82
Total Liabilities	1,703,638.01	3,063,996.96	(1,360,358.95)
Net Assets:			
Invested in Capital Assets	41,162,031.54	30,334,557.62	10,827,473.92
Restricted	1,312,172.19	1,244,177.42	67,994.77
Unrestricted	45,325.56	(245,614.13)	290,939.69
Total Net Assets	$ 42,519,529.29	$ 31,333,120.91	$ 11,186,408.38

Current assets decreased by $1,487,306.50 due to substantial completion of the Dinah E. Gore Fitness and Aquatics Center and the Odell Williamson Auditorium Addition which had generated receivables from the county in the prior year. Noncurrent capital assets increased by $10,827,473.92 primarily due to the capitalization of these projects. Current liabilities decreased by $1,393,977.77. The majority of this decrease is due to a decrease in accounts payable to construction vendors for the above described projects.

Noncurrent liabilities consist of the long-term portion of compensated absences that will not be paid within the next fiscal year. Total compensated absences include the balance of accumulated vacation and bonus leave, including benefits.

The College's total net assets have increased from $31,333,120.91 (as restated) at June 30, 2008, to $42,519,529.29 at June 30, 2009. Investment in capital assets increased $10,827,473.92 primarily due to the capitalization of the Dinah E. Gore Fitness and Aquatics Center and the Odell Williamson Auditorium Addition. This increase accounted for 96.8% of the total increase of $11,186,408.38.

The College's total net assets are divided into three major categories. The first, invested in capital assets, represents the College's equity position with regards to property, facilities, and equipment. The second category, restricted, is restricted for expendable scholarships and fellowships, loans, capital projects, and other (such as student fees, special project grants, etc.). The final category is that of unrestricted which is available for any lawful purpose of the College. The following is a graphic illustration of net assets.



Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities for the year ending June 30, 2009.

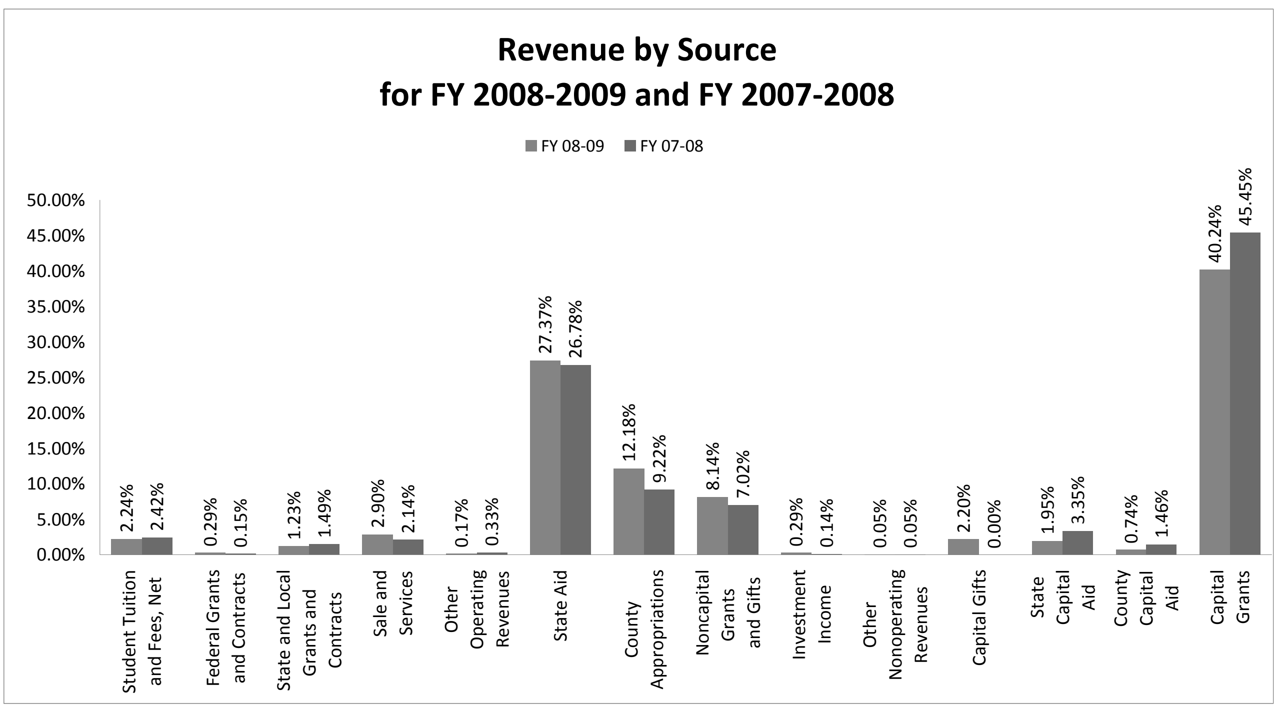
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended June 30, 2009 and June 30, 2008

