

# STATE OF NORTH CAROLINA

**EDGECOMBE COMMUNITY COLLEGE**

**TARBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**EDGECOMBE COMMUNITY COLLEGE**

**TARBORO, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

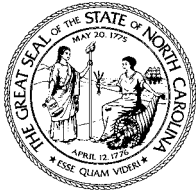
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Edgecombe Community College for the year ended June 30, 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 instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

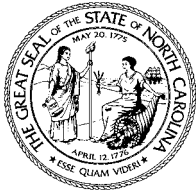
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Edgecombe Community College  
Tarboro, North Carolina

We have audited the accompanying financial statements of Edgecombe Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 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 Edgecombe Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditors.

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

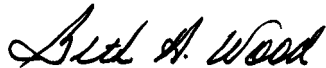
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Edgecombe Community College and its discretely presented component unit as of June 30, 2011, and the respective 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)

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

May 15, 2012

## **EDGECOMBE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The purpose of the Management's Discussion and Analysis is to provide an overview of the financial position and activities of Edgecombe Community College for the year ended June 30, 2011. The Management Discussion and Analysis section will:

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

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

### **Financial Highlights**

For the fiscal year ending 2011, the College experienced a slight increase in net assets. The majority of the \$655,728.03 increase is the result of the College experiencing higher enrollments during the fiscal year. Over the last three years the College has seen approximately a 50% increase in enrollment, thus being recognized as having one of the largest increases in the state.

### **Using the Annual Financial Report**

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

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

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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

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

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

### **Financial Analysis**

#### **Statement of Net Assets**

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

Current assets include cash and cash equivalents, receivables, inventories, and prepaid items. Current assets at June 30, 2011 increased 20.06% from the previous year. The majority of the increase was due to student tuition and fee increases, which impacted current cash and cash equivalents by \$493,303.44.

Noncurrent assets are comprised primarily of restricted cash and cash equivalents, restricted receivables from primary government, receivables from the State of North Carolina component units, and capital assets. Capital assets (land, construction in progress, buildings, general infrastructure, and equipment) are stated at historical cost less depreciation. Noncurrent assets had a 44.16% decrease at June 30, 2011. The majority of the decrease is due to a decrease of \$358,608.80 in the receivable due from the State for construction projects and a \$271,826 reduction in cash held for Edgecombe Community College Foundation, Inc. for proceeds received from an insurance policy that were reinvested during the current year.

Current liabilities are comprised of accounts payable, accrued payroll, due to primary government, unearned revenue, funds held for others, and the current portion of long-term liabilities. This area experienced a 38.86% decrease due to less invoices accrued in accounts payable (a decrease of \$169,488.15), a decrease in payroll accruals of \$53,576.72, and the \$271,826 reduction in funds held for Edgecombe Community College Foundation, Inc., as previously mentioned. Noncurrent liabilities consist of accrued vacation and bonus leave totaling \$915,272.76. The decrease in current liabilities, as mentioned, resulted in a 25.30% decrease in total liabilities.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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

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

Restricted net assets - expendable consist of resources in which the College is legally or contractually obligated to spend in accordance with restrictions by external parties. It consists of scholarships and fellowships, capital projects, and other expendable assets. The decrease in restricted expendable of 23.32% during the 2010-2011 fiscal year is primarily due to the fact that the College expended funds previously earmarked for capital projects including the planning for building the Industrial Trades Building on the Tarboro campus and the Allied Health Building on the Rocky Mount campus. In addition, net assets expendable for scholarships and fellowships decreased \$33,473.66 as a result of more students receiving Pell, which increased the scholarship discount amount.

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. The majority of the increase in the 2010-2011 fiscal year is due an increase in cash for tuition and fees based on increased student enrollment and increased tuition rates.

