



STATE OF NORTH CAROLINA

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
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, Edgecombe Community College

We have completed a financial statement audit of Edgecombe 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 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.

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
Edgecombe Community College
Tarboro, North Carolina

We have audited the accompanying financial statements of Edgecombe 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 Edgecombe Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that 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 Edgecombe 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 Edgecombe 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.

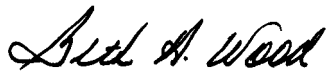
As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for*

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Pollution Remediation Obligations and Statement No. 52, Land and Other Real Estate Held as Investments by Endowments, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 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

April 30, 2010

EDGECOMBE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis is to provide an overview of the financial position and activities of Edgecombe Community College for the year ended June 30, 2009. The Management Discussion and Analysis section will:

- Provide a brief discussion of the basic financial statements;
- Include summary financial information, which will identify transactions, which have had a significant financial impact;
- Provide an analysis of the institution's overall financial position;
- Provide a description of significant capital asset activity during the year;
- Include information, facts, decisions or conditions that are expected to have a significant effect on Edgecombe Community College's financial position;
- Provide a comparative analysis with prior year data.

This section should be read in conjunction with the financial statements and accompanying notes to the financial statements, which follow this section. The financial statements, related notes to the financial statements, and this discussion are the responsibility of management.

Financial Highlights

For the fiscal year ending 2009, the College experienced a slight increase in net assets. The majority of the \$438,473 increase is the result of the College experiencing higher enrollments during the fiscal year. In Spring 2009, the College experienced an enrollment growth of 35% in distance education compared to Spring 2008. In Summer 2009, the College experienced a growth of 56% in distance education. As a result of the enrollment growth, related accounts have increased significantly, such as current cash and cash equivalents, student accounts receivable, tuition and fees, and noncapital grants - federal student financial aid.

Using the Annual Financial Report

The annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The College's net assets are one indicator of its financial stability. The Statement of Net Assets includes all assets and liabilities. The increase or decrease in net assets is an indicator of the improvement or erosion of the College's financial condition.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Activities are reported as operating or nonoperating. A college's dependency on state aid and gifts could result in operating deficits because the financial reporting model classifies state appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing and related investing activities. The direct method is used to present cash flow.

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

Financial Analysis

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College and presents the fiscal information in a summary format. Assets are grouped into either current assets or noncurrent assets.

Current assets include cash and cash equivalents, receivables, inventories, and prepaid items. Current assets at June 30, 2009, were \$2,216,834.71. Although total current assets increased by only 2.09% during fiscal year 2008-2009, the College had large increases in current Cash and Cash Equivalents and Students Accounts Receivable. These increases are due to the revenue generated from running curriculum self-supporting classes, and an increase in fees collected such as system wide technology fees and allied health fees.

Noncurrent assets are comprised primarily of restricted cash and cash equivalents, restricted receivables from primary government, receivables from the State of North Carolina component units, and capital assets. Noncurrent assets at June 30, 2009 were \$1,438,212.46, and represent a \$797,646.78, or 124.52% increase from the previous year. This large increase is due to the \$1,000,000 Golden LEAF Foundation, Inc. (Golden Leaf) grant awarded in fiscal year 2008 that was misclassified as a current asset. There was a decrease of \$207,178.05 in the amount classified as restricted due from primary government because of no construction projects in the current year 2009.

Capital assets (land, construction in progress, buildings, general infrastructure and equipment) are stated at historical cost less depreciation. Capital assets were \$18,254,707.57 at June 30, 2009. This is a slight decrease of 1.95% since June 30, 2008.

Current liabilities are comprised of accounts payable, accrued payroll, due to primary government, unearned revenue, funds held for others and the current portion of long-term liabilities. Total current liabilities at year end were \$478,113.51 and represent a \$1,874.32, or 0.39% increase from the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent liabilities consist of accrued vacation and bonus leave totaling \$1,001,913.18. This represents an increase of 4.10% from the previous year.

Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes they are divided into three categories: invested in capital assets, restricted expendable and unrestricted net assets.

Invested in capital assets are the net assets representing the College's capital assets net of accumulated depreciation.

