



STATE OF NORTH CAROLINA

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

BEAUFORT COUNTY COMMUNITY COLLEGE

WASHINGTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Beaufort County Community College for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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State Auditor

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Fax: (919) 807-7647
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the accompanying basic financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Beaufort County Community College Foundation, Inc., which represent 9.2 percent, 9.7 percent, and 1.9 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditor.

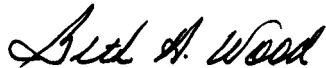
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Beaufort County Community College as of June 30, 2011, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2012 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

February 21, 2012

BEAUFORT COUNTY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This section of Beaufort County Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2011. This section should be read in conjunction with the College's basic financial statements and the related notes.

Basic Financial Statements

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

Statement of Net Assets: The Statement of Net Assets presents a fiscal snapshot of the College as of June 30, 2011, and includes all assets and liabilities of the College. The focus of the Statement of Net Assets is designed to be similar to bottom line results of the College. Assets and liabilities are divided into their current and noncurrent portions to give the users of these statements insight into the financial position of the College.

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

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

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

Condensed Financial Statements and Financial Analysis

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

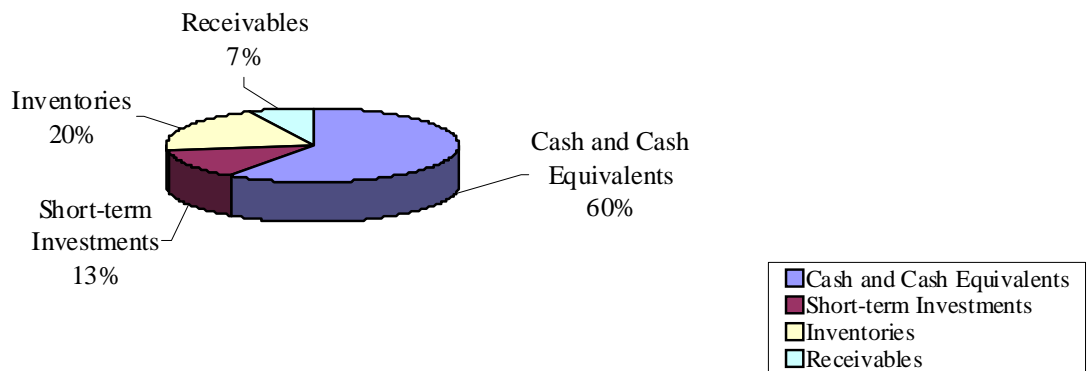
Analysis of the Statement of Net Assets

Condensed Statement of Net Assets (in thousands)

Assets	2011	2010	Variance
Current Assets	\$ 1,614	\$ 1,093	\$ 521
Capital Assets, net	15,359	15,286	73
Other Assets	1,567	1,598	(31)
Total Assets	18,540	17,977	563
Liabilities			
Current Liabilities	598	533	65
Long-Term Liabilities	463	435	28
Total Liabilities	1,061	968	93
Net Assets			
Invested in Capital Assets	15,359	15,286	73
Restricted	2,122	2,084	38
Unrestricted	(2)	(361)	359
Total Net Assets	\$ 17,479	\$ 17,009	\$ 470

As shown in the condensed Statement of Net Assets table above, the College continues to build upon its strong financial foundation. Total net assets increased by approximately \$470 thousand during fiscal year 2011. This increase is mainly attributed to a \$351 thousand increase in current unrestricted cash and cash equivalents resulting from various energy and cost savings initiatives implemented during fiscal year 2011 and increased curriculum self supporting class offerings and associated receipts during the 2011 summer term. Current restricted cash and cash equivalents increased by \$110 thousand which was mostly due to nursing grant funds that will carry forward to the 2012 fiscal year. The changes shown in the capital assets, net and invested in capital assets lines are mainly attributable to the depreciation and disposal of our assets. Further discussion is below in the Analysis of Capital Assets section.

