STATE OF
NORTH CAROLINA

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, 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

BRUNSWICK COMMUNITY COLLEGE

SUPPLY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Brunswick Community College
Supply, North Carolina

We have audited the accompanying financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Brunswick Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity, are based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Brunswick Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

This section of Brunswick Community College's (College's) financial statements presents Management's Discussion and Analysis of the College's financial activities for the fiscal year ended June 30, 2011, with comparative data for fiscal year ended June 30, 2010. Information contained herein has been prepared for the purpose of identifying significant transactions, trends, and events that have impacted the fiscal health of the College and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Annual Report

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

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statements.

Financial Highlights

Statement of Net Assets

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

As summarized in the following table by major category, a comparison of net assets as of June 30, 2011 to that of the prior year yields several significant changes.

Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010 (as restated)	Increase (Decrease)	Percent Change
Current Assets	$ 1,510,667.77	$ 1,465,706.80	$ 44,960.97	3.07%
Noncurrent Assets:				
Other	748,003.78	859,552.97	(111,549.19)	-12.98%
Capital Assets, Net of Depreciation	43,419,780.42	44,034,323.72	(614,543.30)	-1.40%
Total Assets	45,678,451.97	46,359,583.49	(681,131.52)	-1.47%
Current Liabilities	470,727.50	436,205.12	34,522.38	7.91%
Noncurrent Liabilities	480,845.38	495,291.53	(14,446.15)	-2.92%
Total Liabilities	951,572.88	931,496.65	20,076.23	2.16%
Net Assets:				
Invested in Capital Assets	43,419,780.42	44,034,323.72	(614,543.30)	-1.40%
Restricted	1,140,460.94	1,146,887.48	(6,426.54)	-0.56%
Unrestricted	166,637.73	246,875.64	(80,237.91)	-32.50%
Total Net Assets	$ 44,726,879.09	$ 45,428,086.84	$ (701,207.75)	-1.54%

Total net assets decreased by $701,207.75, or 1.54% from the prior year's restated balance due to a combination of increases and decreases in assets and liabilities.

Total capital assets decreased by $614,543.30, or 1.40% from the prior year due to the net effect of annual depreciation expense somewhat offset by current year additions to depreciable assets and construction in progress. Additions to construction pertained to the renovations of the South Brunswick Islands and Southport Continuing Education Center properties. Other noncurrent assets decreased by $111,549.19, or 12.98% due to a decrease in receivables due from the county related to construction projects. This came as a result of overall decreased construction activity as compared to the prior year and the completion of the Student Center addition project.

The College's net assets are divided into three major categories. The first, invested in capital assets, represents the College's equity position with regards to property, facilities, and equipment. The second category, restricted, is restricted for expendable scholarships and fellowships, loans, capital projects, and other (such as student fees, special project grants, etc.). The final category, unrestricted, is available for any lawful purpose of the College. Unrestricted net assets decreased $80,237.91, or 32.5%, from the prior year due to the combined effect of a decrease in unrestricted cash and cash equivalents and an increase in accounts payable.

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities for the years ending June 30, 2011 and June 30, 2010.