Restricted net assets - expendable consist of resources in which the College is legally or contractually obligated to spend in accordance with restrictions by external parties. The increase of \$431,916.23, or 31.16% in fiscal year 2008-2009 is mainly due to the College receiving grants from Golden Leaf of \$145,000, the Advanced Planning Grant for the Allied Health Program of \$145,000, and the Early College Grant of \$58,000. The remaining difference is due to the College receiving Gravely Scholarships of \$12,200 and an increase in College Work Study of \$35,000.

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. The increase in fiscal year 2008-2009 is due to increased enrollment causing increases in all fees, scholarships funding, and bookstore sales.

Condensed Statement of Net Assets

	FY 2008-2009	Restated FY 2007-2008	Difference	% Difference
Assets				
Current Assets	\$ 2,216,834.71	\$ 2,171,498.29	\$ 45,336.42	2.09%
Noncurrent Assets	1,438,212.46	640,565.68	797,646.78	124.52%
Capital Assets, Net	<u>18,254,707.57</u>	<u>18,617,864.35</u>	<u>(363,156.78)</u>	<u>(1.95%)</u>
Total Assets	<u>21,909,754.74</u>	<u>21,429,928.32</u>	<u>479,826.42</u>	<u>2.24%</u>
Liabilities				
Current Liabilities	478,113.51	476,239.19	1,874.32	0.39%
Noncurrent Liabilities	<u>1,001,913.18</u>	<u>962,433.86</u>	<u>39,479.32</u>	<u>4.10%</u>
Total Liabilities	<u>1,480,026.69</u>	<u>1,438,673.05</u>	<u>41,353.64</u>	<u>2.87%</u>
Net Assets				
Invested in Capital Assets	18,254,707.57	18,617,864.35	(363,156.78)	(1.95%)
Restricted for - Expendable	1,817,832.82	1,385,916.59	431,916.23	31.16%
Unrestricted	<u>357,187.66</u>	<u>(12,525.67)</u>	<u>369,713.33</u>	<u>2951.65%</u>
Total Net Assets	<u>\$ 20,429,728.05</u>	<u>\$ 19,991,255.27</u>	<u>\$ 438,472.78</u>	<u>2.19%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses and Changes in Net Assets

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represent the changes in total net assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues include student tuition revenues and fees, federal, state and local operating grants, revenue obtained from sales and services, and other operating revenues. There was an increase of 11.30% in tuition and fees due to an increase in enrollment. Distance Education has been growing at the College and has had a significant impact on the increase in tuition and fees.

In fiscal year 2009, the revenues for federal financial aid were reclassified. These grants along with others such as the NC Community College Grant, Academic Comprehensive Grant, NC Lottery Scholarship, and any overhead receipts associated with these grants must now be reported as "Noncapital Grants" in the nonoperating revenues section of the Statement of Revenues, Expenses and Changes in Net Assets. To get a better comparison between fiscal year 2009 and 2008, the change has also been restated for fiscal year 2008.

An increase of 27.65% in state and local grants and contracts was caused by money received from the City of Rocky Mount to reimburse the College for a piece of property purchased in 2008. A net change of 113.97% in other operating revenues is due to an increase in the Workkeys account (job skills assessment system), additional student fees, and increases in self-supporting classes due to the increased enrollment.

Operating Revenues

	<u>FY 2008-2009</u>	<u>Restated FY 2007-2008</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues				
Tuition and Fees, Net	\$ 889,141.58	\$ 798,854.50	\$ 90,287.08	11.30%
Federal Grants and Contracts	829,281.07	901,811.15	(72,530.08)	(8.04%)
State and Local Grants and Contracts	64,649.53	50,645.77	14,003.76	27.65%
Sales and Services, Net	577,923.29	567,728.58	10,194.71	1.80%
Other Operating Revenues	41,597.59	19,441.30	22,156.29	113.97%
Total Operating Revenues	<u>\$ 2,402,593.06</u>	<u>\$ 2,338,481.30</u>	<u>\$ 64,111.76</u>	2.74%

Nonoperating revenues are revenues received for which goods and services are not provided. They include appropriations from state and local governments. The nonoperating revenues increased by 11.86%. The largest portion of nonoperating revenue is state aid, which consists of funds allotted from the North Carolina Board of Community Colleges for operations of the College. Revenues received from state governments to support operations decreased 11.87% while revenues from local governments increased 52.42%. The College received additional money from the county during fiscal year 2009 to maintain and operate the buildings.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College also received federal recovery funds during fiscal year 2009 to assist with payroll needs throughout the community college system. Since the reclassification of federal financial aid, and other grants from operating to nonoperating revenues occurred in fiscal year 2009, a restatement was made for fiscal year 2008 to show the same reclassification. This restatement shows an increase of 57.33% during 2009. The majority of the increase is due to the increase in Pell Grant awards as the result of the student enrollment increase, as previously discussed.