Current Assets



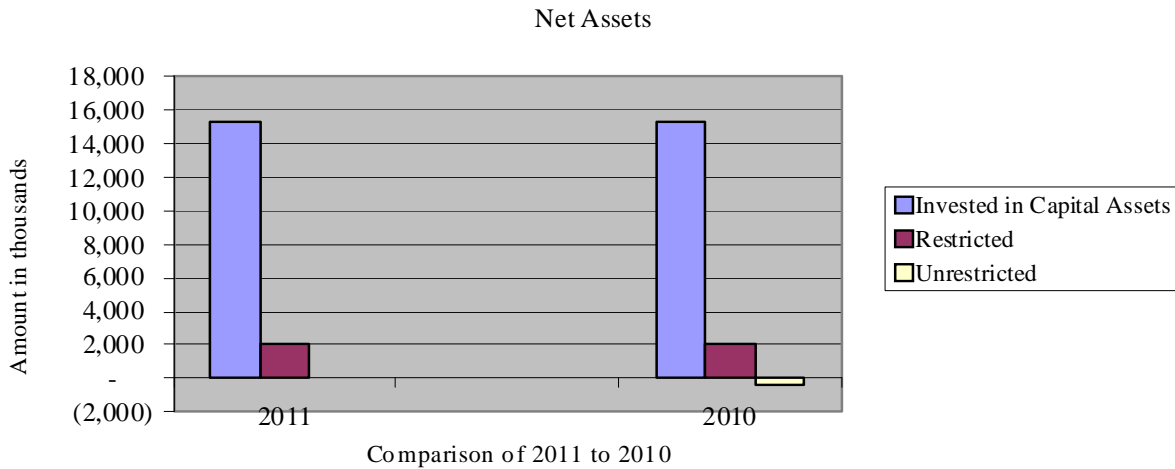
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As can be seen from the chart above, current assets is approximately 60% cash and cash equivalents with the remaining fairly well distributed between inventories, short-term investments, and receivables.

Liabilities (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Accounts Payable	\$ 60	\$ 74	\$ (14)
Accrued Payroll	419	353	66
Unearned Revenue	68	42	26
Funds Held for Others	5	6	(1)
Compensated Absences	509	493	16
Total Liabilities	<u>\$ 1,061</u>	<u>\$ 968</u>	<u>\$ 93</u>

The College's overall liabilities increased by \$93 thousand during the year which was primarily a result of increased personnel costs affecting accrued payroll and compensated absences. Employer contribution rates increased from 8.75% for fiscal year 2010 to 10.51% for fiscal year 2011 and include the employer's share of the employees' retirement, health care, disability and death benefits. In addition, the College also had a higher number of 9, 10, and 11-month employees prorating their salaries over a 12-month period for fiscal year 2011 as compared to the prior year. The increase can also be attributed to additional class offerings during the 2011 summer term as compared to 2010 summer, thus increasing the associated payroll payable and unearned revenue.



Total net assets increased by \$470 thousand during fiscal year 2011 as a result of both increased restricted and unrestricted net assets. Nonexpendable scholarships and fellowships increased by \$248 thousand during the year due to improved investment income during fiscal year 2011 and additions to permanent endowment income received during the year. Restricted expendable net assets decreased by \$209 thousand during the year due to the expenditure of restricted cash for the roof replacement project during fiscal year 2011. The restricted cash for this project was on hand at June 30, 2010. The greatest increase can be seen in the College's unrestricted net assets. The \$359 thousand increase is mainly attributed

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

to increased consumable supply inventory and increased unrestricted cash balances offset by increased accrued payroll liabilities. Unrestricted cash and cash equivalents increased \$351 thousand as a result of various energy and cost savings initiatives implemented during fiscal year 2011 and increased curriculum self supporting class offerings and associated receipts during the 2011 summer term.

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

Analysis of Operating Revenues (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Operating Revenues			
Student Tuition and Fees, Net	\$ 962	\$ 884	\$ 78
Sales and Services, Net	451	527	(76)
Other	4	2	2
Total Operating Revenues	<u>\$ 1,417</u>	<u>\$ 1,413</u>	<u>\$ 4</u>

Total operating revenues show an increase of approximately \$4 thousand from fiscal year 2010 which is mainly attributable to an increase of \$78 thousand in our student tuition and fees line caused by enrollment and tuition rate increases. The increased enrollment led to more sales in the bookstore which is the main revenue driver in the gross sales and services account; however, allowances for tuition discounting and uncollectible accounts caused net amounts to reflect a decrease from the prior year.