<b>Condensed Statement of Net Assets</b>				
	<b>FY 2010-2011</b>	<b>FY 2009-2010</b>	<b>Difference</b>	<b>% Difference</b>
<b>Assets</b>				
Current Assets	\$ 2,730,467.50	\$ 2,274,205.77	\$ 456,261.73	20.06%
Noncurrent Assets	951,607.50	1,704,136.88	(752,529.38)	(44.16%)
Capital Assets, Net	<u>18,678,968.79</u>	<u>18,321,454.60</u>	<u>357,514.19</u>	<u>1.95%</u>
Total Assets	<u>22,361,043.79</u>	<u>22,299,797.25</u>	<u>61,246.54</u>	<u>0.27%</u>
<b>Liabilities</b>				
Current Liabilities	840,337.83	1,374,428.52	(534,090.69)	(38.86%)
Noncurrent Liabilities	<u>915,272.76</u>	<u>975,663.56</u>	<u>(60,390.80)</u>	<u>(6.19%)</u>
Total Liabilities	<u>1,755,610.59</u>	<u>2,350,092.08</u>	<u>(594,481.49)</u>	<u>(25.30%)</u>
<b>Net Assets</b>				
Invested in Capital Assets	18,678,968.79	18,321,454.60	357,514.19	1.95%
Restricted for - Expendable	930,607.87	1,213,590.75	(282,982.88)	(23.32%)
Unrestricted	<u>995,856.54</u>	<u>414,659.82</u>	<u>581,196.72</u>	<u>140.16%</u>
Total Net Assets	<u>\$ 20,605,433.20</u>	<u>\$ 19,949,705.17</u>	<u>\$ 655,728.03</u>	<u>3.29%</u>

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

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represents the changes in total net assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

the College, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues include student tuition and fees, federal, state and local operating grants, revenue obtained from sales and services, and other operating revenues. There was an increase of 16.10% in tuition and fees due to an increase in tuition rates as well as an increase in student enrollment.

Federal grants and contracts decreased by 44.25% as a result of nonexchange transactions being reclassified from federal grants and contracts to noncapital grants.

The state and local grants and contracts include a subsidized employment program with The Benefit Bank of North Carolina's Neighbors Helping Neighbors program. This program began in June 2010 and ran through October 2010. The majority of the program occurred in the 2010-2011 fiscal year, resulting in a 306.25% increase from the prior fiscal year.

Sales and services experienced a decrease of 29.51% during fiscal year 2010-2011. Although the bookstore sales increased, the net decrease of \$172,628.62 is mainly due to the large increase in scholarship discounts as the result of more students receiving financial aid.

Other operating revenues had a 65.78% increase during the fiscal year. This increase is due to a payment made to Halifax Community College for \$11,760.17 in the prior fiscal year. This payment was for the Clearwire contractual lease agreement which reduces the College's operating lease revenues. A payment was not required to be made during the fiscal year 2010-2011.

<b>Operating Revenues</b>				
	<b>FY 2010-2011</b>	<b>FY 2009-2010</b>	<b>Difference</b>	<b>% Difference</b>
Operating Revenues				
Tuition and Fees, Net	\$ 1,015,483.81	\$ 874,694.78	\$ 140,789.03	16.10%
Federal Grants and Contracts	774,385.45	1,389,073.34	(614,687.89)	(44.25%)
State and Local Grants and Contracts	10,076.04	2,480.26	7,595.78	306.25%
Sales and Services, Net	412,434.23	585,062.85	(172,628.62)	(29.51%)
Other Operating Revenues	29,684.47	17,905.96	11,778.51	65.78%
Total Operating Revenues	\$ 2,242,064.00	\$ 2,869,217.19	\$ (627,153.19)	(21.86%)

Nonoperating revenues are revenues received for which goods and services are not provided. They include appropriations from state and local governments. Net nonoperating revenues increased by 15.67%. The largest portion of nonoperating revenue is state aid which consists of funds allotted from the North Carolina Board of Community Colleges for operations of the College. Revenues received from state government to support operations increased 22.16% while revenues from local governments increased 16.33%. The significant increase in state aid is the result of the higher enrollment figures the College has recorded. The College also received more appropriations from the county to support general expenses incurred.

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Noncapital grants for student financial aid increased by 8.36%. The majority of the increase is due to the huge increase in Pell Grant awards as the result of increased student enrollment, as previously discussed.

Other noncapital grants increased by \$341,786.12 or 40.52% due to correctly recording nonexchange transactions for fiscal year 2010-2011, as mentioned above.

A decrease in noncapital gifts is due mainly to the decrease in the General Scholarship Fund. A decrease in interest income occurred in the fiscal year due to a decrease in interest rates during fiscal year 2010-2011.