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

	June 30, 2011	June 30, 2010 (as restated)	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 1,060,379.14	$ 850,584.72	$ 209,794.42	24.66%
Sales and Services	1,099,541.37	986,259.77	113,281.60	11.49%
Other Operating Revenues	46,511.98	39,386.30	7,125.68	18.09%
Total Operating Revenues	2,206,432.49	1,876,230.79	330,201.70	17.60%
Operating Expenses:				
Salaries and Benefits	12,572,392.81	11,267,341.74	1,305,051.07	11.58%
Supplies and Materials	1,553,151.30	1,422,196.93	130,954.37	9.21%
Services	1,888,514.36	1,677,429.20	211,085.16	12.58%
Scholarships and Fellowships	2,143,840.17	2,054,514.19	89,325.98	4.35%
Utilities	885,792.57	827,898.16	57,894.41	6.99%
Depreciation	1,128,446.02	930,903.22	197,542.80	21.22%
Total Operating Expenses	20,172,137.23	18,180,283.44	1,991,853.79	10.96%
Operating Loss	(17,965,704.74)	(16,304,052.65)	(1,661,652.09)	10.19%
Nonoperating Revenues:				
State Aid	8,786,462.25	7,811,881.70	974,580.55	12.48%
County Appropriations	3,394,057.63	3,434,897.74	(40,840.11)	-1.19%
Noncapital Grants - Federal Student Financial Aid	2,644,722.00	2,592,694.48	52,027.52	2.01%
Noncapital Grants	1,148,403.87	1,026,257.07	122,146.80	11.90%
Noncapital Gifts	194,099.72	114,132.06	79,967.66	70.07%
Investment Income	2,245.84	2,181.91	63.93	2.93%
Other Nonoperating Revenues	49,734.82	41,442.50	8,292.32	20.01%
Total Nonoperating Revenues	16,219,726.13	15,023,487.46	1,196,238.67	7.96%
Loss Before Other Revenues	(1,745,978.61)	(1,280,565.19)	(465,413.42)	36.34%
Other Revenues	1,044,770.86	4,464,610.08	(3,419,839.22)	-76.60%
Increase (Decrease) in Net Assets	(701,207.75)	3,184,044.89	(3,885,252.64)	-122.02%
Net Assets - Beginning of Year (Restated)	45,428,086.84	42,244,041.95	3,184,044.89	7.54%
Net Assets - End of Year	$ 44,726,879.09	$ 45,428,086.84	$ (701,207.75)	-1.54%

Student tuition and fees increased $209,794.42, or 24.66%, due to a $6.50 per credit hour in-state tuition increase, a $7.20 per credit hour out-of-state tuition increase, an enrollment increase of 12.52%. Sales and services revenue increased $113,281.60, or 11.49% due to increases in cafeteria sales of $33,490.04, Odell Williamson Auditorium revenue of $31,853.89, Early Childhood Education Center childcare revenue of $17,680.70, and bookstore contract revenue of $16,245.48.

Salaries and benefits increased $1,305,051.07, or 11.58%, due to several factors. There was a $266,784.18 increase in staffing costs of the Early Childhood Center, a $76,414.59 increase in staffing costs of the Dinah E. Gore Fitness and Aquatics Center, and a $20,000 increase for additional staffing to accommodate the new cafeteria in the Student Center Addition. The self-supporting summer school pay scale was realigned with tuition rate increases which resulted in a $34,700.76 increase in self-supporting summer school salaries. The increases to fringe benefit rates also contributed to the increase in salaries and benefits. The combined retirement and medical contribution rates increased from 8.75% to 10.51%, which equated to a $196,264.77 increase in contributions by the College. The hospitalization insurance cost increased from $377.22 in 2010 to $410.80 in 2011. This $33.58 increase equated to a $152,837.64 increase in hospitalization insurance costs to the College.

State aid increased by $974,580.55, or 12.48%, due to an increase in budgeted full time equivalents (FTEs) on which the allotment amount is based. Budgeted FTEs are based on the greater of the prior year actual or three-year average of the enrollment of the College, and enrollment has increased in each of the past three years. Other revenues (nonoperating) decreased $3,419,839.22, or 76.6%, due to a decrease in capital grants. Capital grant revenue decreased $3,646,598.56 due to the completion of the Student Center Addition and an overall reduction in construction activity on campus.

Capital Assets

At June 30, 2011 the College reported $52,173,634.43 in gross capital assets less $8,753,854.01 in accumulated depreciation, for net capital assets of $43,419,780.42. The College's net investment in land, construction in progress, buildings, machinery and equipment, and general infrastructure constitutes 97.08% of total net assets. These balances resulted from the net effect of capital additions of $513,902.72 and annual depreciation of $1,128,446.02.

