



# STATE OF NORTH CAROLINA

**NASH COMMUNITY COLLEGE**

**ROCKY MOUNT, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

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

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**NASH COMMUNITY COLLEGE**

**ROCKY MOUNT, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

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

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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

**BOARD OF TRUSTEES**

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**ADMINISTRATIVE OFFICERS**

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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, Nash Community College

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

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

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

A handwritten signature in black ink 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  
Nash Community College  
Rocky Mount, North Carolina

We have audited the accompanying financial statements of Nash 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 Nash 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 Nash Community College Foundation, Inc., 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 Nash 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 Nash 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.

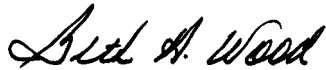
In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2012 on our consideration of the College's internal control over financial

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 10, 2012

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

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This section of Nash Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ending June 30, 2011 and June 30, 2010. This Management's Discussion and Analysis focuses on current activities, resulting changes, and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

**Using This Annual Report**

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

**Financial Highlights**

**Statement of Net Assets**

The Statement of Net Assets provides information regarding the College's assets, liabilities, and net assets as of June 30, 2011.

<b>Condensed Financial Statements</b>			
<b>Statement of Net Assets</b>			
	<b>2011</b>	<b>2010 (as restated)</b>	<b>Increase/ (Decrease)</b>
<b>Assets:</b>			
Current Assets	\$ 2,321,260.40	\$ 2,755,533.01	\$ (434,272.61)
Noncurrent Assets:			
Other Noncurrent Assets	1,367,587.57	3,291,707.89	(1,924,120.32)
Capital Assets	18,067,661.14	17,545,558.76	522,102.38
Total Assets	21,756,509.11	23,592,799.66	(1,836,290.55)
<b>Liabilities:</b>			
Current Liabilities	804,758.69	897,098.52	(92,339.83)
Noncurrent Liabilities	1,337,492.53	1,290,861.26	46,631.27
Total Liabilities	2,142,251.22	2,187,959.78	(45,708.56)
<b>Net Assets:</b>			
Invested in Capital Assets	18,067,661.14	17,545,558.76	522,102.38
Restricted	2,021,943.65	3,876,147.32	(1,854,203.67)
Unrestricted	(475,346.90)	(16,866.20)	(458,480.70)
Total Net Assets	\$ 19,614,257.89	\$ 21,404,839.88	\$ (1,790,581.99)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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As of June 30, 2011, the College's net assets were \$19.6 million; a decrease of \$1.8 million from June 30, 2010. This decrease is due to the return of \$2.3 million in endowment funds to the Nash Community College Foundation. Total net assets as of June 30, 2011 consist of investment in capital assets (92.1%) and restricted (10.3%). Unrestricted net assets were (\$475,346.90) due primarily to \$1.5 million liability for unpaid leave benefits.

The total assets recorded by the College as of June 30, 2011 were \$21.8 million. Current assets decreased by \$434 thousand due to a decrease in cash and cash equivalents. County cash decreased by \$121 thousand due to increased spending related to the Cosmetology Department renovation. The cash balance for the campus bookstore decreased by approximately \$189 thousand. During 2011, the College paid for the majority of the bookstore purchases in June 2011 decreasing cash and the amounts needing to be accrued. Additionally, the cash balance related to the Nash General Hospital funds decreased by \$112 thousand. The Nash General Hospital Funds were used towards repairs and renovations as well as the installation of the campus marquis.

As of June 30, 2011, the College had recorded \$26.3 million in depreciable capital assets, \$10.6 million in accumulated depreciation and \$18.1 million in net capital assets. These balances resulted from capital additions of \$858 thousand, reductions of \$75 thousand, and annual depreciation of \$740 thousand. Noncurrent assets decreased \$1.4 million as a result of the return of \$2.3 million in endowment funds to the Nash Community College Foundation.

In noncurrent liabilities, long-term liabilities are compensated absences, consisting of accumulated vacation and bonus leave that will not be paid within the next fiscal year. Current liabilities decreased by \$92 thousand due to a decrease in the accrued accounts payable for the Bookstore. The total liabilities recorded by the College at June 30, 2011 were \$2.1 million. Current liabilities totaling \$805 thousand included \$155 thousand as the current portion of accrued leave, \$206 thousand in accrued payroll, and \$197 thousand in accounts payable.