Other noncapital grants increased by \$306,573.69 or 53.32% due to the two Golden Leaf grants of \$145,000, an increase in the nursing consortium budget by \$36,000, a new Area Health Education Center (AHEC) grant of \$10,000, an Early College Grant of \$58,000, and Computed Tomography and Magnetic Resonance Imaging Technology collaboration monies of \$56,000 received from other colleges in 2009.

A large increase in noncapital gifts is due to the \$20,000 in the General Scholarship Fund and \$80,000 in the Performance Arts Series approved by the board and donated by the foundation. A decrease in interest income occurred in fiscal year due to a decrease in interest rates during 2009. The other nonoperating revenue is due to an insurance claim payment received for the boiler in the Fleming Building.

Nonoperating Revenues				
	<u>FY 2008-2009</u>	<u>Restated FY 2007-2008</u>	<u>Differences</u>	<u>% Difference</u>
Nonoperating Revenues				
State Aid	\$ 10,616,898.92	\$ 12,046,791.50	\$ (1,429,892.58)	(11.87%)
State Aid - Federal Recovery Funds	556,343.08		556,343.08	100.00%
County Appropriations	1,208,710.00	793,000.00	415,710.00	52.42%
Noncapital Grants - Federal Student Financial Aid	5,314,070.22	3,377,588.99	1,936,481.23	57.33%
Noncapital Grants	881,567.80	574,994.11	306,573.69	53.32%
Noncapital Gifts	181,874.00	51,480.87	130,393.13	253.28%
Interest Income	27,014.86	39,044.67	(12,029.81)	(30.81%)
Other Nonoperating Revenues	98,379.73		98,379.73	100.00%
Net Nonoperating Revenues	<u>\$ 18,884,858.61</u>	<u>\$ 16,882,900.14</u>	<u>\$ 2,001,958.47</u>	11.86%

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities. These revenues are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Assets. County capital appropriations decreased 100% from fiscal year 2008 because the county did not award money to the College due to the slow economy and the College had no construction activity during the 2009 fiscal year. There was an 85.50% decrease in capital grants for fiscal year 2009. This is due to a \$1,000,000 Golden Leaf grant being recognized in fiscal year 2008. In turn, capital gifts decreased by 100% in this category. This decrease is due to the Arts-Civic-Technology (ACT) project dressing rooms in the auditorium being completed and no capital gifts were received in fiscal year 2009 due to the slow economy.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Revenues

	FY 2008-2009	FY 2007-2008	Differences	% Difference
State Capital Aid	\$ 493,466.38	\$ 403,101.59	\$ 90,364.79	22.42%
County Capital Appropriations		500,000.00	(500,000.00)	(100.00%)
Capital Grants	145,000.00	1,000,000.00	(855,000.00)	(85.50%)
Capital Gifts		132,025.00	(132,025.00)	(100.00%)
Total Capital Revenues	<u>\$ 638,466.38</u>	<u>\$ 2,035,126.59</u>	<u>\$ (1,396,660.21)</u>	(68.63%)

Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College.

The Scholarships and Fellowships expense account had a significant increase during the year of 66.57%. This account includes expenses associated with student loans and scholarships awarded to students. The increase was caused by an increase in Pell grants and other financial aid due to higher enrollment.

While the overall operating expenses reflect an increase from fiscal year 2008, the College operated under stringent spending restrictions, as reflected in the decreases in personal services, supplies and materials, and services.