	June 30, 2009	June 30, 2008 Restated	Total Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees, Net	$ 611,295.51	$ 654,625.32	$ (43,329.81)
Federal Grants and Contracts	79,504.23	41,848.64	37,655.59
State and Local Grants and Contracts	336,528.26	403,588.66	(67,060.40)
Sales and Services	793,081.82	579,653.67	213,428.15
Other Operating Revenues	46,708.49	90,255.30	(43,546.81)
Total Operating Revenues	1,867,118.31	1,769,971.59	97,146.72
Operating Expenses:			
Personal Services	10,716,527.59	9,507,127.76	1,209,399.83
Supplies and Materials	1,430,764.64	1,746,782.00	(316,017.36)
Services	1,583,493.41	1,851,836.61	(268,343.20)
Scholarships and Fellowships	1,004,523.15	788,432.39	216,090.76
Utilities	665,422.26	598,648.79	66,773.47
Depreciation	734,756.85	498,754.86	236,001.99
Total Operating Expenses	16,135,487.90	14,991,582.41	1,143,905.49
Operating Loss	(14,268,369.59)	(13,221,610.82)	(1,046,758.77)
Nonoperating Revenues:			
State Aid	7,197,410.55	7,257,438.33	(60,027.78)
State Aid - Federal Recovery Funds	280,428.99	-	280,428.99
County Appropriations	3,326,858.00	2,499,398.42	827,459.58
Noncapital Grants - Federal Student Financial Aid	1,565,007.58	1,202,617.01	362,390.57
Noncapital Grants	508,879.21	565,258.21	(56,379.00)
Noncapital Gifts	150,595.74	133,388.76	17,206.98
Investment Income	79,793.72	37,042.05	42,751.67
Other Nonoperating Revenues	13,961.25	14,316.50	(355.25)
Total Nonoperating Revenues	13,122,935.04	11,709,459.28	1,413,475.76
Loss Before Other Revenues	(1,145,434.55)	(1,512,151.54)	366,716.99
Other Revenues:	12,331,842.93	13,621,808.36	(1,289,965.43)
Increase in Net Assets	11,186,408.38	12,109,656.82	(923,248.44)
Net Assets - Beginning of Year	31,333,120.91	19,223,464.09	12,109,656.82
Net Assets - End of Year	$ 42,519,529.29	$ 31,333,120.91	$ 11,186,408.38

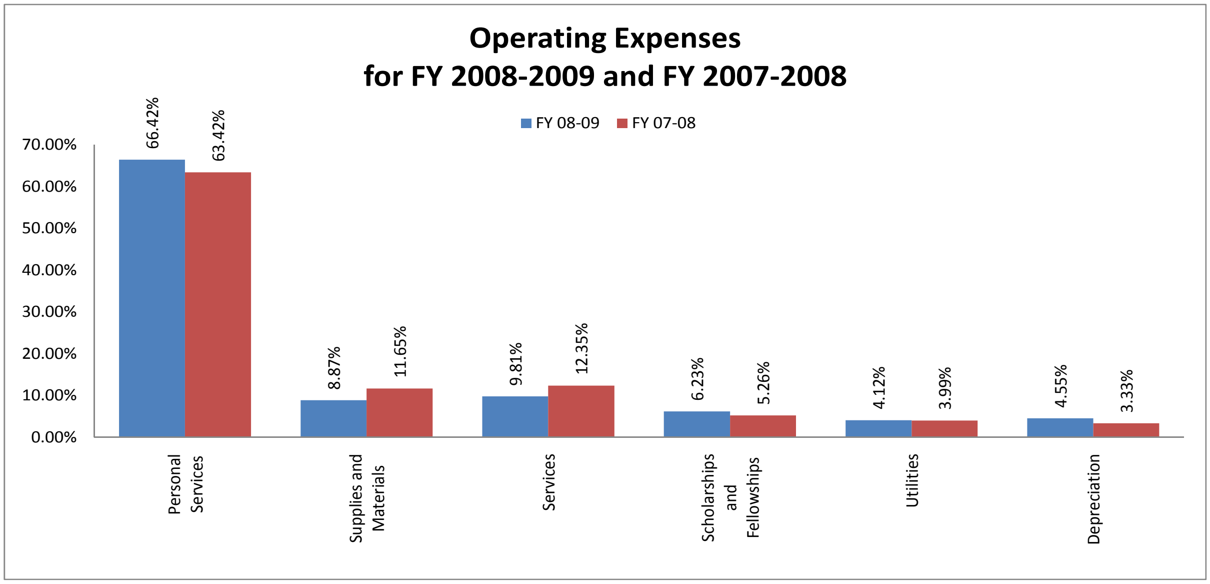
Operating revenues increased 5.49% from FY 2008 to FY 2009. The change is due primarily to an increase in sales and services revenue of $156,190.29 for membership dues attributable to the opening of the Dinah E. Gore Fitness and Aquatics Center in FY 2009.