The following schedule reports capital assets for the fiscal years 2011 and 2010, net of accumulated depreciation.

	June 30, 2011	June 30, 2010 (as restated)	Increase (Decrease)	% Change
Land	$ 1,358,228.70	$ 1,358,228.70	$ 0.00	0.00%
Construction in Progress	555,028.74	272,487.03	282,541.71	103.69%
Buildings, Net	37,671,121.08	38,449,485.72	(778,364.64)	-2.02%
Machinery and Equipment, Net	1,299,025.62	1,374,364.65	(75,339.03)	-5.48%
General Infrastructure, Net	2,536,376.28	2,579,757.62	(43,381.34)	-1.68%
Totals	$ 43,419,780.42	$ 44,034,323.72	$ (614,543.30)	-1.40%

Construction in progress increased $282,541.71, or 103.69%, due to current year additions to the South Brunswick Islands and Southport Continuing Education Center renovation projects.

Other Information

The FTEs that generate the College's state budget (budgeted FTEs) increased by 11.54% from the prior year. The College is funded based on actual FTEs earned during the prior fiscal year, or a three year average, whichever is greater.

	June 30, 2011	June 30, 2010	Increase/ (Decrease)
Curriculum	1,297	1,183	9.64%
Occupational Extension	329	279	17.92%
Basic Skills	259	228	13.60%
Total	1,885	1,690	11.54%

For the fiscal year ended June 30, 2011, the General Assembly enacted a $29 million management flexibility reduction to the state aid budget. The State Board of Community Colleges allocated the reduction pro-rata based on each college's estimated general fund appropriation. The College's portion of the management flexibility reduction was $350,221.

On December 17, 2010, the Office of State Budget and Management (OSBM) issued a directive to reduce general fund appropriations by 2.5%. As a result of this OSBM directive, each college was required to revert 2% of its estimated general fund appropriation back to the system office. The College reverted $184,869 of its operating budget, and the system office covered the remaining 0.5% on behalf of the colleges.

Construction Commitments

The College reported commitments on open construction contracts for general contractors in the amount of $162,452.08.

The Southport and South Brunswick Islands Continuing Education Centers will complete the building projects funded by a bond referendum in 2004. Both continuing education centers will enhance the College's learning facilities.

The Southport Center is expected to cost $1.4 million to renovate and will include computer labs, general purpose classrooms, and rooms dedicated to art and community space for receptions and meetings. The South Brunswick Islands Center building was purchased in March 2010 and will cost approximately $300,000 to renovate. Like the Southport Center, it will include computer labs, general purpose classrooms, and rooms dedicated to art and community space for receptions and meetings.

Bids were accepted for these projects during December 2010 and January 2011, and a contract was awarded for the South Brunswick Islands Center only. The South Brunswick Islands Center renovation project began during the first half of 2011 and is expected to be completed in the fall of 2011. The Southport Center renovation is currently on hold due to all bids coming in higher than the $1.4 million budget. The lowest bid was approximately $800,000 higher than the established budget.

Economic Factors and Next Year's Budget

The population for Brunswick County continues to increase and is projected to be 109,974 by the end of calendar year 2011. Brunswick County is now the second fastest growing county in North Carolina and the thirty-seventh fastest growing county in the United States. This growth is expected to continue, and has been estimated at 19.4% for the years 2011 to 2020. The Leland area has experienced significant growth due to the construction and annexation of multiple housing developments along the Highway 17 corridor. Since 2000, Leland's population has grown by 67.51%. The College's Leland campus is just outside the town limits and provides education and skill enhancement opportunities for new, expanding, and existing businesses in the Cape Fear region to promote future growth through educating the area's workforce.

The College's budgeted FTE increased 11.54% from the prior year which resulted in a formula allotment increase of $1,057,294. Based on fall 2011 and projected spring 2012 enrollment, an additional increase is expected in FY 2012 as well.