Analysis of Operating Expenses (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Operating Expenses			
Personal Services	\$ 11,404	\$ 11,265	\$ 139
Supplies and Materials	2,593	2,084	509
Services	862	855	7
Scholarships and Fellowships	3,341	3,401	(60)
Other	946	1,108	(162)
Total Operating Expenses	<u>\$ 19,146</u>	<u>\$ 18,713</u>	<u>\$ 433</u>

Operating expenses increased by approximately \$433 thousand from fiscal year 2010. Expenses related to personal services increased primarily as a result of higher employer contribution rates. Employer contribution rates increased from 8.75% for fiscal year 2010 to 10.51% for fiscal year 2011. The annual employer contribution amount to the State Health Plan also increased from \$4,527 per covered employee during fiscal year 2010 to \$4,929 for fiscal year 2011. Expenses for supplies and materials increased \$509 thousand. During fiscal year 2011, \$306 thousand was expensed to replace the roofs on two campus classroom buildings and \$114 thousand was expensed for various building improvements such as security camera upgrades. Instructional supply costs also increased by \$80 thousand due to increased enrollment and the associated need of increased instructional supplies. Scholarships and fellowships decreased slightly during the fiscal year because of the decreased allocations from State-supported scholarships and grants. Depreciation and utility expenses make up the other category which experienced a \$162 thousand decrease from the prior year. Utility

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

expenses decreased by \$26 thousand during 2011 which is mainly attributed to continued energy savings initiatives and projects on campus. Depreciation decreased by \$133 thousand due to disposal of capital assets during fiscal year 2011.

Analysis of Nonoperating Revenues and Expenses (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Nonoperating Revenues and Expenses			
State Aid	\$ 8,511	\$ 8,311	\$ 200
County Appropriations	1,944	1,945	(1)
State Capital Aid	685	472	213
County Capital Appropriations	190	160	30
Grants and Contracts	6,514	6,347	167
Additions to Endowments	81	45	36
Other	274	245	29
Total Nonoperating Revenues	<u>\$ 18,199</u>	<u>\$ 17,525</u>	<u>\$ 674</u>

Nonoperating and other revenues increased by approximately \$674 thousand from fiscal year 2010. Despite State budget cuts and a required State funding reversion, the College saw a \$200 thousand increase in State Aid primarily as a result of increased enrollment and increased personnel costs (employer contributions for retirement and medical). In fiscal year 2011, the College received \$165 thousand in equipment reserve funds in addition to our regular equipment allotment. The reserve funding is the significant cause of the \$213 thousand increase in State capital aid. Due to increased enrollment and higher Pell award amounts, grants and contracts increased by \$167 thousand from the prior year. Although the College received \$626 thousand more in federal Pell grant funding during the 2011 fiscal year as compared to the prior year, the College received approximately \$267 thousand less in 2011 from State supported scholarships and grants sources. Capital grants decreased by \$131 thousand from fiscal year 2010 mainly due to the \$200 thousand Golden Leaf grant received in 2010 for nursing simulation lab equipment.

Analysis of Capital Assets

Capital Assets (in thousands)

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Capital Assets			
Land	\$ 370	\$ 370	\$ 0
Construction in Progress	553	261	292
Buildings	11,386	11,703	(317)
Machinery and Equipment	2,072	1,958	114
General Infrastructure	978	994	(16)
Total Capital Assets	<u>\$ 15,359</u>	<u>\$ 15,286</u>	<u>\$ 73</u>

Capital Assets increased by \$73 thousand during fiscal year 2011. Costs associated with the construction of a new Allied Health and Nursing Building increased construction in progress by \$292 thousand. This building has an estimated completion date of May 2012. The remaining changes from fiscal year 2011 relate to the depreciation, purchase, and disposal of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Analysis of the Overall Financial Position

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

Future Financial Influences

The College's financial position continues to be affected by various funding issues. Beaufort County continues to provide strong financial support for the College; however, the overall budget provided for the college for fiscal year 2012 will remain comparable to the funding in 2011. The State's fiscal situation continues to provide uncertainty for the amount of State funding to be received by BCCC.

The College has been awarded federal grant funds from the U.S. Department of Labor as part of the NC Advanced Manufacturing Alliance consortium. In total, approximately \$18.8 million will be distributed to nine North Carolina community colleges to fund job training in fields ranging from biotechnology to health care and development programs aimed at helping unemployed workers. BCCC has requested \$2.2 million from the consortium.

The Beaufort County Board of County Commissioners voted in the spring of 2009 to seek a USDA loan in the amount of \$4.5 million and a \$500 thousand grant to assist with the construction of a new Allied Health and Nursing Building. Since this vote, Beaufort County, was awarded a \$2.5 million EDA grant for this project. Although the County continues to seek the USDA loan, it has not yet been awarded. The College has received \$200 thousand in Golden Leaf funding and has allocated \$300 thousand in College funding for the project. The College also continues to work on other funding sources for this construction project which is scheduled to be completed in May, 2012.