Nonoperating revenues increased 12.07% from FY 2008 to FY 2009. The change is largely due to an increase in county appropriations and noncapital grants revenues. County appropriations revenue increased $827,459.58 in FY 2009 compared to FY 2008. The increase in county appropriations was largely due to an increase for plant operations of $390,851.00 to facilitate the operating costs associated with campus expansion. Also, in January 2009, the County Commissioners approved a $120,000.00 lump-sum appropriation to fund start-up costs for operations and staffing for the new Fitness and Aquatics Center. Noncapital grants – federal student financial aid revenue increased $362,390.57. The majority of this increase was due to the College awarding more Pell grants in FY 2009 compared to FY 2008.

Other revenues decreased 9.47% from FY 2008 to FY 2009. The change is due to a decrease in state capital aid and capital grants revenues. State capital aid revenue decreased $372,817.57 due to a number of factors. In FY 2009, the equipment budget allotted by North Carolina Community College System (NCCCS) decreased $29,726.00 and State mandated budget reversions required the College to revert $78,455.00 of equipment funds. The performance funding allotment for equipment decreased from $207,825.00 in FY 2008 to $33,655.00 in FY 2009. The equipment funding for the Carl D. Perkins Career and Technical Education Act of 2006 and College Tech Prep Enhancement grant decreased a total of $47,016.00 in FY 2009. Capital grants revenue decreased $1,323,493.28 due to the completed construction projects mentioned previously in the "Statement of Net Assets" section above.



Total operating expenses at June 30, 2009 were $16,135,487.90 and at June 30, 2008 were $14,991,582.41, resulting in a 7.63% increase from FY 2008. This majority of this increase was due to increases in personal services expenses. Personal services expense increased 12.72%. All full-time faculty and staff of the College received a salary increase of 3.00% or $1,100, whichever was greater, in FY 2009. Also, there was a $973,000 increase for new hires due to filling positions that were vacated and additional faculty for the increase in student's population.



Capital Assets

At June 30, 2009 the College reported $48,345,974.72 invested in capital assets less $7,183,943.18 in accumulated depreciation, for net capital assets of $41,162,031.54. The College's net investment in buildings, construction-in-progress, and equipment constitutes over 95.42% of net capital assets. These balances resulted from capital additions of $24,919,998.98 and annual depreciation of $734,756.85 in FY 2009. Of the $24,919,998.98 in capital additions, $13,233,125.83 represented a reclassification of construction in progress to buildings for completed capital projects. Most notable among the additions were the Dinah E. Gore Fitness and Aquatics Center and the Odell Williamson Auditorium Addition.

The following schedule reports capital assets for the fiscal years 2009 and 2008, net of accumulated depreciation.

	June 30, 2009	June 30, 2008 (as restated)	Total Increase (Decrease)
Land	$ 1,036,964.02	$ 436,754.02	$ 600,210.00
Construction in Progress	7,099,789.15	9,960,583.61	(2,860,794.46)
Buildings	30,705,765.29	18,042,359.40	12,663,405.89
Machinery and Equipment	1,469,785.59	1,026,687.73	443,097.86
General Infrastructure	849,727.49	868,172.86	(18,445.37)
Totals	$ 41,162,031.54	$ 30,334,557.62	$ 10,827,473.92

Other Information

The FTEs that generate the College's State budget (budget FTEs) increased overall from FY 2008 to FY 2009. The College is funded based on actual FTEs earned during the prior fiscal year, or a three year average, whichever is greater.

	2008-2009	2007-2008	Increase/ (Decrease)
Curriculum	1,033	940	9.89%
Occupational Extension	245	264	-7.20%
Basic Skills	224	212	5.66%
Total	1,502	1,416	6.07%

In FY 2009, the College was required to revert 4.00% of its operating budget or $324,656.00. Additional spending restrictions placed on the College by the NCCCS totaled approximately 2.16%, creating a 6.16% negative impact on the College's budget and thus, College operations. In addition, on April 28, 2009, Governor Perdue issued Executive Order #11, which mandated that all employees paid in whole or in part from funds appropriated by the 2008 Appropriations Act participate in a flexible furlough program. As a result, employee compensation supported by those funds that flow through State accounts was reduced by an annualized amount equivalent to 0.5%.

In response to a need identified in the area, the College added the Surveying Technology program in FY 2009 with an enrollment of seven students. The Surveying Technology curriculum provides training for technicians in the many areas of surveying.

Construction Commitments

The College reported commitments on construction contracts for architect fees and general contractors in the amount of $1,758,634.34.

The Early Childhood Center groundbreaking was held on April 15, 2008 and construction began in May. It will be an 11,383 square foot facility which will function as a demonstration/model program for Brunswick County. Construction is expected to be completed in the fall of 2009.