In light of the State's fiscal situation, a management flexibility reduction of $681,558 was required in September 2011, which represents an increase of $331,337 over the prior year's reduction. The College is holding $226,816 in reserve as a precaution in case the State's fiscal situation deteriorates further.

A tuition increase for 2011-2012 curriculum programs became effective July 1, 2011. In-state tuition rates increased from $56.50 per credit hour to $66.50 per credit hour. Out-of-state tuition rates increased from $248.50 per credit hour to $258.50 per credit hour. The maximum charge is still based on 16 credit hours. There was no tuition increase for continuing education occupational extension registration fees for 2011-2012. An additional tuition increase for 2012-2013 is planned to become effective July 1, 2012. In-state tuition rates will increase from $66.50 per credit hour to $69.00 per credit hour. Out-of-state tuition rates will increase from $258.50 per credit hour to $261.00 per credit hour.

The 2011-2012 budget enacted by the General Assembly eliminated the general fund appropriation for system office Graduate Equivalency Degree (GED) personnel and associated operating costs and shifted these costs to GED fee receipt support. This cost shift required an increase in the GED fee, which had not been changed since 1987. The GED testing fee increased from $7.50 to $25.00, effective July 1, 2011.

The 2011-2012 county appropriation is $3,538,906, which represents a $103,075, or 3%, increase from the prior year. These additional county funds will be used to support the addition of the South Brunswick Islands Center operations.

Locally, home sales and new home construction are at their lowest levels since the start of the recession and many people are attending college to retrain for a career change. Over the previous two fiscal years the Curriculum Program enrollment has increased by 9.64%, and the Occupational Extension enrollment increased 17.92%. The College has also experienced an increase in Basic Skills program enrollment as a result of the slowdown in the construction industry. The total number of students enrolled in the basic skills program grew by 13.60% over the previous two fiscal years.

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

Request for Information

This financial report is designed to provide a general overview of Brunswick Community College's finances for all those with an interest in the College's finances. Questions concerning any of this information should be addressed to Dr. Benjamin DeBlois, Vice President for Budget and Finance, Brunswick Community College, 50 College Road, Supply, NC 28462, (910) 755-7403.

Brunswick Community College
Statement of Net Assets
June 30, 2011 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 700,983.55
Restricted Cash and Cash Equivalents	498,298.69
Receivables, Net (Note 3)	251,101.02
Inventories	60,284.51
Total Current Assets	1,510,667.77
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	626,122.62
Receivables (Note 3)	103,361.16
Restricted Due from Primary Government	18,520.00
Capital Assets - Nondepreciable (Note 4)	1,913,257.44
Capital Assets - Depreciable, Net (Note 4)	41,506,522.98
Total Noncurrent Assets	44,167,784.20
Total Assets	45,678,451.97
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	306,920.69
Due to Primary Government	2,018.67
Unearned Revenue	82,863.73
Long-Term Liabilities - Current Portion (Note 6)	78,924.41
Total Current Liabilities	470,727.50
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	480,845.38
Total Noncurrent Liabilities	480,845.38
Total Liabilities	951,572.88
NET ASSETS	
Invested in Capital Assets	43,419,780.42
Restricted for:	
Expendable:	
Scholarships and Fellowships	215,423.15
Loans	92,674.39
Capital Projects	662,295.85
Other	170,067.55
Unrestricted	166,637.73
Total Net Assets	$ 44,726,879.09