Operating Expenses

	FY 2008-2009	FY 2007-2008	Differences	% Difference
Operating Expenses				
Personal Services	\$ 13,436,073.07	\$ 13,598,912.98	\$ (162,839.91)	(1.20%)
Supplies and Materials	2,266,568.91	2,442,071.28	(175,502.37)	(7.19%)
Services	1,578,582.57	1,689,093.30	(110,510.73)	(6.54%)
Scholarships and Fellowships	3,203,797.19	1,923,441.30	1,280,355.89	66.57%
Utilities	478,186.16	421,920.20	56,265.96	13.34%
Depreciation	524,237.37	490,860.50	33,376.87	6.80%
Total Operating Expenses	<u>\$ 21,487,445.27</u>	<u>\$ 20,566,299.56</u>	<u>\$ 921,145.71</u>	4.48%

Economic Forecast

The economy in Edgecombe County is declining. Edgecombe County's unemployment rate continues to climb. It was the second highest in the state in June 2009 at 16.6%, trailing only Scotland County at 17.2%, according to statistics released in July by the Employment Security Commission of North Carolina. Edgecombe County has had the State's second highest jobless rate in nine of the last 13 months. Training the unemployed and underemployed and retraining displaced workers will remain a primary focus of Edgecombe Community College's programs and offerings for the foreseeable future.

The county's population growth is in a slow downward trajectory. In 1990, the population of Edgecombe County was 56,558. By 2000, the population had declined to 55,606 and by 2008 to 52,682. To offset some of the challenges of finding new students in an area that is losing

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

population, the College has expanded its distance education and online offerings. From Spring 2005 to Spring 2009, distance learning grew by 67%.

Since the arrival in 2004 of the College's current president, Dr. Deborah L. Lamm, curriculum programs have been greatly strengthened. New curriculum programs for Fall 2009 are:

- Historic Preservation Technology Degree and Diploma,
- Magnetic Resonance Imaging Degree,
- Medical Office Administration Degree,
- Esthetics Instructor Certificate,
- Manicuring Instructor Certificate.

These additions bring the slate of curriculum offerings at Edgecombe Community College to 28 two-year degree programs, 20 one-year diploma programs, and 40 certificate programs.

Relevant and progressive curriculum programs are just one of the ways in which the College seeks to fulfill the education, cultural, and training needs of adults and of business, industry, and public service agencies in the service area of the College. The College is Edgecombe County's major provider of workforce training and retraining.

With an eye toward helping workers who are strapped by double-digit unemployment, plant layoffs, and employee cutbacks, Edgecombe Community College has developed short-term programs with long-term benefits. In Fall 2009, the College added certificate programs that can be completed in four to six classes on average. Certificate programs emphasize job training. Only those classes required to perform the job are included in the curriculum. New certificate programs (in both curriculum and continuing education divisions) are:

- Automotive Body Repair - Structural Damage Certificate,
- Automotive Systems Technology - Automotive Alternative Systems Technology Certificate,
- Building Operators Certificate,
- Business Administration - Logistics Certificate,
- Esthetics Instructor Certificate,
- Facility Maintenance Worker - Green Energy Systems Technology Certificate,
- Manicuring Instructor Certificate,
- Manufacturing Technology - Energy Management Systems Technology Certificate.

Certificate programs also permit students to earn credit toward the more comprehensive diploma and degree programs at Edgecombe Community College.

Edgecombe Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,019,690.44
Restricted Cash and Cash Equivalents	371,859.89
Receivables, Net (Note 3)	451,187.48
Due from State of North Carolina Component Units	125,000.00
Inventories	224,200.66
Prepaid Items	24,896.24
	<hr/>
Total Current Assets	2,216,834.71

Noncurrent Assets:

Restricted Cash and Cash Equivalents	74,966.46
Restricted Due from Primary Government	363,246.00
Due from State of North Carolina Component Units	1,000,000.00
Capital Assets - Nondepreciable (Note 4)	976,014.71
Capital Assets - Depreciable, Net (Note 4)	17,278,692.86
	<hr/>
Total Noncurrent Assets	19,692,920.03

Total Assets	<hr/> <hr/> 21,909,754.74
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	151,224.03
Due to Primary Government	1,262.76
Unearned Revenue	131,695.97
Funds Held for Others	79,532.90
Long-Term Liabilities - Current Portion (Note 6)	114,397.85
	<hr/>
Total Current Liabilities	478,113.51

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,001,913.18
	<hr/>
Total Liabilities	1,480,026.69

NET ASSETS

Invested in Capital Assets	18,254,707.57
Restricted for:	
Expendable:	
Scholarships and Fellowships	42,379.74
Capital Projects	1,403,356.34
Other	372,096.74
Unrestricted	357,187.66
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 20,429,728.05