The Student Activity Center site preparation began in late May 2008 and is expected to be completed in the fall of 2009. The Center includes a 13,700 square foot addition to the existing Administration Building. The addition will house a cafeteria, student activity center, and bookstore.

The Main Campus Infrastructure project includes new storm water retention ponds, parking lots, pedestrian walks, landscape improvements, and a new main entrance monument sign. The project also includes underground communications conduit and fiber optic cable connecting new and existing buildings to the campus communications network. The work supports capital improvement projects currently in progress or in development.

The Leland Center renovations are slated to begin in the fall of 2009. The $500,000 renovation project will include classroom space, an updated Basic Law Enforcement Training area on the first floor, and will serve as the College's Center for Economic and Workforce Development in partnership with the Brunswick County Partnership for Economic Development.

The Southport and South Brunswick Islands Continuing Education Centers are in the planning phase and construction should begin in 2010.

Economic Factors and Next Year's Budget

The population for Brunswick County continues to increase and is projected to be 102,799 by 2010. Brunswick County is now the fourth fastest growing county in North Carolina and the fourteenth fastest growing county in the United States. The county is expected to experience economic growth with the construction of a $100+ million, 74-bed hospital scheduled to open in 2010.

The College's budgeted FTE increased 6.07% from FY 2008 to FY 2009 which resulted in a formula allotment increase of $677,637.00. An additional increase is expected in FY 2010 based on increased enrollment for FY 2009.

Guidance from the Office of State Budget and Management reflects the State's prior fiscal year revenue collections were well below budgeted expectations. While the fiscal outlook is somewhat better, a high level of uncertainty still remains because adopted revenue changes and growth are not expected until the second half of the fiscal year. Given the economic volatility in the State and the nation, a 5% budget reversion of $419,805 and a management flexibility reduction of $254,487.00 was required in September 2009. The College was also advised to hold in reserve an additional one percent, or $83,961, as a precaution in case the State's fiscal situation deteriorates further.

A tuition increase for 2009-2010 curriculum programs became effective July 1, 2009. In-state tuition rates increased from $42 per credit hour to $50 per credit hour. Out-of-state tuition rates increased from $233.30 per credit hour to $241.30 per credit hour. The maximum charge is still based on 16 credit hours.

A tuition increase for 2009-2010 continuing education programs became effective July 1, 2009. The fee schedule increased from: 1-10 hours: $50, 11-30 hours: $55, 31-100 hours: $60, and 100+ hours: $65, to: 1-24 hours: $65, 25-50 hours: $120, and 50+ hours: $175.

Looking into the future, management believes the College is well positioned to continue its strong financial condition and level of excellence to the Community. The College has been strategic in preparing its budget with limited resources and has been able to cover current needs so that instruction will not suffer. We have seen continued enrollment growth due to a direct relationship between unemployment and enrollment. The College is committed to serving students by hiring additional faculty and creating more class sections, as needed, to facilitate continued enrollment growth.

Two years ago an estimated one in five people working in Brunswick County (20% of the workforce) had a job connected to the housing development industry. That number has dropped to one in eight people. Due to the decline in the housing industry in Brunswick County, many people are attending college to retrain for a career change. Paramedic courses and nursing programs have shown the most significant growth, with real estate course enrollment declining. Public safety and medical fields offer retraining that put people to work immediately. The College has also experienced an increase in Basic Skills program enrollment as a result of the slowdown in the construction industry.

While it is not possible to precisely forecast future results, management believes that the College's financial position is strong enough to withstand economic uncertainties as it moves into the future.

Request for Information

This financial report is designed to provide a general overview of Brunswick Community College's finances for all those with an interest in the College's finances. Questions concerning any of this information should be addressed to Dr. Benjamin DeBlois, Vice President for Budget and Finance, for Brunswick Community College, 50 College Road, Supply, NC 28462, (910) 755-7401.

Brunswick Community College
Statement of Net Assets
June 30, 2009 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 615,215.82
Restricted Cash and Cash Equivalents	1,054,681.29
Receivables, Net (Note 3)	145,259.24
Inventories	48,325.74
Total Current Assets	1,863,482.09
Noncurrent Assets:	
Receivables (Note 3)	1,107,653.67
Restricted Due from Primary Government	90,000.00
Capital Assets - Nondepreciable (Note 4)	8,136,753.17
Capital Assets - Depreciable, Net (Note 4)	33,025,278.37
Total Noncurrent Assets	42,359,685.21
Total Assets	44,223,167.30
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	1,085,109.54
Due to Primary Government	4,363.27
Unearned Revenue	73,550.08
Funds Held for Others	5,816.43
Long-Term Liabilities - Current Portion (Note 6)	74,233.34
Total Current Liabilities	1,243,072.66
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	460,565.35
Total Noncurrent Liabilities	460,565.35
Total Liabilities	1,703,638.01
NET ASSETS	
Invested in Capital Assets	41,162,031.54
Restricted for:	
Expendable:	
Scholarships and Fellowships	160,225.91
Loans	90,252.43
Capital Projects	878,574.11
Other	183,119.74
Unrestricted	45,325.56
Total Net Assets	$ 42,519,529.29