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

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

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,060,379.14
Sales and Services		1,099,541.37
Other Operating Revenues		46,511.98
Total Operating Revenues		2,206,432.49
EXPENSES		
Operating Expenses:		
Salaries and Benefits		12,572,392.81
Supplies and Materials		1,553,151.30
Services		1,888,514.36
Scholarships and Fellowships		2,143,840.17
Utilities		885,792.57
Depreciation		1,128,446.02
Total Operating Expenses		20,172,137.23
Operating Loss		(17,965,704.74)
NONOPERATING REVENUES		
State Aid		8,786,462.25
County Appropriations		3,394,057.63
Noncapital Grants - Federal Student Financial Aid		2,644,722.00
Noncapital Grants		1,148,403.87
Noncapital Gifts		194,099.72
Investment Income		2,245.84
Other Nonoperating Revenues		49,734.82
Nonoperating Revenues		16,219,726.13
Loss Before Other Revenues		(1,745,978.61)
State Capital Aid		524,323.65
County Capital Aid		41,773.37
Capital Grants		478,673.84
Decrease in Net Assets		(701,207.75)
NET ASSETS		
Net Assets, July 1, 2010 as Restated (Note 15)		45,428,086.84
Net Assets, June 30, 2011	$	44,726,879.09

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

Brunswick Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,123,472.98
Payments to Employees and Fringe Benefits	(12,577,853.35)
Payments to Vendors and Suppliers	(4,156,347.80)
Payments for Scholarships and Fellowships	(2,192,147.80)
Other Receipts	79,926.25
Net Cash Used by Operating Activities	(16,722,949.72)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,786,462.25
County Appropriations	3,394,057.63
Noncapital Grants - Federal Student Financial Aid	2,644,722.00
Noncapital Grants Received	1,144,540.76
Noncapital Gifts	194,099.72
Cash Provided by Noncapital Financing Activities	16,163,882.36
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	524,323.65
County Capital Aid	168,188.89
Capital Grants Received	478,673.84
Acquisition and Construction of Capital Assets	(676,491.78)
Net Cash Provided by Capital and Related Financing Activities	494,694.60
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	2,245.84
Cash Provided by Investing Activities	2,245.84
Net Decrease in Cash and Cash Equivalents	(62,126.92)
Cash and Cash Equivalents, July 1, 2010	1,887,531.78
Cash and Cash Equivalents, June 30, 2011	$ 1,825,404.86

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(17,965,704.74)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,128,446.02
Miscellaneous Nonoperating Income		49,734.82
Changes in Assets and Liabilities:		
Receivables, Net		(107,257.01)
Inventories		(11,564.23)
Accounts Payable and Accrued Liabilities		178,300.45
Due to Primary Government		(603.01)
Unearned Revenue		7,936.74
Funds Held for Others		(1,755.44)
Compensated Absences		(483.32)
Net Cash Used by Operating Activities	$	(16,722,949.72)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	700,983.55
Restricted Cash and Cash Equivalents		498,298.69
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		626,122.62
Total Cash and Cash Equivalents - June 30, 2011	$	1,825,404.86

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	85,707.93

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

Brunswick Community College Foundation, Inc.
Statement of Financial Position
June 30, 2011 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	60,158
Investments		2,025,860
Receivables, Net		12,784
Note Receivable		431,433
Property and Equipment, Net		24,982
Total Assets		2,555,217
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Expenses		3,296
Notes Payable - Current Portion		4,244
Total Current Liabilties		7,540
Noncurrent Liabilities:		
Notes Payable - Noncurrent Portion		16,798
Total Noncurrent Liabilities		16,798
Total Liabilities		24,338
NET ASSETS		
Unrestricted		852,398
Temporarily Restricted		228,224
Permanently Restricted		1,450,257
Total Net Assets	$	2,530,879

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

Brunswick Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS	
Support and Revenues:	
Contributions	$ 969
Investment Income	72,576
In-kind Donations	221,247
Change in Market Value of Investments	54,689
Total Unrestricted Revenues and Gains	349,481
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	251,992
Total Net Assets Released from Restrictions	251,992
Total Unrestricted Revenues, Gains, and Other Support	601,473
Expenses and Losses:	
Program Expense	575,132
Administrative Expense	63,632
Fundraising Expense	24,287
Total Expenses	663,051
Loss on Sale of Land	20,130
Total Expenses and Losses	683,181
Decrease in Unrestricted Net Assets	(81,708)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Contributions	140,247
Investment Income	63,390
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(251,992)
Decrease in Temporarily Restricted Net Assets	(48,355)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Contributions	120,732
Increase in Permanently Restricted Net Assets	120,732
Decrease in Net Assets	(9,331)
Net Assets at Beginning of Year	2,540,210
Net Assets at End of Year	$ 2,530,879