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

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

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

Statement of Revenues, Expenses, and Changes in Net Assets			
	<u>2011</u>	<u>2010</u> <u>(as restated)</u>	<u>Increase/ (Decrease)</u>
<b>Operating Revenues and Expenses:</b>			
Total Operating Revenues	\$ 3,980,504.26	\$ 4,868,251.47	\$ (887,747.21)
Less Operating Expenses	<u>25,709,589.18</u>	<u>24,310,550.42</u>	<u>1,399,038.76</u>
Operating Loss	<u>(21,729,084.92)</u>	<u>(19,442,298.95)</u>	<u>(2,286,785.97)</u>
<b>Nonoperating Revenues (Expenses):</b>			
State Aid	11,313,584.87	10,556,280.88	757,303.99
County Appropriations	1,675,180.00	1,675,180.00	
Noncapital Grants - Federal Student Financial Aid	5,841,403.85	5,061,307.61	780,096.24
Noncapital Grants	546,309.06	504,803.58	41,505.48
Noncapital Gifts	282,758.07	332,584.85	(49,826.78)
Investment Income	35,279.99	55,128.46	(19,848.47)
Other Nonoperating Expenses	<u>(2,342,738.60)</u>	<u>(7,204.05)</u>	<u>(2,335,534.55)</u>
Net Nonoperating Revenues	<u>17,351,777.24</u>	<u>18,178,081.33</u>	<u>(826,304.09)</u>
Loss Before Other Revenues	(4,377,307.68)	(1,264,217.62)	(3,113,090.06)
Capital Aid, Gifts, and Grants	2,218,919.22	2,919,152.26	(700,233.04)
Additions to Endowments	<u>367,806.47</u>	<u>369,312.06</u>	<u>(1,505.59)</u>
Increase (Decrease) in Net Assets	(1,790,581.99)	2,024,246.70	(3,814,828.69)
Net Assets, July 1	<u>21,404,839.88</u>	<u>19,380,593.18</u>	<u>2,024,246.70</u>
Net Assets, June 30	<u>\$ 19,614,257.89</u>	<u>\$ 21,404,839.88</u>	<u>\$ (1,790,581.99)</u>

Operating revenues at June 30, 2011 decreased by approximately \$888 thousand. Student tuition and fees revenues are net of scholarship allowances and decreased \$355 thousand from prior year. This decrease was due primarily to an increase in the percentage of our student body that received financial aid. For FY10-11, in-state tuition was \$56.50 per credit hour and out-of-state rate increased to \$248.50 - increases of 13% and 3%, respectively. Also, in the category of federal grants and contracts, the College lost the Trio SSS Grant in the amount of \$229 thousand at the end of FY09-10. The following table charts operating revenues by source.

	<u>2011</u>	<u>2010</u> <u>(as restated)</u>
Student Tuition & Fees, Net	\$ 2,041,701.36	\$ 2,396,481.96
Federal Grants & Contracts	286,586.55	534,438.71
State & Local Grants & Contracts	254,369.94	570,570.11
Sales & Services, Net	1,393,579.41	1,363,064.68
Other Operating Revenue	<u>4,267.00</u>	<u>3,696.01</u>
Total Operating Revenue	<u>\$ 3,980,504.26</u>	<u>\$ 4,868,251.47</u>

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

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Total operating expenses at June 30, 2011 were \$25.7 million - an increase of 5.7% over the June 2010 total of \$24.3 million. This is due to an increase in the employer’s retirement contribution rate as well as the employer’s share of medical insurance. These employer costs increased by 1.8% and 8.9%, respectively. The following table details operating expenses.

	<b>2011</b>	<b>2010 (as restated)</b>
Salaries & Benefits	\$ 15,016,634.16	\$ 14,188,105.30
Supplies & Materials	3,634,706.44	3,175,794.81
Services	2,423,500.74	1,892,843.16
Scholarships & Fellowships	3,378,605.70	3,645,255.62
Utilities	516,352.23	538,486.34
Depreciation	739,789.91	870,065.19
Total Operating Expenses	\$ 25,709,589.18	\$ 24,310,550.42

Also worthy of note is the change in other nonoperating expenses. This was also due to the return of endowment funds totaling \$2.3 million from the College to the NCC Foundation.

**Other Information**

The FTEs that generate the College’s State budget (budget FTEs) increased overall from 2009-2010 to 2010-2011:

	<b>2010-2011</b>	<b>2009-2010</b>
Curriculum	2,332	2,052
Occupational Extension	359	356
Basic Skills	176	176
Total FTEs	2,867	2,584

**Economic Outlook**

On September 27, 2010, the Southern Association of Colleges and Schools (SACS) Committee visited the College to conduct their on-site visit. On July 8, 2011, the College received reaccreditation notification. The College continues to implement the Quality Enhancement Plan (QEP) and First Year Experience-FOCUS into each curriculum program. Data from student performance, faculty, and staff feedback will be tracked and utilized to compile the required five year report and guide the College in a direction to better serve and retain students which will lead to a greater completion rate.