The U.S. Department of Education has modified the funding cycle for our Student Support Services (TRIO) grant and BCCC has been awarded the TRIO grant for a 5-year performance period. For fiscal year 2012 and the four following years of the performance period, the College has been awarded \$350 thousand annually for tutorial services along with academic, career, financial aid and personal counseling.

Community colleges are seeing record enrollment during these tough economic times. Studies continue to show that many high school graduates lean towards the more affordable education offered by community colleges versus the more expensive four-year universities. Increasing unemployment rates also continue to affect enrollment. The most recent figures have North Carolina's unemployment rate at 10.4 percent, compared to the national average of 9.1 percent.

Contacting the College's Financial Management

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

Beaufort County Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

Page 1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 555,445.09
Restricted Cash and Cash Equivalents	403,270.81
Short-Term Investments	34,065.01
Restricted Short-Term Investments	177,327.18
Receivables, Net (Note 4)	118,302.28
Inventories	325,468.99
	<hr/>
Total Current Assets	1,613,879.36
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	32,224.00
Restricted Due from Primary Government	90,000.00
Restricted Investments	1,445,195.14
Capital Assets - Nondepreciable (Note 5)	922,861.52
Capital Assets - Depreciable, Net (Note 5)	14,435,842.26
	<hr/>
Total Noncurrent Assets	16,926,122.92
	<hr/>
Total Assets	18,540,002.28
	<hr/>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	479,161.37
Unearned Revenue	67,743.97
Long-Term Liabilities - Current Portion (Note 7)	50,741.15
	<hr/>
Total Current Liabilities	597,646.49
	<hr/>
Noncurrent Liabilities:	
Funds Held for Others	4,739.89
Long-Term Liabilities (Note 7)	458,360.05
	<hr/>
Total Noncurrent Liabilities	463,099.94
	<hr/>
Total Liabilities	1,060,746.43
	<hr/>

NET ASSETS

Invested in Capital Assets	15,358,703.78
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,445,405.14
Expendable:	
Scholarships and Fellowships	209,976.16
Loans	1,530.61
Capital Projects	117,274.11
Restricted for Specific Programs	311,107.11
Other	37,265.24
	<hr/>
Unrestricted	(2,006.30)
	<hr/>
Total Net Assets	\$ 17,479,255.85
	<hr/> <hr/>

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

***Beaufort County Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2011***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 962,394.79
Sales and Services, Net (Note 8)	450,513.02
Other Operating Revenues	4,070.33
	<hr/>
Total Operating Revenues	1,416,978.14
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	11,404,387.88
Supplies and Materials	2,592,719.25
Services	861,511.31
Scholarships and Fellowships	3,341,216.49
Utilities	432,644.38
Depreciation	513,710.07
	<hr/>
Total Operating Expenses	19,146,189.38
	<hr/>
Operating Loss	(17,729,211.24)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	8,511,436.38
County Appropriations	1,944,245.00
Noncapital Grants - Student Financial Aid	5,184,772.52
Noncapital Grants	966,682.79
Noncapital Gifts	77,203.60
Investment Income, Net	229,000.50
Other Nonoperating Expenses	(32,373.67)
	<hr/>
Net Nonoperating Revenues	16,880,967.12
	<hr/>
Income Before Other Revenues	(848,244.12)
	<hr/>
State Capital Aid	684,952.02
County Capital Aid	190,000.00
Capital Grants	362,996.13
Additions to Endowments	81,025.00
	<hr/>
Increase in Net Assets	470,729.03
	<hr/>

NET ASSETS

Net Assets, July 1, 2010	<hr/>
Net Assets, June 30, 2011	\$ 17,479,255.85
	<hr/>

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

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,438,247.36
Payments to Employees and Fringe Benefits	(11,322,734.32)
Payments to Vendors and Suppliers	(3,987,260.55)
Payments for Scholarships and Fellowships	(3,341,216.49)
Other Receipts	8,290.89
	<hr/>
Net Cash Used by Operating Activities	(17,204,673.11)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,511,436.38
County Appropriations	1,944,245.00
Noncapital Grants - Student Financial Aid	5,220,046.16
Noncapital Grants Received	969,283.49
Noncapital Gifts and Endowments Received	158,228.60
William D. Ford Direct Lending Receipts	133,594.00
William D. Ford Direct Lending Disbursements	(136,612.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	16,800,221.63

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	684,952.02
County Capital Aid	190,000.00
Capital Grants Received	405,334.46
Proceeds from Sale of Capital Assets	2,833.80
Acquisition and Construction of Capital Assets	(628,873.44)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	654,246.84