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit - The Brunswick Community College Foundation, Inc. (the Foundation), is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 23 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

During the year ended June 30, 2011, the Foundation distributed $140,896.22 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Office, Brunswick Community College, PO Box 30, Supply, North Carolina 28462, or by calling (910) 755-7305.

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

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

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

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

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

The College capitalizes assets that have a value or cost 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 50 to 75 years for general infrastructure, 50 years for buildings, and 5 to 25 years for equipment.

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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, 2011 was $1,350.00. The carrying amount of the College's deposits not with the State Treasurer was $1,824,054.86, and the bank balance was $2,107,837.62.

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

B. Investments - Investments of the College's discretely presented component unit, the Brunswick Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment	Market Value
SEI:	
Fixed Income	$ 887,590
Cash & Equivalents	284,090
International Equities	162,870
Multistrategy Alternative Investments	67,134
Domestic Equities	216,870
Scott & Stringfellow:	
Fixed Income	318,395
Edward Jones:	
Corporate Bond	36,822
Hartford:	
Cash Surrender Value of Life Insurance Policy	52,089
Total Fair Market Value of Investments	$ 2,025,860

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 434,124.77	$ 229,418.32	$ 204,706.45
Intergovernmental	37,321.02		37,321.02
Other	9,073.55		9,073.55
Total Current Receivables	$ 480,519.34	$ 229,418.32	$ 251,101.02
Noncurrent Receivables:			
Intergovernmental	$ 103,361.16	$ 0.00	$ 103,361.16

NOTE 4 - 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	$ 1,358,228.70	$ 0.00	$ 0.00	$ 1,358,228.70
Construction in Progress	272,487.03	416,575.42	134,033.71	555,028.74
Total Capital Assets, Nondepreciable	1,630,715.73	416,575.42	134,033.71	1,913,257.44
Capital Assets, Depreciable:				
Buildings	44,960,382.30	122,683.25		45,083,065.55
Machinery and Equipment	2,309,547.73	97,327.30		2,406,875.03
General Infrastructure	2,759,085.95	11,350.46		2,770,436.41
Total Capital Assets, Depreciable	50,029,015.98	231,361.01		50,260,376.99
Less Accumulated Depreciation for:				
Buildings	6,510,896.58	901,047.89		7,411,944.47
Machinery and Equipment	935,183.08	172,666.33		1,107,849.41
General Infrastructure	179,328.33	54,731.80		234,060.13
Total Accumulated Depreciation	7,625,407.99	1,128,446.02		8,753,854.01
Total Capital Assets, Depreciable, Net	42,403,607.99	(897,085.01)		41,506,522.98
Capital Assets, Net	$ 44,034,323.72	$ (480,509.59)	$ 134,033.71	$ 43,419,780.42

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 177,351.14
Accrued Payroll	121,094.63
Contract Retainage	8,115.75
Intergovernmental Payables	359.17
Total Accounts Payable and Accrued Liabilities	$ 306,920.69

NOTE 6 - 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	$ 560,253.11	$ 563,865.87	$ 564,349.19	$ 559,769.79	$ 78,924.41

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 51,137.50
2013	51,137.50
2014	44,486.68
2015	35,688.67
2016	34,154.96
Total Minimum Lease Payments	$ 216,605.31

Rental expense for all operating leases during the year was $48,730.21.