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

Brunswick Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	611,295.51
Federal Grants and Contracts		79,504.23
State and Local Grants and Contracts		336,528.26
Sales and Services		793,081.82
Other Operating Revenues		46,708.49
Total Operating Revenues		1,867,118.31
EXPENSES		
Operating Expenses:		
Personal Services		10,716,527.59
Supplies and Materials		1,430,764.64
Services		1,583,493.41
Scholarships and Fellowships		1,004,523.15
Utilities		665,422.26
Depreciation		734,756.85
Total Operating Expenses		16,135,487.90
Operating Loss		(14,268,369.59)
NONOPERATING REVENUES		
State Aid		7,197,410.55
State Aid - Federal Recovery Funds		280,428.99
County Appropriations		3,326,858.00
Noncapital Grants - Federal Student Financial Aid		1,565,007.58
Noncapital Grants		508,879.21
Noncapital Gifts		150,595.74
Investment Income		79,793.72
Other Nonoperating Revenues		13,961.25
Nonoperating Revenues		13,122,935.04
Loss Before Other Revenues		(1,145,434.55)
State Capital Aid		533,790.83
County Capital Aid		202,500.00
Capital Gifts		600,210.00
Capital Grants		10,995,342.10
Increase in Net Assets		11,186,408.38
NET ASSETS		
Net Assets, July 1, 2008 as Restated (Note 16)		31,333,120.91
Net Assets, June 30, 2009	$	42,519,529.29

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

Brunswick Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,676,589.90
Payments to Employees and Fringe Benefits	(10,596,175.87)
Payments to Vendors and Suppliers	(4,979,757.60)
Payments for Scholarships and Fellowships	(969,344.49)
Other Receipts	20,517.28
Net Cash Used by Operating Activities	(14,848,170.78)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,197,410.55
State Aid - Federal Recovery Funds	280,428.99
County Appropriations	3,326,858.00
Noncapital Grants - Federal Student Financial Aid	1,551,068.41
Noncapital Grants Received	516,638.68
Noncapital Gifts	150,595.74
Cash Provided by Noncapital Financing Activities	13,023,000.37
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	446,042.29
County Capital Aid	202,500.00
Capital Grants Received	12,490,645.66
Acquisition and Construction of Capital Assets	(11,212,165.58)
Net Cash Provided by Capital and Related Financing Activities	1,927,022.37
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	79,793.72
Cash Provided by Investing Activities	79,793.72
Net Increase in Cash and Cash Equivalents	181,645.68
Cash and Cash Equivalents, July 1, 2008	1,488,251.43
Cash and Cash Equivalents, June 30, 2009	$ 1,669,897.11

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(14,268,369.59)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		734,756.85
Miscellaneous Nonoperating Income		13,961.25
Changes in Assets and Liabilities:		
Receivables, Net		(95,665.81)
Inventories		(35,136.56)
Notes Receivable, Net		360.50
Accounts Payable and Accrued Liabilities		(1,198,169.97)
Due to Primary Government		1,990.62
Unearned Revenue		(59,683.94)
Funds Held for Others		6,556.03
Compensated Absences		51,229.84
Net Cash Used by Operating Activities	$	(14,848,170.78)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	615,215.82
Restricted Cash and Cash Equivalents		1,054,681.29
Total Cash and Cash Equivalents - June 30, 2009	$	1,669,897.11

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	338,637.39
Increase in Receivables Related to Nonoperating Income		87,748.54
Assets Acquired through a Gift		600,210.00

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

Brunswick Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009 — ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	347,989.00
Investments		1,347,130.00
In-Kind Gifts		1,200,000.00
Total Assets		2,895,119.00
NET ASSETS		
Unrestricted		1,334,897.00
Temporarily Restricted		268,173.00
Permanently Restricted		1,292,049.00
Total Net Assets	$	2,895,119.00

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

Brunswick Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009 ***Exhibit B-2***

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	205,483.00
Interest Income		4,298.00
Gifts in Kind Income		1,200,000.00
Unrealized Holding Gain on Investments		2,328.00
Administrative Services Contributed by College		224,982.00
Other		12,560.00
Total Unrestricted Revenues and Gains		1,649,651.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		169,178.00
Total Net Assets Released from Restrictions		169,178.00
Total Unrestricted Revenues, Gains, and Other Support		1,818,829.00
Expenses		
Program Expense		143,803.00
Scholarship Expense		73,069.00
Administrative Expense		59,690.00
Fundraising Expenses		27,829.00
Administrative Services Contributed by College		224,982.00
In Kind Contribution Expense		643,855.00
Total Expenses		1,173,228.00
Total Expenses and Losses		1,173,228.00
Increase in Unrestricted Net Assets		645,601.00
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		168,471.00
Interest Income		44,364.00
Dividend Income		2,026.00
Gifts in Kind Income		43,645.00
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(169,178.00)
Increase in Temporarily Restricted Net Assets		89,328.00
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		27,549.00
Unrealized Holding Loss on Long-Term Investments		(1,669.00)
Increase in Permanently Restricted Net Assets		25,880.00
Increase in Net Assets		760,809.00
Net Assets at Beginning of Year		2,134,310.00
Net Assets at End of Year	$	2,895,119.00