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	24,966.68
Investment Income	53,102.22
Purchase of Investments and Related Fees	(150,801.73)
	<hr/>
Net Cash Used by Investing Activities	(72,732.83)

Net Increase in Cash and Cash Equivalents	177,062.53
Cash and Cash Equivalents, July 1, 2010	813,877.37
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 990,939.90

Beaufort County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (17,729,211.24)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	513,710.07
Miscellaneous Nonoperating Income	7,102.62
Changes in Assets and Liabilities:	
Receivables, Net	(4,750.70)
Inventories	(86,654.55)
Accounts Payable and Accrued Liabilities	52,293.89
Unearned Revenue	26,019.92
Funds Held for Others	1,188.27
Compensated Absences	15,628.61
Net Cash Used by Operating Activities	<u><u>\$ (17,204,673.11)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 555,445.09
Restricted Cash and Cash Equivalents	403,270.81
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>32,224.00</u>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 990,939.90</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 175,898.28
Loss on Disposal of Capital Assets	(39,476.29)

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

BEAUFORT COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Beaufort County Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

include amounts due from the federal government, State and local governments, 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, are valued at cost using the last invoice cost method. Merchandise for resale is valued at the lower of cost or market using the retail 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.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 15 to 50 years for buildings, and 5 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 for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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 bookstore sales. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, was \$1,325.00. The carrying amount of the College's deposits not with the State Treasurer was \$25,039.36, and the bank balance was \$19,024.47.

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, 2011, all of the College's bank balance was covered by federal depository insurance coverage.

- 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; specified bills of exchange; certain savings certificates; 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 of custodian.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$964,575.54, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. 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.osc.nc.gov/> and clicking on "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; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the Foundation's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation's investment policy recommends that the investment committee avoid bunching the maturity dates of its investments. Additionally, the policy sets defined limit amounts for the types of investments to be held.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Investments	
Investment Type	Fair Value	Investment Maturities (In Years) 1 to 5
	<u> </u>	<u> </u>
Debt Securities		
Mutual Bond Funds	\$ 291,968.35	\$ 291,968.35
		<u>\$ 291,968.35</u>
Other Securities		
Mutual Funds	1,363,198.83	
Other	<u>1,420.15</u>	
Total Investments	<u>\$ 1,656,587.33</u>	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation's investment policy lists authorized investment categories and defines quantity and limit amounts. The policy states that mutual fund shares must be registered with the SEC and its investments must be restricted to those that conform to regulation.

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

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	\$	1,325.00
Carrying Amount of Deposits with Private Financial Institutions		25,039.36
Investments in the Short-Term Investment Fund		964,575.54
Other Investments		<u>1,656,587.33</u>
Total Deposits and Investments	<u>\$</u>	<u>2,647,527.23</u>
Current:		
Cash and Cash Equivalents	\$	555,445.09
Restricted Cash and Cash Equivalents		403,270.81
Short-Term Investments		34,065.01
Restricted Short-Term Investments		177,327.18
Noncurrent:		
Restricted Cash and Cash Equivalents		32,224.00
Endowment Investments		<u>1,445,195.14</u>
Total	<u>\$</u>	<u>2,647,527.23</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the Foundation's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure.

Investment return of the Foundation's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the Foundation's endowment funds are based on an adopted spending policy which limits spending to 80% of the prior year interest earnings unless the donor has stipulated otherwise. At June 30, 2011, endowment net assets of \$177,327.18 were available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 108,962.22	\$ 33,811.59	\$ 75,150.63
Accounts	38,125.31		38,125.31
Intergovernmental	<u>5,026.34</u>		<u>5,026.34</u>
Total Current Receivables	<u>\$ 152,113.87</u>	<u>\$ 33,811.59</u>	<u>\$ 118,302.28</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, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 369,899.72	\$ 0.00	\$ 0.00	\$ 369,899.72
Construction in Progress	261,267.50	291,694.30		552,961.80
Total Capital Assets, Nondepreciable	<u>631,167.22</u>	<u>291,694.30</u>	<u>0.00</u>	<u>922,861.52</u>
Capital Assets, Depreciable:				
Buildings	17,131,247.86			17,131,247.86
Machinery and Equipment	3,687,428.86	337,179.14	167,435.45	3,857,172.55
General Infrastructure	1,386,577.93			1,386,577.93
Total Capital Assets, Depreciable	<u>22,205,254.65</u>	<u>337,179.14</u>	<u>167,435.45</u>	<u>22,374,998.34</u>
Less Accumulated Depreciation for:				
Buildings	5,428,560.14	316,441.80		5,745,001.94
Machinery and Equipment	1,729,109.43	181,550.21	125,125.36	1,785,534.28
General Infrastructure	392,901.80	15,718.06		408,619.86
Total Accumulated Depreciation	<u>7,550,571.37</u>	<u>513,710.07</u>	<u>125,125.36</u>	<u>7,939,156.08</u>
Total Capital Assets, Depreciable, Net	<u>14,654,683.28</u>	<u>(176,530.93)</u>	<u>42,310.09</u>	<u>14,435,842.26</u>
Capital Assets, Net	<u>\$ 15,285,850.50</u>	<u>\$ 115,163.37</u>	<u>\$ 42,310.09</u>	<u>\$ 15,358,703.78</u>

