



STATE OF NORTH CAROLINA

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 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 E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Nash Community College

We have completed a financial statement audit of Nash Community College for the year ended June 30, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report.

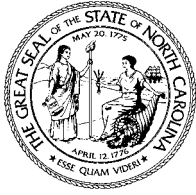
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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
Nash Community College
Rocky Mount, North Carolina

We have audited the accompanying basic financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

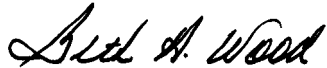
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nash Community College as of June 30, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally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

As discussed in Note 16 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.

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

February 15, 2010

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

This section of Nash Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ending June 30, 2009 and June 30, 2008. This discussion and analysis focuses on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Using This Annual Report

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

Financial Highlights

Statement of Net Assets

The Statement of Net Assets provides information regarding the College's assets, liabilities, and net assets as of June 30, 2009.

Condensed Financial Statements		
Statement of Net Assets		
	<u>2009</u>	<u>2008</u>
Assets:		
Current Assets	\$ 2,360,622.27	\$ 2,220,570.11
Noncurrent Assets:		
Other Noncurrent Assets	2,164,695.09	1,649,088.14
Capital Assets	<u>16,788,971.85</u>	<u>17,194,349.16</u>
Total Assets	<u>21,314,289.21</u>	<u>21,064,007.41</u>
Liabilities:		
Current Liabilities	632,278.35	918,050.85
Noncurrent Liabilities	<u>1,301,417.68</u>	<u>1,202,320.01</u>
Total Liabilities	<u>1,933,696.03</u>	<u>2,120,370.86</u>
Net Assets:		
Invested in Capital Assets	16,788,971.85	17,194,349.16
Restricted	2,762,276.95	2,424,781.89
Unrestricted	<u>(170,655.62)</u>	<u>(675,494.50)</u>
Total Net Assets	<u>\$ 19,380,593.18</u>	<u>\$ 18,943,636.55</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As of June 30, 2009, the College's net assets were \$19.4 million; an increase of \$437 thousand from June 30, 2008. As of June 30, 2009, investments in capital assets accounted for 86% of total net assets and restricted assets accounted for 14%. There was a deficit unrestricted net assets balance of \$171 thousand. This abnormal balance is due primarily to the approximately \$1.4 million liability for unpaid leave benefits.

Current assets increased due to an increase in cash and cash equivalents. Cash balances for Technology and Activity fees each increased by approximately \$43 thousand. These increases were the result of an increase in enrollment both in students and hours enrolled. Additionally, the cash balance related to the Print Shop increased by \$59 thousand as a result of an increase in usage fee in anticipation of equipment replacement. Due to concerns with the budget and economy, these amounts remained unspent at year end. The total assets recorded by the College as of June 30, 2009 were \$21.3 million.

As of June 30, 2009, the College had recorded \$25.2 million in depreciable capital assets, \$9.1 million in accumulated depreciation and \$16.8 million in net capital assets. These balances resulted from capital additions of \$478 thousand, reductions of \$160 thousand, and annual depreciation of \$837 thousand. Most notable among the additions was a burn unit for fire training at a cost of \$218 thousand.

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

Current liabilities decreased by \$286 thousand due to a reduction in accounts payable at the end of the year. Prior year current liabilities consisted of a large outstanding accounts payable bookstore invoice of \$118,000 and other outstanding invoices pending cash certification that did not occur until the current fiscal year. The total liabilities recorded by the College at June 30, 2009 were \$1.9 million. Current liabilities totaling \$632 thousand included \$127 thousand as the current portion of accrued leave, \$138 thousand in accrued payroll, and \$122 thousand in accounts payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2009	2008 (Restated)
Operating Revenues:		
Total Operating Revenues	\$ 4,178,500.00	\$ 4,051,482.27
Less Operating Expenses	21,892,907.64	21,457,546.97
Net Operating Loss	(17,714,407.64)	(17,406,064.70)
Nonoperating Revenues:		
State Aid	11,494,162.91	11,089,170.14
County Appropriations	1,675,180.00	1,610,750.00
Noncapital Grants - Federal Student Financial Aid	2,907,181.96	2,318,904.88
Other Nonoperating Revenues	774,532.32	712,576.02
Other Nonoperating Expenses	(43,528.37)	(7,209.78)
Net Nonoperating Revenues	16,807,528.82	15,724,191.26
Loss Before Other Revenues	(906,878.82)	(1,681,873.44)
Capital Aid and Grants	1,192,225.29	938,756.80
Additions to Endowments	151,610.16	190,850.10
Increase in Net Assets	436,956.63	(552,266.54)
Net Assets, July 1	18,943,636.55	19,495,903.09
Net Assets, June 30	\$ 19,380,593.18	\$ 18,943,636.55

Operating revenues at June 30, 2009 increased by approximately \$127 thousand. This was due to an increase of \$141 thousand in the NC Earn grant for student aid. Tuition and Fees revenue increased by \$15 thousand as a result of a slight increase in enrollment. The amounts charged remained the same at \$42.00 per credit hour for in-State students and \$233.30 for out-of-State students.