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Brunswick Community College Foundation, Inc. (the Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 22 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2009, the Foundation distributed $14,158.53 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Office, Brunswick Community College, PO Box 30, Supply, North Carolina 28462, or by calling (910) 755-7305.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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, and cash on deposit with private bank accounts.

E. **Receivables -** Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories -** Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market using the first-in, first-out method.

G. **Capital Assets -** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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 50 to 75 years for general infrastructure, 50 years for buildings, and 2 to 25 years for equipment.

H. **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.

I. **Noncurrent Long-Term Liabilities -** Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. **Compensated Absences -** The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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 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.

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.

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

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

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

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

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

L. Scholarship Discounts - Student tuition and fees revenues 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.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $748.23, and deposits in private financial institutions with a carrying value of $1,669,148.88, and a bank balance of $2,801,805.67.

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, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Component Unit – Investments of the College's component unit, the Brunswick Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The investments in the following analysis are composed of fixed income bonds, stocks, certificates of deposit, and money market funds.

Investment	Market Value
Scott and Stringfellow Endowed Odell Williamson	$ 517,462.00
Scott and Stringfellow Endowed Investments	371,794.00
SEI Investments	380,028.00
Edward Jones Endowment Investments	27,966.00
Cash Value Life Insurance	49,880.00
Total Fair Market Value of Investments	$ 1,347,130.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 234,269.76	$ 144,247.32	$ 90,022.44
Accounts	502.01		502.01
Intergovernmental	13,939.17		13,939.17
Other	40,795.62		40,795.62
Total Current Receivables	$ 289,506.56	$ 144,247.32	$ 145,259.24
Noncurrent Receivables:			
Intergovernmental	$ 1,107,653.67	$ 0.00	$ 1,107,653.67

NOTE 4 - 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	$ 436,754.02	$ 600,210.00	$ 0.00	$ 1,036,964.02
Construction in Progress	9,960,583.61	10,496,973.75	13,357,768.21	7,099,789.15
Total Capital Assets, Nondepreciable	10,397,337.63	11,097,183.75	13,357,768.21	8,136,753.17
Capital Assets, Depreciable:				
Buildings	23,259,241.95	13,233,125.83		36,492,367.78
Machinery and Equipment	2,111,023.73	589,689.40		2,700,713.13
General Infrastructure	1,016,140.64			1,016,140.64
Total Capital Assets, Depreciable	26,386,406.32	13,822,815.23		40,209,221.55
Less Accumulated Depreciation/Amortization for:				
Buildings	5,216,882.55	569,719.94		5,786,602.49
Machinery and Equipment	1,084,336.00	146,591.54		1,230,927.54
General Infrastructure	147,967.78	18,445.37		166,413.15
Total Accumulated Depreciation	6,449,186.33	734,756.85		7,183,943.18
Total Capital Assets, Depreciable, Net	19,937,219.99	13,088,058.38		33,025,278.37
Capital Assets, Net	$ 30,334,557.62	$ 24,185,242.13	$ 13,357,768.21	$ 41,162,031.54

The beginning balance for general infrastructure decreased $621,306.14 due to an impairment of a depreciable asset. The asset, a wastewater treatment plant, is no longer active, and will not be used by the College in the future. Because the impairment of this asset occurred prior to July 1, 2008, a restatement of beginning net assets was necessary and is described in Note 16 below.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 640,126.76
Accrued Payroll	105,146.77
Contract Retainage	338,637.39
Intergovernmental Payables	1,198.62
Total Accounts Payable and Accrued Liabilities	$ 1,085,109.54

Note 6 - 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	$ 483,568.85	$ 427,308.55	$ 376,078.71	$ 534,798.69	$ 74,233.34

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 43,806.25
2011	42,000.79
2012	42,000.79
2013	42,000.79
2014	9,094.35
Total Minimum Lease Payments	$ 178,902.97

Rental expense for all operating leases during the year was $54,940.09.

NOTE 8 - FUTURE RENTAL REVENUES

Future minimum lease revenues under non-cancelable operating leases related to wireless broadband services are recorded when earned. Minimum future revenues under non-cancelable agreements treated as operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 15,618.00
2011	15,618.00
2012	15,618.00
2013	15,618.00
2014	15,618.00
2015-2016	31,236.00
Total Minimum Lease Revenues	$ 109,326.00

Rental revenue for all operating leases during the year was $16,919.50.