<b>Nonoperating Revenues (Expenses)</b>				
	<b>FY 2010-2011</b>	<b>FY 2009-2010</b>	<b>Difference</b>	<b>% Difference</b>
Nonoperating Revenues				
State Aid	\$ 12,055,573.19	\$ 9,868,656.60	\$ 2,186,916.59	22.16%
County Appropriations	1,424,690.09	1,224,710.08	199,980.01	16.33%
Noncapital Grants - Student Financial Aid	11,204,688.19	10,340,023.06	864,665.13	8.36%
Noncapital Grants	1,185,227.23	843,441.11	341,786.12	40.52%
Noncapital Gifts	135,995.00	203,228.00	(67,233.00)	(33.08%)
Interest Income	11,504.52	19,680.93	(8,176.41)	(41.54%)
Other Nonoperating Expenses		(6,446.57)	6,446.57	(100.00%)
Net Nonoperating Revenues	<u>\$ 26,017,678.22</u>	<u>\$ 22,493,293.21</u>	<u>\$ 3,524,385.01</u>	<u>15.67%</u>

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities. These revenues are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Assets. State capital aid increased 85.84% primarily due to increased equipment expenditures and the fact that there were no spending restrictions in place. County capital aid increased 1,011.10% from prior fiscal year because the county was able to award more money to the College and the College had little construction activity during the 2011 fiscal year. There was a 100% decrease in capital grants due to Golden Leaf grants of \$2,000 recognized in prior year which are still being used in fiscal year 2010-2011.

<b>Capital Revenues</b>				
	<b>FY 2010-2011</b>	<b>FY 2009-2010</b>	<b>Difference</b>	<b>% Difference</b>
State Capital Aid	\$ 1,147,919.57	\$ 617,701.24	\$ 530,218.33	85.84%
County Capital Aid	100,000.08	9,000.08	91,000.00	1011.10%
Capital Grants		2,000.00	(2,000.00)	(100.00%)
Total Capital Revenues	<u>\$ 1,247,919.65</u>	<u>\$ 628,701.32</u>	<u>\$ 619,218.33</u>	<u>98.49%</u>

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)**

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Salaries and benefits and supplies and materials both experienced an increase of 10.18% and 31.86%, respectively. These increases were due to the need for additional supplies and materials and new employees after a record enrollment year.

The scholarships and fellowships expense account had a slight decrease of 6.47% during the year. This account includes expenses associated with student loans and scholarships awarded to students. Gross scholarships and fellowships increased from prior fiscal year; however, due to the large increase in scholarship discounts as a result of more students receiving financial aid, total scholarships and fellowships net of discounts decreased \$393,966.16.

While the overall operating expenses reflect a slight increase of 8.99% from prior fiscal year, the College operated conservatively considering the record enrollment numbers.

**Operating Expenses**

	<b>FY 2010-2011</b>	<b>FY 2009-2010</b>	<b>Difference</b>	<b>% Difference</b>
Operating Expenses				
Salaries and Benefits	\$ 15,271,401.15	\$ 13,859,916.99	\$ 1,411,484.16	10.18%
Supplies and Materials	4,407,810.01	3,342,738.37	1,065,071.64	31.86%
Services	2,359,832.20	2,159,497.17	200,335.03	9.28%
Scholarships and Fellowships	5,693,226.27	6,087,192.43	(393,966.16)	(6.47%)
Utilities	525,433.86	493,271.57	32,162.29	6.52%
Depreciation	594,230.35	528,618.07	65,612.28	12.41%
Total Operating Expenses	<u>\$ 28,851,933.84</u>	<u>\$ 26,471,234.60</u>	<u>\$ 2,380,699.24</u>	<u>8.99%</u>

**Economic Forecast**

Economic recovery in Edgecombe County, like a majority of counties in North Carolina, appears to have stalled. The county’s unemployment rate remains among the highest in North Carolina. According to the State’s Employment Security Commission, Edgecombe County’s unemployment rate in June 2011 was 15.5%, the second highest rate in the state. Edgecombe County’s rate a year ago was 16%. According to the *Daily Southerner*, Edgecombe County has a labor force of 23,884, and 3,700 are unemployed.

Training the unemployed and underemployed and retraining displaced workers will remain a primary focus of the College’s programs and offerings for the foreseeable future. New courses and programs designed to strengthen the employability of the College began in Fall 2011.