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

***Edgecombe 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)	\$ 889,141.58
Federal Grants and Contracts	829,281.07
State and Local Grants and Contracts	64,649.53
Sales and Services, Net (Note 9)	577,923.29
Other Operating Revenues	41,597.59
	<hr/>
Total Operating Revenues	2,402,593.06
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	13,436,073.07
Supplies and Materials	2,266,568.91
Services	1,578,582.57
Scholarships and Fellowships	3,203,797.19
Utilities	478,186.16
Depreciation	524,237.37
	<hr/>
Total Operating Expenses	21,487,445.27
	<hr/>
Operating Loss	(19,084,852.21)
	<hr/>

NONOPERATING REVENUES

State Aid	10,616,898.92
State Aid - Federal Recovery Funds	556,343.08
County Appropriations	1,208,710.00
Noncapital Grants - Federal Student Financial Aid	5,314,070.22
Noncapital Grants	881,567.80
Noncapital Gifts	181,874.00
Interest Income	27,014.86
Other Nonoperating Revenues	98,379.73
	<hr/>
Net Nonoperating Revenues	18,884,858.61
	<hr/>
Loss Before Other Revenues	(199,993.60)
	<hr/>
State Capital Aid	493,466.38
Capital Grants	145,000.00
	<hr/>
Increase in Net Assets	438,472.78

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 15)	19,991,255.27
	<hr/>
Net Assets, June 30, 2009	\$ 20,429,728.05
	<hr/> <hr/>

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

Edgecombe 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	\$ 2,381,347.56
Payments to Employees and Fringe Benefits	(13,395,137.53)
Payments to Vendors and Suppliers	(4,359,635.87)
Payments for Scholarships and Fellowships	(3,203,797.19)
Other Receipts	9,391.27
	<hr/>
Net Cash Used by Operating Activities	(18,567,831.76)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,616,898.92
State Aid Received - Federal Recovery Funds	556,343.08
County Appropriations	1,208,710.00
Noncapital Grants Received - Federal Student Financial Aid	5,215,593.42
Noncapital Grants Received	756,567.80
Noncapital Gifts	181,874.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,535,987.22

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	700,644.43
Capital Grants Received	145,000.00
Acquisition and Construction of Capital Assets	(162,553.93)
Other Nonoperating Revenues	96,737.64
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	779,828.14

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	27,014.86
	<hr/>
Net Increase in Cash and Cash Equivalents	774,998.46
Cash and Cash Equivalents, July 1, 2008	691,518.33
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 1,466,516.79
	<hr/> <hr/>

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

Exhibit A-3
Page 2

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (19,084,852.21)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	524,237.37
Changes in Assets and Liabilities:	
Receivables, Net	(86,986.33)
Inventories	20,084.10
Prepaid Items	15,216.24
Accounts Payable and Accrued Liabilities	(68,905.80)
Due to Primary Government	(1,132.44)
Unearned Revenue	65,740.83
Funds Held for Others	9,391.27
Compensated Absences	39,375.21
Net Cash Used by Operating Activities	<u><u>\$ (18,567,831.76)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,019,690.44
Restricted Cash and Cash Equivalents	371,859.89
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>74,966.46</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 1,466,516.79</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 223,476.80
Capital Asset Write-Offs	1,473.34

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

Edgecombe Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	17,806
Investments		1,243,203
Pledges Receivable/Promises		500
Long-Term Investment		500,000
		<hr/>
Total Assets		1,761,509
		<hr/>

NET ASSETS

Unrestricted		643,267
Temporarily Restricted		120,392
Permanently Restricted		997,850
		<hr/>
Total Net Assets	\$	1,761,509
		<hr/> <hr/>

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

Edgecombe 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	\$ 523,925
Interest Income	3,579
ACT Fund	600
Fund Raising Projects	91,107
	<hr/>
Total Unrestricted Revenues and Gains	619,211
	<hr/>
Expenses:	
Grants/Scholarships	115,034
Program Expenses	15,466
General Administrative	7,535
Fund Raising	35,269
	<hr/>
Total Expenses	173,304
	<hr/>
Increase in Unrestricted Net Assets	445,907
	<hr/>

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS

Interest Income	41,198
	<hr/>
Increase in Temporarily Restricted Net Assets	41,198
	<hr/>

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	16,153
	<hr/>
Increase in Permanently Restricted Net Assets	16,153
	<hr/>

Increase in Net Assets	503,258
Net Assets at Beginning of Year	1,258,251
	<hr/>
Net Assets at End of Year	\$ 1,761,509
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The accompanying notes to the financial statements are an integral part of this statement.