Construction is currently underway for expansion of our Culinary and Early Childhood Education programs. The Culinary expansion will give Nash Community College approximately 4,100 additional sq. ft. which will include a state-of-the-art commercial kitchen, as well as a modern dining facility for use by the Hotel and Restaurant Management program. The Early Childhood Education addition will add approximately 3,000 sq. ft and will allow the Early Childhood classrooms to be located in the building with our

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

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Child Development Center which serves as a lab and model for our Early Childhood instructional programs.

The Nash County commissioners have voted to have a bond referendum to fund a Continuing Education and Public Services building. Instructional areas included in the new space are police, fire, and EMS training. The building would also include a firing range, a multipurpose room, as well as classrooms for Literacy and other programs. The building would add approximately 78,000 sq. ft of space to the campus. The commissioners voted unanimously to put this matter on the May 2012 primary ballot.

With economic recovery slow but occurring, these changes will allow the College to accommodate the training necessary to prepare individuals and the community for the future.

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

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 965,530.48
Restricted Cash and Cash Equivalents (Note 2)	604,668.04
Short-Term Investments (Note 2)	41,678.45
Receivables, Net (Note 3)	196,914.59
Due from State of North Carolina Component Units	164,000.00
Inventories	348,468.84
	<hr/>
Total Current Assets	2,321,260.40

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	418,241.03
Restricted Due from Primary Government	849,311.99
Restricted Investments (Note 2)	100,034.55
Capital Assets - Nondepreciable (Note 4)	2,357,838.21
Capital Assets - Depreciable, Net (Note 4)	15,709,822.93
	<hr/>
Total Noncurrent Assets	19,435,248.71

Total Assets	<hr/> <hr/> 21,756,509.11
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	402,746.30
Due to State of North Carolina Component Units	2,362.66
Unearned Revenue	98,728.30
Funds Held for Others	146,044.11
Long-Term Liabilities - Current Portion (Note 6)	154,877.32
	<hr/>
Total Current Liabilities	804,758.69

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,337,492.53
	<hr/>

Total Liabilities	<hr/> <hr/> 2,142,251.22
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**NET ASSETS**

Invested in Capital Assets	18,067,661.14
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Restricted for:

Expendable:

Scholarships and Fellowships	254,059.20
Loans	28,205.14
Capital Projects	1,204,430.67
Other	535,248.64

Unrestricted	<hr/> (475,346.90)
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Total Net Assets	<hr/> <hr/> \$ 19,614,257.89
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The accompanying notes to the financial statements are an integral part of this statement.

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

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 2,041,701.36
Federal Grants and Contracts	286,586.55
State and Local Grants and Contracts	254,369.94
Sales and Services, Net (Note 7)	1,393,579.41
Other Operating Revenues	4,267.00
	<hr/>
Total Operating Revenues	3,980,504.26
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	15,016,634.16
Supplies and Materials	3,634,706.44
Services	2,423,500.74
Scholarships and Fellowships	3,378,605.70
Utilities	516,352.23
Depreciation	739,789.91
	<hr/>
Total Operating Expenses	25,709,589.18
	<hr/>
Operating Loss	(21,729,084.92)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	11,313,584.87
County Appropriations	1,675,180.00
Noncapital Grants - Federal Student Financial Aid	5,841,403.85
Noncapital Grants	546,309.06
Noncapital Gifts, Net	282,758.07
Investment Income	35,279.99
Other Nonoperating Expenses	(2,342,738.60)
	<hr/>
Net Nonoperating Revenues	17,351,777.24
	<hr/>
Income Before Other Revenues	(4,377,307.68)
	<hr/>
State Capital Aid	1,471,311.72
County Capital Aid	547,607.50
Capital Grants	200,000.00
Additions to Endowments	367,806.47
	<hr/>
Decrease in Net Assets	(1,790,581.99)
	<hr/>

**NET ASSETS**

Net Assets, July 1, 2010 as Restated (Note 13)	21,404,839.88
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Net Assets, June 30, 2011	\$ 19,614,257.89
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The accompanying notes to the financial statements are an integral part of this statement.