The College is developing an engineering transition program with East Carolina University (ECU). Students complete the College’s two-year pre-engineering degree program and then transfer to engineering at ECU for their junior and senior years.

On the heels of a successful community theatre program in continuing education, the College is adding an associate in fine arts degree in theatre arts.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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Automotive Body Repair has been renamed Collision Repair and Refinishing Technology. The current one-year diploma program is expanding to a two-year degree program. The College is also expanding its auto body facility with the construction of a new 12,000 square-foot Industrial Trades Building on the Tarboro campus.

Current programs in radiography and CT/MRI and a new program in mammography are merging to form a new Department of Imaging. Mammography is a radiography specialty that is being added to give students an opportunity to receive an extra certification.

A new option for Associate Degree in Nursing (ADN) students is a transition program that leads to the Bachelor of Science in Nursing (BSN) at ECU. Students spend their first three years at the College completing general education courses and the two-year degree program in nursing. If students complete ECU admission requirements and are accepted into the program, they can complete the BSN in a year if they attend full time.

The College is introducing a certificate in geospatial technology program, which focuses on Geographic Information System (GIS) and Global Positioning System (GPS) technologies. Applications include municipal, industrial, and natural resources management.

Beginning in the Spring 2012 semester, the College became one of three community colleges in the state to offer barbering. Other programs are at Central Carolina and Roanoke-Chowan community colleges.

***Edgecombe Community College***  
***Statement of Net Assets***  
***June 30, 2011***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,180,714.95
Restricted Cash and Cash Equivalents	324,260.36
Receivables, Net (Note 3)	677,662.20
Due from State of North Carolina Component Units	29,000.00
Inventories	410,143.33
Prepaid Items	108,686.66
	<hr/>
Total Current Assets	2,730,467.50

Noncurrent Assets:

Restricted Cash and Cash Equivalents	171,450.99
Restricted Due from Primary Government	4,637.20
Restricted Due from State of North Carolina Component Units	775,519.31
Capital Assets - Nondepreciable (Note 4)	1,530,801.57
Capital Assets - Depreciable, Net (Note 4)	17,148,167.22
	<hr/>
Total Noncurrent Assets	19,630,576.29

Total Assets	<hr/> <hr/> 22,361,043.79
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	410,092.40
Due to Primary Government	802.20
Unearned Revenue	198,032.43
Funds Held for Others	72,022.03
Long-Term Liabilities - Current Portion (Note 6)	159,388.77
	<hr/>
Total Current Liabilities	840,337.83

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	915,272.76
	<hr/>

Total Liabilities	1,755,610.59
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**NET ASSETS**

Invested in Capital Assets	18,678,968.79
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Restricted for:

Expendable:

Scholarships and Fellowships	10,293.72
Capital Projects	666,738.61
Other	253,575.54

Unrestricted	<hr/> 995,856.54
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Total Net Assets	<hr/> <hr/> \$ 20,605,433.20
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The accompanying notes to the financial statements are an integral part of this statement.

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

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,015,483.81
Federal Grants and Contracts	774,385.45
State and Local Grants and Contracts	10,076.04
Sales and Services, Net (Note 9)	412,434.23
Other Operating Revenues	29,684.47
	<hr/>
Total Operating Revenues	2,242,064.00

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	15,271,401.15
Supplies and Materials	4,407,810.01
Services	2,359,832.20
Scholarships and Fellowships	5,693,226.27
Utilities	525,433.86
Depreciation	594,230.35
	<hr/>
Total Operating Expenses	28,851,933.84
	<hr/>
Operating Loss	(26,609,869.84)

**NONOPERATING REVENUES**

State Aid	12,055,573.19
County Appropriations	1,424,690.09
Noncapital Grants - Student Financial Aid	11,204,688.19
Noncapital Grants	1,185,227.23
Noncapital Gifts	135,995.00
Interest Income	11,504.52
	<hr/>
Total Nonoperating Revenues	26,017,678.22
	<hr/>
Loss Before Other Revenues	(592,191.62)
	<hr/>
State Capital Aid	1,147,919.57
County Capital Aid	100,000.08
	<hr/>
Increase in Net Assets	655,728.03