NOTE 8 - FUTURE RENTAL REVENUES

Future minimum lease revenues under non-cancelable operating leases related to wireless broadband services are recorded when earned. Minimum future revenues under non-cancelable agreements treated as operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 15,618.00
2013	15,618.00
2014	15,618.00
2015	15,618.00
2016	15,618.00
Total Minimum Lease Revenues	$ 78,090.00

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

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,997,814.29	$ 877,228.20	$ 60,206.95	$ 1,060,379.14

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	$ 6,590,201.83	$ 1,014,703.96	$ 439,813.82	$ 0.00	$ 0.00	$ 0.00	$ 8,044,719.61
Academic Support	1,038,877.49	63,330.42	77,877.31				1,180,085.22
Student Services	747,420.67	27,801.96	154,955.39				930,178.02
Institutional Support	2,644,500.82	200,418.85	312,325.09				3,157,244.76
Operations and Maintenance of Plant	954,031.59	199,621.59	626,603.58		885,792.57		2,666,049.33
Student Financial Aid			1,492.41	2,143,840.17			2,145,332.58
Auxiliary Enterprises	597,360.41	47,274.52	275,446.76				920,081.69
Depreciation						1,128,446.02	1,128,446.02
Total Operating Expenses	$ 12,572,392.81	$ 1,553,151.30	$ 1,888,514.36	$ 2,143,840.17	$ 885,792.57	$ 1,128,446.02	$ 20,172,137.23

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, 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 $10,187,499.91, of which $7,699,127.72 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $379,567.00 and $461,947.66, 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 $379,567.00, $255,132.94, and $225,994.73, 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 "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 $150.00 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 $9,545.64. The voluntary contributions by employees amounted to $56,842.00 for the year ended June 30, 2011.

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 $40,755.00 for the year ended June 30, 2011.

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.

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 $377,257.26, $315,940.99, and $275,767.38, 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 "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 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 $40,035.46, $36,508.74, and $34,975.38, 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.

The risk of tort claims of up to $1,000,000 per claimant is 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 from employee dishonesty losses by contracts with private insurance companies paid with county and institutional funds.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a 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.

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

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

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $162,452.08 at June 30, 2011.

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2010, net assets as previously reported was restated as follows:

	Amount
July 1, 2010 Net Assets as Previously Reported	$ 45,341,670.17
Restatements:	
To Correct Capital Assets for Prior Audit Adjustments Not Posted	203,367.57
Correction of Prior Year Accounts Receivable Recorded in Error	(32,199.19)
Correction of Prior Year Accounts Payable Recorded in Error	(84,751.71)
July 1, 2010 Net Assets as Restated	$ 45,428,086.84

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

Board of Trustees
Brunswick Community College
Supply, North Carolina

We have audited the financial statements of Brunswick Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements 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 Brunswick Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Brunswick Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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.

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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. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies.

Compliance and Other Matters

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

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

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 21, 2012

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Significant aspects of all findings below were also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Misstatements noted during our audit included:

a. The College misclassified cash and cash equivalents. Current restricted cash was overstated by $626,123 and noncurrent restricted cash was understated by the same amount.

b. The depreciable capital assets account was overstated by $1,068,358. The College did not complete an accurate reconciliation of the capital assets subsidiary ledger to the general ledger to detect errors on the financial statements.

c. Multiple errors were noted in the accounts receivable account that caused it to be understated by a net of $59,101.

d. Errors were made when recording the reversing entry for the prior year allowance for doubtful accounts. The College credited fund balance instead of the revenue account causing the student tuition and fees revenue account to be understated by $93,859.

Significant aspects of this finding have been reported for at least three consecutive financial audits since fiscal year ended June 30, 2006.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy of the financial statements. The College should consider whether its accounting staff could benefit from additional training on financial reporting matters.