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EDGECOMBE 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. Edgecombe 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. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - Edgecombe Community College Foundation, Inc. (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's board consists of up to 30 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$100,000 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from The Foundation Office, Edgecombe Community College, 2009 West Wilson Street, Tarboro, NC 27886.

- 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 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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** - All investments belong to Edgecombe Community College Foundation, Inc. and consist of certificates of deposit, money market funds, and real estate held for investment. All are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value 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 expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- 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 include compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out 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.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$610.00, and deposits in private financial institutions with a carrying value of \$9,197.33 and a bank balance of \$182,020.17.

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 was covered by the federal depository insurance.

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 \$1,456,709.46, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

- B. Investments of Component Unit** - Investments of the College's component unit, the Edgecombe Community College Foundation, Inc., are subject to and restricted by any requirement placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risk are not required. The following is an analysis of investments by type:

Investment Type	Fair Value
Certificates of Deposit	\$ 1,191,576
Money Market Funds	51,627
Real Estate Held for Investment	500,000
	\$ 1,743,203

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 92,429.19	\$ 2,259.00	\$ 90,170.19
Accounts	189,392.09	36,125.00	153,267.09
Intergovernmental	207,750.20		207,750.20
	\$ 489,571.48	\$ 38,384.00	\$ 451,187.48
Total Current Receivables			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

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

	Restated Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 976,014.71	\$ 0.00	\$ 0.00	\$ 976,014.71
Capital Assets, Depreciable:				
Buildings	\$ 19,941,261.25	\$ 0.00	\$ 0.00	\$ 19,941,261.25
Machinery and Equipment	1,428,333.89	162,553.93	9,821.53	1,581,066.29
General Infrastructure	658,198.53			658,198.53
Total Capital Assets, Depreciable	22,027,793.67	162,553.93	9,821.53	22,180,526.07
Less Accumulated Depreciation/Amortization for:				
Buildings	3,735,903.87	400,901.86		4,136,805.73
Machinery and Equipment	466,961.24	109,623.36	8,348.19	568,236.41
General Infrastructure	183,078.92	13,712.15		196,791.07
Total Accumulated Depreciation	4,385,944.03	524,237.37	8,348.19	4,901,833.21
Total Capital Assets, Depreciable, Net	17,641,849.64	(361,683.44)	1,473.34	17,278,692.86
Capital Assets, Net	\$ 18,617,864.35	\$ (361,683.44)	\$ 1,473.34	\$ 18,254,707.57

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 82,470.91
Accrued Payroll	55,652.92
Other	13,100.20
Total Accounts Payable and Accrued Liabilities	\$ 151,224.03

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	\$ 1,076,935.82	\$ 77,586.27	\$ 38,211.06	\$ 1,116,311.03	\$ 114,397.85

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 71,351.10
2011	67,935.40
2012	56,170.92
2013	56,170.92
2014	17,840.26
Total Minimum Lease Payments	<u>\$ 269,468.60</u>

Rental expense for all operating leases during the year was \$72,178.32.

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenue under the noncancelable operating lease related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 9,897.51
2011	9,897.51
2012	9,897.51
2013	9,897.51
2014	9,897.51
2015-2019	49,487.55
2020-2024	49,487.55
2025-2029	49,487.55
2030-2034	49,487.55
2035-2036	19,795.02
Total Minimum Lease Payments	<u>\$ 267,232.77</u>

Rental revenue for the operating lease during the year was \$9,897.51.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,236,839.63	\$ 1,347,698.05	\$ 889,141.58
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 1,341,360.76	\$ 895,847.68	\$ 445,513.08
Other	92,277.15		92,277.15
Sales and Services of Education and Related Activities	40,133.06		40,133.06
Total Sales and Services	\$ 1,473,770.97	\$ 895,847.68	\$ 577,923.29