**NET ASSETS**

Net Assets, July 1, 2010	<hr/>
	19,949,705.17
Net Assets, June 30, 2011	<hr/>
	\$ 20,605,433.20

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

***Edgecombe Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2011***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,207,350.45
Payments to Employees and Fringe Benefits	(15,367,300.32)
Payments to Vendors and Suppliers	(7,527,688.16)
Payments for Scholarships and Fellowships	(5,693,226.27)
Other Payments	(278,701.86)
	<u>(278,701.86)</u>
Net Cash Used by Operating Activities	<u>(26,659,566.16)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	12,055,573.19
County Appropriations	1,424,690.09
Noncapital Grants - Student Financial Aid	11,202,013.50
Noncapital Grants Received	1,241,187.14
Noncapital Gifts Received	135,995.00
	<u>135,995.00</u>
Cash Provided by Noncapital Financing Activities	<u>26,059,458.92</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,506,528.37
County Capital Aid	100,000.08
Capital Grants Received	224,480.69
Proceeds from Sale of Capital Assets	1,452.54
Acquisition and Construction of Capital Assets	(953,197.08)
Interest Paid on Capital Debt and Leases	(2,741.25)
	<u>(2,741.25)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>876,523.35</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>11,504.52</u>
Net Increase in Cash and Cash Equivalents	287,920.63
Cash and Cash Equivalents, July 1, 2010	<u>1,388,505.67</u>
Cash and Cash Equivalents, June 30, 2011	<u>\$ 1,676,426.30</u>



***Edgecombe 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	\$ (26,609,869.84)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	594,230.35
Changes in Assets and Liabilities:	
Receivables, Net	12,675.12
Inventories	(25,535.78)
Prepaid Items	(39,325.77)
Accounts Payable and Accrued Liabilities	(223,064.87)
Due to Primary Government	(262.39)
Unearned Revenue	(47,388.67)
Funds Held for Others	(278,701.86)
Compensated Absences	(42,322.45)
Net Cash Used by Operating Activities	<u>\$ (26,659,566.16)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,180,714.95
Restricted Cash and Cash Equivalents	324,260.36
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>171,450.99</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 1,676,426.30</u>

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

***Edgecombe Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2011***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	8,736
Investments		1,623,919
Long-Term Investments		771,826
		<hr/>
Total Assets		2,404,481
		<hr/>

**NET ASSETS**

Unrestricted		1,168,707
Temporarily Restricted		193,936
Permanently Restricted		1,041,838
		<hr/>
Total Net Assets	\$	2,404,481
		<hr/> <hr/>

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

***Edgecombe Community College Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2011***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:	
Contributions	\$ 10,844
Income on Long-Term Investments	301,481
Fund Raising Projects	84,164
	<hr/>
Total Unrestricted Revenues and Gains	396,489
	<hr/>
Expenses:	
Grants/Scholarships	101,976
Program Expenses	19,568
Management and General	6,478
Fund Raising	32,245
	<hr/>
Total Expenses	160,267
	<hr/>
Increase in Unrestricted Net Assets	236,222
	<hr/>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	36,620
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	34,144
	<hr/>
Increase in Net Assets	306,986
Net Assets at Beginning of Year	2,097,495
	<hr/>
Net Assets at End of Year	\$ 2,404,481
	<hr/> <hr/>

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

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**EDGECOMBE COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation's board consists of 31 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$115,000.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from The Foundation Office, Edgecombe Community College, 2009 West Wilson Street, Tarboro, NC 27886.