The College receives funding from State and county sources. Total nonoperating county appropriations and county capital aid increased from \$1.71 million in 2007-2008 to \$1.79 million in 2008-2009. The following table charts operating revenues by source.

	2008-2009	2007-2008 (Restated)	Increase/ (Decrease)
Student Tuition & Fees, Net	\$ 1,884,725.00	\$ 1,869,622.64	\$ 15,102.36
Federal Grants & Contracts	492,775.01	416,909.28	75,865.73
State & Local Grants and Contracts	462,325.48	398,582.82	63,742.66
Sales & Services, Net	1,334,982.51	1,362,621.53	(27,639.02)
Other Operating Revenue	3,692.00	3,746.00	(54.00)
TOTAL	\$ 4,178,500.00	\$ 4,051,482.27	\$ 127,017.73

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating expenses at June 30, 2009 were \$21.9 million - an increase of 2% versus the June 30, 2008 total of \$21.5 million. Operating expenses at June 30, 2009 increased by \$435 thousand over the same period in fiscal year 2008. This was caused by an increase in personal services, primarily from the salary increase awarded to all full-time faculty and staff. For FY08-09, those personnel received a salary increase of 3% or \$1,100 - whichever was greater. All increases were effective July 1, 2008. The following table details operating expenses.

	<u>2008-2009</u>	<u>2007-2008</u>	<u>Increase/ (Decrease)</u>
Personal Services	\$ 14,191,143.80	\$ 13,675,310.31	\$ 515,833.49
Supplies & Materials	2,366,353.78	2,793,533.68	(427,179.90)
Services	1,706,261.87	2,023,714.57	(317,452.70)
Scholarships & Fellowships	2,248,373.59	1,581,455.11	666,918.48
Utilities	543,915.59	551,325.24	(7,409.65)
Depreciation	836,859.01	832,208.06	4,650.95
TOTAL	\$ 21,892,907.64	\$ 21,457,546.97	\$ 435,360.67

Other Information

The FTEs that generate the College's State budget (budget FTEs) increased overall from 2007-2008 to 2008-2009:

	<u>2008-2009</u>	<u>2007-2008</u>	<u>Increase/ (Decrease)</u>
Curriculum	\$ 2,011	\$ 1,910	\$ 101
Occupational Extension	376	362	14
Basic Skills	189	214	(25)
TOTAL	\$ 2,576	\$ 2,486	\$ 90

Nash Community College added new programs for 2008-2009 including Automotive Systems Technology - with an unduplicated headcount of nine - and a Cosmetology degree program with an enrollment of six.

Other curriculum programs showed growth over the previous fiscal year. The programs with the most enrollment growth are listed below:

<u>Program Name</u>	<u>Enrollment Increase</u>
College Transfer	60
Medical Office	29
Advertising & Graphics	29

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

In the Continuing Education area, Nash offered our first online EMT class for the Rocky Mount and Nashville fire departments with 182 students registered. Also, we held our first open enrollment course for fire fighter recruits with 12 students registered and six completing the course.

The Early College program provides students with a smooth transition from high school to college. This program is in its fifth year and the enrollment has increased to 222 students for the fiscal year ended June 30, 2009. This is an increase of 24 students over fiscal year ended 2008.

The College is anticipating the upcoming Southern Association of College and Schools (SACS) reaffirmation visit. Based on campus-wide input, as well as community input, the Quality Enhancement Plan (QEP) Leadership Team recommended "First Year Experience" as the topic for our QEP. Writing teams continue to work on documentation for the compliance report which is due March 15, 2010. The SACS on-site committee is expected on campus September 27-29, 2010.

Looking into the future, management believes the College is well positioned to continue its strong financial condition and level of excellence to the Community. We have seen continued enrollment growth in curriculum and early college programs and are encouraged by this. A critical element to the success of the College is the State of North Carolina's ability to provide financial support. While the College has not been advised to withhold any of its budget allocation for reversion at this time, the uncertainty surrounding the State's economy may limit the available State/county financial support.