College Response: The College has made significant progress related to prior year audit findings. It is important to note that of the seventeen items (findings, misclassifications, deficiencies, mistakes) contained within the 6 audit findings in the 2009 audit report, thirteen, or 76%, were corrected and not repeated in the 2011 audit report. One other 2009 item, the reconciliation of the institutional funds bank account, was completed after the fiscal year end but before the conclusion of the audit. In total, fourteen, or 82.3%, of the 2009 items were eliminated before the conclusion of the current audit. It is also important to note that none of the current or previous audit items involved waste, fraud, inefficiency, misapplication of funds or missing cash or other assets any of which could have resulted in either a qualified or adverse audit opinion.

Of the seven misstatements in financial reporting identified in the 2008-2009 audit report, only one, item (a), was repeated for 2010-2011. Six, or 86%, of the previous misstatements were corrected by implementing a year-end checklist. Item (a) of the current audit is a misclassification of cash as current restricted rather than noncurrent restricted. The item is still correctly reported as cash. The appropriate classification will be emphasized on our year-end checklist for 2011-2012. Item (b) was on our 2010-2011 year-end checklist and was performed by two business office individuals. Unfortunately, both individuals used General Ledger data for comparison rather than comparing the General Ledger to the Subsidiary Journal. This item will be corrected in 2011-2012 by including it on our year-end checklist and by focusing special attention on its completion. Items (c) and (d) are new and will be added to our year-end checklist.

To ensure that errors in classification do not occur in the future, the college will engage the services of a consultant who is familiar with the College's accounting system and *Generally Accepted Accounting Principles*. This consultant will work with the College's controller to add a third level of review to our financial statements.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

In the prior audit we noted that the College did not assign information system access rights to ensure adequate segregation of duties and limit access to only employees who needed it to perform their job functions. This condition also existed for a substantial portion of the current audit year. Inappropriate system access increases the risk of an error or misappropriation occurring without detection.

We identified three employees who had system access rights that were broad and unnecessary for the duties they performed. Specifically, these employees had the ability to perform vendor maintenance, create purchase orders, print checks, and post journal entries. This access gave them the ability to create new employees, modify existing employees' pay, and process payroll. In addition, the access enabled them to modify student financial aid awards.

Management took action to address part of the issues noted above. During February 2011, management reduced the access rights of two employees; however, access rights for one employee remains broad and unnecessary for the duties performed.

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

College Response: New processes have been developed that make unlimited access to the College's information system unnecessary. In addition to removing two staff members unlimited access rights, the remaining staff member will not be permitted to create new employees, modify existing employee's pay, create vendors or modify student financial aid. The employee now has "read only" rights to these processes.

3. UNRECONCILED DIFFERENCES IN BANK RECONCILIATIONS

The College did not accurately reconcile its institutional funds bank account during the audit period. The bank reconciliations for its institutional funds were attempted monthly but contained significant unreconciled differences. As a result, there was an increased risk that error or fraud could go undetected.

The College hired a consultant to investigate the differences shown on the bank reconciliations. Based on the consultant's work, the June 30 cash balance reported on the financial statements was understated by $43,890.

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

Recommendation: The College should establish procedures to ensure that all bank accounts are reconciled completely, accurately, and timely.

College Response: The reconciliations were not done when they should have been done due to the institutional accountant's position being left vacant for several years. The College hired a retired employee in June 2010 catch up the reconciliations. Before retiring, this employee reconciled the College's local fund bank account and was an experienced accountant. After three months of work, this attempt ended in failure due to the complexity of the task.

On July 6, 2011, the College engaged the services of a retired community college business official who had trained other business officials in Datatel's financial applications. The consultant worked from July 6 until mid-October 2011 to reconcile the institutional funds bank account for the 2005-2006 to 2010-2011 time period. This final reconciliation fell within the time the 2010-2011 was being performed so the auditors reviewed it. In addition to catching the reconciliations up-to-date, the consultant trained the new institutional funds accountant on how to reconcile this complex account. The bank account has been reconciled by this trained accountant monthly from July 2011 to the current date.

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