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

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the Short-Term Investment Fund. The Short-Term Investment Fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 last invoice cost 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. 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 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- 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. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$610.00 and deposits in private financial institutions with a carrying value of \$5,000.07 and a bank balance of \$371,911.05.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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; 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.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,670,816.23, 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 976,014.71	\$ 0.00	\$ 0.00	\$ 976,014.71
Construction in Progress	230,126.15	324,660.71		554,786.86
<b>Total Capital Assets, Nondepreciable</b>	<b>1,206,140.86</b>	<b>324,660.71</b>		<b>1,530,801.57</b>
Capital Assets, Depreciable:				
Buildings	19,941,261.25			19,941,261.25
Machinery and Equipment	1,932,745.95	628,536.37	80,552.99	2,480,729.33
General Infrastructure	658,198.53			658,198.53
<b>Total Capital Assets, Depreciable</b>	<b>22,532,205.73</b>	<b>628,536.37</b>	<b>80,552.99</b>	<b>23,080,189.11</b>
Less Accumulated Depreciation for:				
Buildings	4,535,630.89	398,825.16		4,934,456.05
Machinery and Equipment	671,306.03	182,241.19	79,100.45	774,446.77
General Infrastructure	209,955.07	13,164.00		223,119.07
<b>Total Accumulated Depreciation</b>	<b>5,416,891.99</b>	<b>594,230.35</b>	<b>79,100.45</b>	<b>5,932,021.89</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>17,115,313.74</b>	<b>34,306.02</b>	<b>1,452.54</b>	<b>17,148,167.22</b>
<b>Capital Assets, Net</b>	<b>\$ 18,321,454.60</b>	<b>\$ 358,966.73</b>	<b>\$ 1,452.54</b>	<b>\$ 18,678,968.79</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 271,958.72
Accrued Payroll	130,584.48
Other	7,549.20
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 410,092.40</b>

### 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	\$ 1,116,983.98	\$ 56,732.41	\$ 99,054.86	\$ 1,074,661.53	\$ 159,388.77

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASE OBLIGATIONS

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

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 73,642.00
2013	69,023.00
2014	30,692.00
2015	12,852.00
2016	12,202.00
2017-2021	421.00
Total Minimum Lease Payments	<u>\$ 198,832.00</u>

Rental expense for all operating leases during the year was \$67,935.00.

### NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenues under the noncancelable operating lease related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2011:

<u>Fiscal Year</u>	<u>Amount</u>
2012	\$ 9,897.51
2013	9,897.51
2014	9,897.51
2015	9,897.51
2016	9,897.51
2017-2021	49,487.55
2022-2026	49,487.55
2027-2031	49,487.55
2032-2036	49,487.55
Total Minimum Lease Revenues	<u>\$ 247,437.75</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,628,152.51	\$ 3,568,199.25	\$ 44,469.45	\$ 1,015,483.81
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 2,589,262.20	\$ 2,215,974.68	\$ 73,199.64	\$ 300,087.88
Other	69,354.12			69,354.12
Sales and Services of Education and Related Activities	42,992.23			42,992.23
<b>Total Sales and Services</b>	<b>\$ 2,701,608.55</b>	<b>\$ 2,215,974.68</b>	<b>\$ 73,199.64</b>	<b>\$ 412,434.23</b>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,129,120.70	\$ 1,501,109.87	\$ 433,004.61	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,063,235.18
Public Service	7,707.76						7,707.76
Academic Support	1,769,426.76	85,604.90	119,508.01				1,974,539.67
Student Services	1,764,290.22	30,514.97	495,049.55	39,245.00			2,329,099.74
Institutional Support	2,125,608.34	387,959.62	526,683.12				3,040,251.08
Operations and Maintenance of Plant	410,162.35		289,023.38		525,433.86		1,224,619.59
Student Financial Aid			445,855.28	5,653,981.27			6,099,836.55
Auxiliary Enterprises	65,085.02	2,402,620.65	50,708.25				2,518,413.92
Depreciation						594,230.35	594,230.35
<b>Total Operating Expenses</b>	<b>\$ 15,271,401.15</b>	<b>\$ 4,407,810.01</b>	<b>\$ 2,359,832.20</b>	<b>\$ 5,693,226.27</b>	<b>\$ 525,433.86</b>	<b>\$ 594,230.35</b>	<b>\$ 28,851,933.84</b>

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$12,512,513.52, of which \$10,181,353.15 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$501,940.71 and \$610,881.19, 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 \$501,940.71, \$349,763.00, and \$329,755.83, 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 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 \$26,000.00 for the year ended June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$231,272.00 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 \$54,120.00 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$498,886.30, \$440,877.74, and \$402,380.62, 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 \$52,943.04, \$50,945.87, and \$51,033.64, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 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. The Fund is financed by premiums and interest and retains the risk for the \$10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10,000,000 deductible. Property is covered under an all risk coverage contract. Buildings 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 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. The North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 14 - COMMITMENTS AND CONTINGENCIES

- A. 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 \$117,360.00 and on other purchases were \$461,103.00 at June 30, 2011.
- B. Pending Litigation and Claims** - In February 2011, the Department of Education conducted an on-site review of the College's administration of programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended. Findings included financial aid being awarded to students in ineligible programs and to students who did not meet Satisfactory Academic Progress Standards. The College received notification on February 24, 2012 that, as a result of these findings, the College will have to repay \$1.9 million to the Department of Education. The College filed an appeal with the Department of Education on April 12, 2012.