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

Nash Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 1,067,297.87
Restricted Cash and Cash Equivalents	779,443.83
Short-Term Investments	41,549.47
Receivables (Note 4)	188,893.81
Inventories	283,437.29
	<hr/>
Total Current Assets	2,360,622.27
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,815,095.28
Restricted Due from Primary Government Investments	100,000.00
Capital Assets - Nondepreciable (Note 5)	249,599.81
Capital Assets - Depreciable, Net (Note 5)	663,251.30
	16,125,720.55
	<hr/>
Total Noncurrent Assets	18,953,666.94
	<hr/>
Total Assets	21,314,289.21

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	261,082.90
Due to Primary Government	4,953.39
Unearned Revenue	88,987.18
Funds Held for Others	150,113.09
Long-Term Liabilities - Current Portion (Note 7)	127,141.79
	<hr/>
Total Current Liabilities	632,278.35
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	1,301,417.68
	<hr/>
Total Liabilities	1,933,696.03

NET ASSETS

Invested in Capital Assets	16,788,971.85
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,552,612.46
Expendable:	
Scholarships and Fellowships	340,025.24
Loans	28,205.14
Capital Projects	465,672.99
Restricted for Specific Program - Science and Technology Center	112,056.45
Restricted for Specific Program - Allied Health	224,376.83
Other	39,327.84
	<hr/>
Unrestricted	(170,655.62)
	<hr/>
Total Net Assets	\$ 19,380,593.18

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

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

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,884,725.00
Federal Grants and Contracts	492,775.01
State and Local Grants and Contracts	462,325.48
Sales and Services, Net (Note 9)	1,334,982.51
Other Operating Revenues	3,692.00
	<hr/>
Total Operating Revenues	4,178,500.00
	<hr/>

EXPENSES

Operating Expenses:

Personal Services	14,191,143.80
Supplies and Materials	2,366,353.78
Services	1,706,261.87
Scholarships and Fellowships	2,248,373.59
Utilities	543,915.59
Depreciation	836,859.01
	<hr/>
Total Operating Expenses	21,892,907.64
	<hr/>

Operating Loss (17,714,407.64)

NONOPERATING REVENUES (EXPENSES)

State Aid	10,828,329.44
State Aid - Federal Recovery Funds	665,833.47
County Appropriations	1,675,180.00
Noncapital Grants - Federal Student Financial Aid	2,907,181.96
Noncapital Grants	394,192.33
Noncapital Gifts	267,748.20
Investment Income	112,591.79
Other Nonoperating Expenses	(43,528.37)
	<hr/>
Net Nonoperating Revenues	16,807,528.82
	<hr/>

Loss Before Other Revenues (906,878.82)

State Capital Aid	990,585.78
County Capital Aid	120,000.00
Capital Grants	81,639.51
Additions to Endowments	151,610.16
	<hr/>
Increase in Net Assets	436,956.63

NET ASSETS

Net Assets, July 1, 2008	<hr/> 18,943,636.55
Net Assets, June 30, 2009	<u>\$ 19,380,593.18</u>

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

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

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,215,336.36
Payments to Employees and Fringe Benefits	(14,104,481.94)
Payments to Vendors and Suppliers	(5,002,115.26)
Payments for Scholarships and Fellowships	(2,249,428.15)
Other Receipts	63,433.04

Net Cash Used by Operating Activities (17,077,255.95)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,828,329.44
State Aid - Federal Recovery Funds	665,833.47
County Appropriations	1,675,180.00
Noncapital Grants - Federal Student Financial Aid	2,907,181.96
Noncapital Grants Received	364,633.14
Noncapital Gifts and Endowments Received	419,358.36

Cash Provided by Noncapital Financing Activities 16,860,516.37

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	890,585.78
County Capital Aid	120,000.00
Capital Grants Received	81,639.51
Proceeds from Sale of Capital Assets	510.00
Acquisition and Construction of Capital Assets	(478,611.11)

Net Cash Provided by Capital and Related Financing Activities 614,124.18

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	112,591.79
Purchase of Investments and Related Fees	(107,718.80)