The capital asset schedule above includes construction in progress of \$552,961.80 that pertains to an Allied Health and Nursing Building currently in the construction phase. The College has entered into an agreement with Beaufort County whereas the College deeded approximately 4.33 acres to Beaufort County for the purpose of construction of the Allied Health and Nursing Building. In order for the County to obtain the financing needed to provide the resources to the College for this project, the College transferred title of the land to the County for use as collateral until the debt is satisfied. Upon completion of the Allied Health and Nursing Building, the College will lease the property from the County over the 20 year financing term at a rate yet to be determined.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 59,875.51
Accrued Payroll	418,757.46
Contract Retainage	225.00
Intergovernmental Payables	303.40
Total Accounts Payable and Accrued Liabilities	<u>\$ 479,161.37</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	\$ 493,472.59	\$ 423,481.82	\$ 407,853.21	\$ 509,101.20	\$ 50,741.15

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 2,442,593.62	\$ 0.00	\$ 1,478,304.22	\$ 1,894.61	\$ 962,394.79
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 1,127,187.73	\$ 5,307.13	\$ 731,174.32	\$ 202.89	390,503.39
Other	36,286.63				36,286.63
Sales and Services of Education and Related Activities	23,723.00				23,723.00
Total Sales and Services	\$ 1,187,197.36	\$ 5,307.13	\$ 731,174.32	\$ 202.89	\$ 450,513.02

NOTE 9 - 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	\$ 6,317,292.97	\$ 658,764.96	\$ 239,799.43	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,215,857.36
Academic Support	872,969.75	275,959.02	61,808.40				1,210,737.17
Student Services	1,175,214.37	37,873.78	46,575.68				1,259,663.83
Institutional Support	2,207,909.87	150,613.60	261,941.33				2,620,464.80
Operations and Maintenance of Plant	730,171.81	519,279.02	221,684.97		432,644.38		1,903,780.18
Student Financial Aid				3,341,216.49			3,341,216.49
Auxiliary Enterprises	100,829.11	950,228.87	29,701.50				1,080,759.48
Depreciation						513,710.07	513,710.07
Total Operating Expenses	\$ 11,404,387.88	\$ 2,592,719.25	\$ 861,511.31	\$ 3,341,216.49	\$ 432,644.38	\$ 513,710.07	\$ 19,146,189.38

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,175,399.69, of which \$7,774,558.41 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$383,285.73 and \$466,473.50, respectively.

Required employer contribution rates for the years ended June 30, 2010 and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$383,285.73, \$285,917.53, and \$264,741.88, 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.osc.nc.gov/> and clicking on "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$21,286.17 for the year ended June 30, 2011.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2011 were \$5,434.65. The voluntary contributions by employees amounted to \$216,531.09 for the year ended June 30, 2011.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$380,953.36, \$360,400.25, and \$323,084.12, 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.osc.nc.gov/> and clicking on "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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$40,427.70, \$41,646.25, and \$40,971.96, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Risk for 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected by losses from

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

employee dishonesty for employees paid by county and institutional funds by contracts with private insurance companies.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

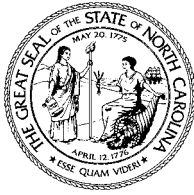
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchases were \$435,053.67 at June 30, 2011.

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Trustees
Beaufort County Community College
Washington, North Carolina

We have audited the financial statements of Beaufort County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 21, 2012. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Beaufort County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Beaufort County Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

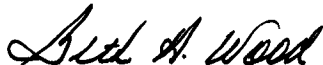
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

February 21, 2012

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State of North Carolina
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