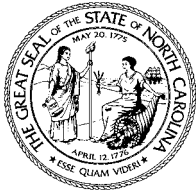
### NOTE 15 - RELATED PARTY

The Edgecombe Community College Educational Projects Foundation, Inc. (Educational Projects Foundation) is a separately incorporated nonprofit foundation associated with the College. The purpose of the Educational

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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Projects Foundation is to assist, strengthen, and further the work and services of the College by providing training and consulting services and by engaging in entrepreneurial initiatives in collaboration with the College. The purpose of the Educational Projects Foundation is not to provide scholarships, which is one of the purposes of the Edgecombe Community College Foundation, Inc. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Educational Projects Foundation. The Educational Projects Foundation did not provide any financial support to the College during the year ended June 30, 2011.



**Beth A. Wood, CPA**  
State Auditor

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

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Board of Trustees  
Edgecombe Community College  
Tarboro, North Carolina

We have audited the financial statements of Edgecombe Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 15, 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 the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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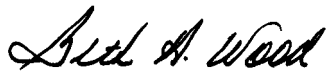
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the finding in the Audit Findings and Responses section of this report.

The College's response to the finding identified in our audit is 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

May 15, 2012

## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting**

The following audit finding was identified during the current audit and describes conditions that represent noncompliance with laws, regulations, contracts, grant agreements, or other matters.

#### FEDERAL AID IMPROPERLY AWARDED

The College did not have adequate procedures in place to ensure that students receiving federal financial assistance were eligible for the aid. As a result, the U.S. Department of Education has questioned approximately \$1.9 million in costs charged to federal programs.

The U.S. Department of Education conducted a program review during the spring of 2011 and noted the following:

- The College awarded aid to students enrolled in programs that had not been approved by the U.S. Department of Education. According to the Final Program Review Determination (FPRD) received by the College on February 24, 2012, the College failed to include 24 Diploma Option and Stand-Alone programs on the Eligibility Certification Approval Report (ECAR). The ECAR contains the information that forms a basis for program approval. In addition, the College awarded federal financial assistance to students in ineligible Certificate programs.
- The FPRD also indicates that the College did not consistently apply its satisfactory academic progress policy to all students receiving federal financial assistance. During our audit period, 46 students were awarded a total of \$101,853 in federal aid that did not meet the minimum grade-point average.

The College filed an appeal with the U.S. Department of Education on April 12, 2012 seeking relief from having to pay back the questioned costs.

*Recommendation:* The College should design and implement procedures to ensure that required approvals have been received for all programs. The College should also ensure that it is adhering to its satisfactory academic progress policy for all students receiving financial assistance.

*College's Response:* Thank you for your assistance and your staff's assistance with the completion of the financial audit at Edgecombe Community College for the year ending June 30, 2011. This letter responds to the audit finding and recommendation that was identified during our exit conference on May 30, 2012. The College concurs with the recommendation that reads as follows: "The College should design and implement procedures to ensure that required approvals have been received for all programs. The College should also ensure that it is adhering to its satisfactory academic progress policy for all students receiving financial assistance."

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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Procedures have been implemented to ensure that new programs or changes to existing programs that require SACS approval be forwarded to the Director of Financial Aid. The Director of Financial Aid will ensure that the U.S. Department of Education approves all programs and that those programs are included on the Eligibility Certification Approval Report (ECAR) prior to awarding any federal financial aid. The College has also hired a part-time Internal Controls Auditor that will conduct random sampling to test student eligibility on an ongoing basis.

The College has rewritten the Satisfactory Academic Progress (SAP) policy to ensure compliance with federal guidelines. Students are evaluated at the end of each term and issued an appropriate SAP letter if they are not compliant. Those not found to be eligible are terminated and given a chance to appeal based on the new SAP policy. The Internal Controls Auditor will also be reviewing student compliance with the policy.



## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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