Net Cash Provided by Investing Activities 4,872.99

Net Increase in Cash and Cash Equivalents 402,257.59

Cash and Cash Equivalents, July 1, 2008 3,259,579.39

Cash and Cash Equivalents, June 30, 2009 \$ 3,661,836.98

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

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

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

Operating Loss	\$ (17,714,407.64)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	836,859.01
Miscellaneous Nonoperating Income	3,091.04
Changes in Assets and Liabilities:	
Receivables, Net	33,231.40
Inventories	(49,354.93)
Accounts Payable and Accrued Liabilities	(326,708.21)
Due to Primary Government	(32,262.99)
Unearned Revenue	12,525.17
Funds Held for Others	61,211.73
Compensated Absences	98,559.47
	<u>98,559.47</u>
Net Cash Used by Operating Activities	<u><u>\$ (17,077,255.95)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,067,297.87
Restricted Cash and Cash Equivalents	779,443.83
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,815,095.28</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 3,661,836.98</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 149,859.19
Loss on Disposal of Capital Assets	46,619.41

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

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, 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 petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - This classification includes funds held in the North Carolina Capital Management Trust, an SEC registered mutual fund. Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded at book value without provision for doubtful accounts considered necessary.

- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method. Merchandise for resale is valued using the average cost inventory method.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 15 to 45 years for general infrastructure, 25 to 40 years for buildings, and 5 to 36 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.
- 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 (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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the Print Shop. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,440.00, and deposits in private financial institutions with a carrying value of \$208,114.13, and a bank balance of \$277,108.66.

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.

- B. Investments** - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,452,282.85, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

At June 30, 2009, the College's investment outside the State Treasurer's Short-Term Investment Fund (STIF) is in the North Carolina Capital Management Trust Fund (NCCMT), an SEC registered mutual fund. The fair value of the NCCMT investment at June 30, 2009 is \$291,149.28. The investment is subject to the following risks:

Interest Rate Risk: Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The North Carolina Capital Management Trust had a maturity of one year or less at June 30, 2009.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2009, the North Carolina Capital Management Trust carried a credit rating of AAAM by Standard & Poor's.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Cash on Hand	\$	1,440.00
Carrying Amount of Deposits with Private Financial Institutions		208,114.13
Investments in the Short-Term Investment Fund		3,452,282.85
Investment in North Carolina Capital Management Trust		<u>291,149.28</u>
 Total Deposits and Investments	 \$	 <u><u>3,952,986.26</u></u>
 Current:		
Cash and Cash Equivalents	\$	1,067,297.87
Restricted Cash and Cash Equivalents		779,443.83
Short-Term Investments		41,549.47
 Noncurrent:		
Restricted Cash and Cash Equivalents		1,815,095.28
Investments		<u>249,599.81</u>
 Total	 \$	 <u><u>3,952,986.26</u></u>

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2009, net appreciation of \$49,370.74 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009 were as follows:

		Gross Receivables
Current Receivables:		
Students	\$	61,662.78
Accounts		41,810.96
Intergovernmental		<u>85,420.07</u>
 Total Current Receivables	 \$	 <u><u>188,893.81</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 663,251.30	\$ 0.00	\$ 0.00	\$ 663,251.30
Capital Assets, Depreciable:				
Buildings	\$ 20,249,195.66	\$ 0.00	\$ 0.00	\$ 20,249,195.66
Machinery and Equipment	2,696,018.49	478,611.11	160,416.67	3,014,212.93
General Infrastructure	1,946,018.69			1,946,018.69
Total Capital Assets, Depreciable	24,891,232.84	478,611.11	160,416.67	25,209,427.28
Less Accumulated Depreciation/Amortization for:				
Buildings	5,881,023.07	507,214.88		6,388,237.95
Machinery and Equipment	1,236,110.90	267,908.23	113,287.26	1,390,731.87
General Infrastructure	1,243,001.01	61,735.90		1,304,736.91
Total Accumulated Depreciation	8,360,134.98	836,859.01	113,287.26	9,083,706.73
Total Capital Assets, Depreciable, Net	16,531,097.86	(358,247.90)	47,129.41	16,125,720.55
Capital Assets, Net	\$ 17,194,349.16	\$ (358,247.90)	\$ 47,129.41	\$ 16,788,971.85

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 122,333.19
Accrued Payroll	138,749.71
Total Accounts Payable and Accrued Liabilities	\$ 261,082.90

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 1,330,000.00	\$ 892,107.24	\$ 793,547.77	\$ 1,428,559.47	\$ 127,141.79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE REVENUE

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

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 9,898.00
2011	9,898.00
2012	9,898.00
2013	9,898.00
2014	9,898.00
2015-2019	49,490.00
2020-2024	49,490.00
2025-2029	49,490.00
2030-2034	49,490.00
2035-2036	19,796.00
Total Minimum Lease Revenues	\$ 267,246.00