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,104,600.41	\$ 617,020.64	\$ 347,891.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,069,512.36
Academic Support	1,677,574.14	78,851.84	77,100.32				1,833,526.30
Student Services	1,334,927.66	29,231.96	252,539.79	40,744.38			1,657,443.79
Institutional Support	1,868,032.88	188,505.60	376,084.59				2,432,623.07
Operations and Maintenance of Plant	404,558.99	194,861.41	224,899.36		478,186.16		1,302,505.92
Student Financial Aid			275,573.24	3,163,052.81			3,438,626.05
Auxiliary Enterprises	46,378.99	1,158,097.46	24,493.96				1,228,970.41
Depreciation						524,237.37	524,237.37
Total Operating Expenses	\$ 13,436,073.07	\$ 2,266,568.91	\$ 1,578,582.57	\$ 3,203,797.19	\$ 478,186.16	\$ 524,237.37	\$ 21,487,445.27

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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$11,060,230.84, of which \$9,814,161.55 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$329,755.83 and \$588,849.69, 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 \$329,755.83, \$271,902.59, and \$259,374.14, 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 \$10,180.00 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 incurred by the College. The voluntary contributions by employees amounted to \$173,878.00 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 \$65,990.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$402,380.62, \$388,432.27, and \$370,534.49, 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 \$51,033.64, \$53,153.89, and \$50,704.72, 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. The College has a blanket honesty bond for all College employees with coverage of \$10,000 per occurrence.

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 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by 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 No. 31 which required endowments to report land and other real estate investments at historical cost.

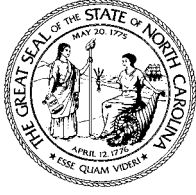
In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

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

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 19,898,704.27
Restatement:	
To Correct Prior Period Error to Record Purchase of Land	<u>92,551.00</u>
July 1, 2008 Net Assets as Restated	<u>\$ 19,991,255.27</u>



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
Edgecombe Community College
Tarboro, North Carolina

We have audited the financial statements of Edgecombe 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 April 30, 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 the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONTINUED)**

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 the deficiencies described in both of the findings 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*.

We noted certain matters that we reported to management of the College in a separate letter dated April 22, 2010.

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.

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,

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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

Beth A. Wood, CPA
State Auditor

April 30, 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 or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were ultimately 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 incorrectly recorded the scholarship discount, which resulted in tuition and fees being understated by \$451,850 and sales and services overstated by the same amount. This error also resulted in a misclassification in the operating expenses by function note. The note disclosed an understatement of \$451,850 in institutional support and auxiliary enterprises reflecting an overstatement by the same amount.
- b. The College failed to properly record land previously purchased in fiscal year 2008, resulting in an understatement of nondepreciable capital assets in the amount of \$92,551.
- c. The College omitted interest income from the Statement of Revenues, Expenses, and Changes in Net Assets and made clerical errors that caused noncapital gifts and noncapital grants to be stated incorrectly. Interest income was understated by \$27,014, noncapital grants were understated by \$554,693, and noncapital gifts were understated by \$154,859. The omission of the interest income also caused the corresponding amounts on the Statement of Cash Flows to be misstated.
- d. The College misclassified the receipt of noncapital grants in the amount of \$145,000. The revenue was inappropriately recorded as federal grants and contracts.
- e. The College misclassified \$1,000,000 due from State of North Carolina component units as a current receivable rather than a noncurrent receivable.
- f. The College did not include all required elements in the Management Discussion and Analysis. Examples include lack of explanations for some of the large variances and incomplete information in the financial highlights section.

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

College's Response: The College will devote more resources to the Year-End Financial process to ensure accuracy and more internal controls. Appropriate College staff have

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

added responsibilities in order to be more involved with the year-end processes. The Vice President of Administrative Services will also devote time to reviewing statements before submitting.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College did not appropriately assign employee access rights to ensure adequate segregation of duties. As a result, there is an increased risk of unauthorized or inappropriate transactions. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

All employees with financial access rights in the Administrative Services division had inappropriate access to system functions. Access rights ranged from individuals with capabilities to record and reverse transactions to one individual with access rights to all accounts payable, accounts receivable, payroll, and human resources functions. These deficiencies make it possible for an individual to create invalid or erroneous transactions without detection.

Recommendation: The College should evaluate and reassign system access rights as necessary to better segregate duties and enhance internal control. If there are situations where segregation of duties is not feasible, the College should implement effective compensating controls.

College's Response: Access rights have been revised for all business office personnel. A cashier position will be added effective July 1, 2010, which will provide more opportunity for segregation of duties.

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