NOTE 9 - 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	$ 1,643,608.71	$ 970,012.50	$ 62,300.70	$ 611,295.51

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 5,968,099.51	$ 936,371.10	$ 435,732.35	$ 0.00	$ 0.00	$ 0.00	$ 7,340,202.96
Academic Support	880,934.45	33,737.76	53,850.64				968,522.85
Student Services	649,691.71	13,627.69	127,794.45				791,113.85
Institutional Support	2,200,265.40	112,039.11	221,709.09				2,534,013.60
Operations and Maintenance of Plant	913,185.20	200,227.16	538,324.66		665,422.26		2,317,159.28
Student Financial Aid			7,568.54	1,004,523.15			1,012,091.69
Auxiliary Enterprises	104,351.32	134,761.82	198,513.68				437,626.82
Depreciation						734,756.85	734,756.85
Total Operating Expenses	$ 10,716,527.59	$ 1,430,764.64	$ 1,583,493.41	$ 1,004,523.15	$ 665,422.26	$ 734,756.85	$ 16,135,487.90

NOTE 11 - PENSION PLANS

A. **Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System 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 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 \$8,752,529.90, of which \$6,726,033.69 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$225,994.73 and \$403,562.16, 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 \$225,994.73, \$182,263.75, and \$144,104.06, 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 $3,666.00 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 Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2009, were $9,834.59. The voluntary contributions by employees amounted to $80,747.00 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 $25,800.00 for the year ended June 30, 2009.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *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 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 $275,767.38, $245,010.29, and $205,862.95, 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 $34,975.38, $31,074.48, and $28,170.72, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 from employee dishonesty losses by contracts with private insurance companies paid with county and institutional funds.

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 College entirely from county or institutional funds.

The College maintains healthcare practitioner's/services professional liability insurance for the EMT program in the amount of $1,000,000 per claim with a $1,000 deductible and a $1,000,000 aggregate limit. The College also maintains commercial liability coverage for the nursing program in the amount of $1,000,000 per claim with a $500 deductible and $3,000,000 aggregate limit.

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 14 - 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 $1,758,634.34 and on other purchases were $204.68 at June 30, 2009.

NOTE 15 - 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.

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

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

NOTE 16 - NET ASSET RESTATEMENTS

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

	Amount
July 1, 2008 Net Assets as Previously Reported	$ 31,931,794.08
Restatements:	
Record Impairment of Wastewater Plant that Occurred in a Prior Period	(621,306.14)
Correct Error in Recording of Unearned Revenue During Prior Year	(66,351.51)
Correct Erroneous Prior Period Journal Entries to Construction in Progress	88,984.48
July 1, 2008 Net Assets as Restated	$ 31,333,120.91

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

Board of Trustees
Brunswick Community College
Supply, North Carolina

We have audited the financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 18, 2010. 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. 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 Brunswick Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Brunswick Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

<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.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

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

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

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

This report is intended solely for the information and use of management of the College, the College 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 18, 2010

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Significant aspects of finding numbers 1, 3, and 5 were also reported in the prior audit.

1. DEFICIENCIES IN FINANCIAL REPORTING

   The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included the following:

   a. The College failed to record land donated by the Brunswick Community College Foundation, Inc., resulting in an understatement of nondepreciable capital assets and capital gifts in the amount of $600,210.

   b. The College incorrectly classified $90,761 of cash restricted for student loans as current unrestricted cash instead of current restricted cash.

   c. The College did not recognize receivables designated for capital purposes as noncurrent, thus overstating current intergovernmental receivables by $1,107,654, while understating noncurrent intergovernmental receivables by the same amount.

   d. The College understated county appropriations by $903,768.

   e. The College did not correctly report its net assets. For example, unrestricted net assets were overstated by $258,483, while the amount restricted for capital projects was understated by $163,392. Adjustments were made to other net asset accounts as well.

   f. The College did not calculate the student tuition discount correctly, causing the scholarship and fellowship expense account and the student tuition and fees revenue account to each be overstated by $430,782.

   g. The carrying value for cash held in private banks reported in the notes to the financial statements was overstated by $602,316.

   Significant aspects of this finding were also reported in a prior year finding.

   Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy of the financial statements.

   College's Response: We agree with the audit findings. The College will create a year-end checklist to verify that the discrepancies listed above will not be repeated.

2. BANK RECONCILIATIONS NOT PERFORMED OR REVIEWED

The College did not perform monthly bank reconciliations for its institutional funds during our audit period. The last reconciliation for this account was performed in June 2007. When bank reconciliations are not performed there is an increased risk that errors or misappropriations will go undetected.

We attempted to reconcile the institutional funds account at June 30, 2009 and identified an unexplained difference between the bank balance and general ledger of $72,834. We also noted that there was no indication of review and approval on the last six county fund bank reconciliations that were completed during the fiscal year.