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

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,810,952.16</u>	<u>\$ 0.00</u>	<u>\$ 926,227.16</u>	<u>\$ 1,884,725.00</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Food Service	\$ 170,300.51	\$ 0.00	\$ 0.00	\$ 170,300.51
Vending	32,969.93			32,969.93
Print Shop	189,212.65	189,212.65		0.00
Bookstore	1,387,322.16		597,172.78	790,149.38
Child Development Center	266,197.20			266,197.20
Brown Auditorium	50,971.37			50,971.37
Other	9,073.13			9,073.13
Sales and Services of Education and Related Activities - Cosmetology	<u>15,320.99</u>			<u>15,320.99</u>
Total Sales and Services	<u>\$ 2,121,367.94</u>	<u>\$ 189,212.65</u>	<u>\$ 597,172.78</u>	<u>\$ 1,334,982.51</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,165,191.32	\$ 735,727.91	\$ 734,590.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,635,509.25
Academic Support	955,344.39	41,469.05	17,888.90				1,014,702.34
Student Services	1,099,106.71	18,672.40	65,677.24				1,183,456.35
Institutional Support	1,945,862.13	131,695.71	393,075.08				2,470,632.92
Operations and Maintenance of Plant	532,095.97	193,402.62	319,178.49		543,915.59		1,588,592.67
Student Financial Aid				2,248,373.59			2,248,373.59
Auxiliary Enterprises	493,543.28	1,245,386.09	175,852.14				1,914,781.51
Depreciation						836,859.01	836,859.01
Total Operating Expenses	\$ 14,191,143.80	\$ 2,366,353.78	\$ 1,706,261.87	\$ 2,248,373.59	\$ 543,915.59	\$ 836,859.01	\$ 21,892,907.64

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 \$11,733,283.03, of which \$10,268,744.70 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$345,029.82 and \$616,124.72, 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 \$345,029.82, \$294,545.36, and \$235,079.52, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "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 \$23,620.00 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. The voluntary contributions by employees amounted to \$128,323.64 for the year ended June 30, 2009.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$7,000.00 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *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 \$421,018.53, \$395,946.22, and \$335,827.89, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<http://www.ncosc.net/> and clicking on “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 \$53,397.47, \$50,217.57, and \$49,955.39, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10,000,000 deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles 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. For employees paid with non-state funds, the College has acquired coverage through a private insurer coverage of \$100,000 per occurrence with a \$500 deductible.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments purchases. Outstanding commitments on purchases were \$78,447.27 at June 30, 2009.

B. Contingent Liabilities - The College has conveyed to the U.S. Dept of Commerce, Economic Development Administration (EDA) a mortgage lien on the Science & Technology Center in the amount of \$1,000,000. This lien secures the EDA's investment in the building should the College no longer use the building for educational or economic development purposes. This mortgage lien shall terminate and be dismissed 20 years from September 1, 2004.

NOTE 15 - RELATED PARTY

The Nash Community College Foundation, Inc. (Foundation) is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support college programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for support from the Foundation. Support from the Foundation approximated \$312,530.73 for the year ended June 30, 2009.

NOTE 16 - 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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*.

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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
Nash Community College
Rocky Mount, North Carolina

We have audited the financial statements of Nash Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2009, and have issued our report thereon dated February 15, 2010.

As discussed in Note 16 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.

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 weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

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deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency 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, we do not believe that the significant deficiency described above is 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*.

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

February 15, 2010

AUDIT FINDINGS AND RESPONSES

Matter Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

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. Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. Inappropriate information system access increases the risk of an error or misappropriation occurring without detection.

We identified employees in the business office who had system access rights that are broad and unnecessary for the duties they perform. Specifically, we noted:

- The Vice President of Administration and Finance and Associate Vice President of Administration and Finance can receipt cash, void receipts, and post journal entries. The Associate Vice President also reviews the bank reconciliations and both employees can set up vendors.
- The Accounts Payable Technician, her backup, and the Accounts Receivable Technician can create vendors, enter requisitions, prepare purchase orders, receive items in the system, and prepare and print payments to vendors. In addition, they all can post journal entries and enter cash receipts. Budget managers at the College perform periodic budget to actual comparisons, which would detect large discrepancies; however, this process would not necessarily address the existence of inappropriate smaller transactions.
- One employee has transferred to another area within the Finance section; however, her former business office computer system access rights were not deactivated when she transferred.

This issue has been resolved. The College has taken the appropriate steps to assign access rights to address the risks of material misstatement.

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