Good internal controls require bank reconciliations to be performed regularly. Controls should be in place to ensure that the reconciliations are performed and reviewed.

Recommendation: The College should ensure that all bank accounts are reconciled completely, accurately, and timely. These reconciliations should be reviewed and approved by someone other than the preparer.

College's Response: We agree with the audit findings. The reconciliation will be done by another non-accountant employee after proper training has been conducted. In the future, all reconciliations will be initialed as they are reviewed.

3. ACCOUNTS RECEIVABLE BALANCE NOT RECONCILED TO SUBSIDIARY LEDGER

The College did not reconcile its student accounts receivable subsidiary ledger to the general ledger at year-end, thus increasing the risk of misstatement in the financial statements. At year-end there was an unreconciled difference of $52,440 between the general ledger and the subsidiary ledger.

In addition, the College did not reverse the beginning student accounts receivable balances from the prior year accruals, causing accounts receivable to be overstated by $48,640. Other errors were noted totaling $50,494 that understated accounts receivable.

Good internal controls require that general ledger balances be reconciled to subsidiary ledgers.

Significant aspects of this finding were also reported in a prior year finding.

Recommendation: The College should reconcile the student accounts receivable balance to the subsidiary ledger. In addition, the College should ensure that beginning balances are appropriately reversed before recording year-end amounts.

College's Response: We agree with the audit finding. We will continue to work with the NCCCS Accounts Receivable Subject Matter Expert to determine the nature of the problem(s).

4. CONTROL WEAKNESSES OVER CAPITAL ASSETS

The College did not reconcile the capital assets recorded on its financial statements to its capital asset subsidiary ledger. Four buildings valued at $15,047,100 were not included in the subsidiary ledger and as a result, no depreciation was calculated for these assets. This caused depreciation expense to be understated by $148,626. Other deficiencies related to capital assets are described below:

- The College's physical inventory procedures for capital assets were determined to be ineffective for verifying the existence of assets. Our test of 17 capital assets found that two assets had been disposed of years ago but remained in the accounting records. Eight of the assets we found were not tagged as required by the Office of State Controller's (OSC) policy.

- The College incorrectly capitalized equipment totaling $124,642 that should have been expensed. This equipment was capitalized as a component of a newly constructed building; however, it was not attached to the building. According to OSC's policy, only permanently attached fixtures should be included in the cost of the building.

- The College included in its financial statements an impaired capital asset with a carrying value of $605,341 that should have been written off in a prior period. GASB Statement No. 42 requires an assessment to be made to determine if a capital asset's service has declined significantly and unexpectedly, and if so, the value reduced accordingly.

Recommendation: The College should design and implement adequate internal controls to ensure that capital assets are properly capitalized, tagged, and inventoried. Items no longer on hand should be removed from the subsidiary ledger and the financial statements. The College should also adjust the value of capital assets when assets become impaired.

College's Response: We agree with the audit findings. We will incorporate the audit findings into updated procedures for inventory control and year-end closing.

5. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College did not assign information system access rights to ensure adequate segregation of duties and to limit access to employees who need it to perform their job functions. Inappropriate information system access increases the risk of an error or misappropriation occurring without detection.

We identified three employees who had system access rights that are broad and unnecessary for the duties they perform. Specifically, these employees have the ability to create vendors, create purchase orders, print checks, and post journal entries, as well as the ability to create and enter new employees and process payroll.

Access rights should be granted to employees at the minimum level needed to perform their job duties, and these access rights should be segregated so that one employee cannot process a transaction from beginning to end.

Significant aspects of this finding were also reported in a prior year finding.

Recommendation: The College should take the appropriate steps to ensure that an individual's access rights are granted at the minimum level required to perform one's job duties and this access should be evaluated to ensure that duties are adequately segregated.

College's Response: We agree with the audit finding. Access rights will be granted to employees at the minimum level needed to perform their job duties.

6. DEFICIENCIES IN INTERNAL CONTROL OVER CASH RECEIPTING

The College did not have adequate controls in place to ensure daily receipts were deposited intact. In addition, voided transactions were not reviewed for appropriateness. The risk that errors and misappropriations could go undetected increases when controls over cash receipts are not in place.

In prior fiscal years, the College had an employee not involved with the receipting process perform a daily review of the Cashier's daily cash analysis (DCA) packet. The DCA packet includes support for cash, checks, and charge cards receipted and/or voided, as well as reports noting the general ledger accounts where the receipts would be recorded. The review included matching receipts with deposits. For our audit year, the College decided the daily review of the DCA packets would no longer be performed due to the time constraints placed on the Business Office staff.

Recommendation: The College should require that the daily cash analysis packets be reviewed to ensure that all funds received have been deposited. Voided transactions should be reviewed to ensure that they are valid.

College's Response: We agree with the audit finding. The DCA packets will be reviewed to ensure that all funds received have been deposited.

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