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

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 4,049,760.13
Payments to Employees and Fringe Benefits	(14,923,955.98)
Payments to Vendors and Suppliers	(6,802,757.46)
Payments for Scholarships and Fellowships	(3,378,605.70)
Other Payments	(2,292,875.40)
	<hr/>
Net Cash Used by Operating Activities	(23,348,434.41)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	11,313,584.87
County Appropriations	1,675,180.00
Noncapital Grants - Federal Student Financial Aid	5,844,243.41
Noncapital Grants Received	537,634.23
Noncapital Gifts and Endowments Received	650,564.54
	<hr/>
Cash Provided by Noncapital Financing Activities	20,021,207.05

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

State Capital Aid Received	1,521,999.73
County Capital Aid	547,607.50
Capital Grants Received	36,000.00
Acquisition and Construction of Capital Assets	(1,269,529.30)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	836,077.93

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	35,279.99
Purchase of Investments and Related Fees	(173.72)
	<hr/>
Net Cash Provided by Investing Activities	35,106.27

Net Decrease in Cash and Cash Equivalents	(2,456,043.16)
Cash and Cash Equivalents, July 1, 2010	4,444,482.71
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 1,988,439.55
	<hr/> <hr/>

***Nash 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	\$ (21,729,084.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	739,789.91
Miscellaneous Nonoperating Expense	(2,335,101.59)
Changes in Assets and Liabilities:	
Receivables, Net	75,859.90
Inventories	(54,189.15)
Accounts Payable and Accrued Liabilities	(128,599.67)
Due to Primary Government	(2,739.15)
Due to State of North Carolina Component Units	2,362.66
Unearned Revenue	7,215.34
Funds Held for Others	28,406.82
Compensated Absences	47,645.44
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (23,348,434.41)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 965,530.48
Restricted Cash and Cash Equivalents	604,668.04
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	418,241.03
	<hr/>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 1,988,439.55</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	\$ 169,835.27
Capital Asset Write-Offs	75,374.37

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

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

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	118,138
Contributions Receivable		53,145
Investments		3,659,614
Property, Plant and Equipment:		
Property, Plant and Equipment		15,725
Accumulated Depreciation		<u>(15,725)</u>
Total Assets		<u>3,830,897</u>

**LIABILITIES**

Accounts Payable and Accrued Expenses		<u>200</u>
Total Liabilities		<u>200</u>

**NET ASSETS**

Unrestricted		428,082
Temporarily Restricted		21,426
Permanently Restricted		<u>3,381,189</u>
Total Net Assets	\$	<u><u>3,830,697</u></u>

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



***Nash 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 Other Revenue:	
Individuals and Organizations	\$ 511,726
Special Events	46,878
Interest Income	1,191
Investment Income, Net of Expenses	43,531
Net Assets Released from Program Restrictions	34,050
	<hr/>
Total Unrestricted Revenues and Other Support	637,376
	<hr/>
Expenses:	
Program Services	557,092
Management and General	26,370
Fund-Raising	28,746
	<hr/>
Total Expenses	612,208
	<hr/>
Increase in Unrestricted Net Assets	25,168
	<hr/>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	4,249
Investment Income, Net of Expenses	17,177
Net Assets Released from Restrictions	(34,050)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(12,624)
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	1,044,502
	<hr/>
Increase in Permanently Restricted Net Assets	1,044,502
	<hr/>
Increase in Net Assets	1,057,046
Net Assets at Beginning of Year	436,964
Endowment Funds Transferred In	2,336,687
	<hr/>
Net Assets at End of Year	\$ 3,830,697
	<hr/> <hr/>

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

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**NASH COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 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. Nash Community College is a component unit of the State of North Carolina and an integral part of the State's Comprehensive Annual Financial Report.

The accompanying financial statements present all funds 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 Nash Community College Foundation, Inc. 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 by-laws of the Foundation indicate the Board of Directors shall consist of not less than twenty and not more than thirty-five members. As of June 30, 2011, the Foundation Board consisted of twenty-seven 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 Nash Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

The College and the Foundation had an ongoing relationship over several years whereas endowed gifts received by the Foundation were given to the College for investment purposes. During the year ended June 30, 2011, the College returned the endowment funds totaling \$2,336,686.63 back to the Foundation. Also during this year, the Foundation distributed \$557,092.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Nash Community College Foundation Inc. office, 522 N. Old Carriage Rd, Rocky Mount, NC 27804 or by calling (252) 451-8329.

- 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes funds held in the North Carolina Capital Management Trust, an SEC registered mutual fund. Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out, method. Merchandise for resale is valued at the average cost inventory method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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 100 years for buildings, and 2 to 30 years for equipment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

**N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2011 was \$1,680.00. The carrying amount of the College's deposits not with the State Treasurer was \$598,774.23 and the bank balance was \$901,540.43.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; 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 \$1,387,985.32 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

At June 30, 2011, the College's investment outside the State Treasurer's Short-Term Investment Fund (STIF) was in the North Carolina Capital Management Trust Fund (NCCMT), an SEC registered mutual fund. The fair value of the NCCMT investment at June 30, 2011 was \$141,713.00. The investment is subject to the following risks:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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*Interest Rate Risk:* Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk. The NCCMT had a maturity of one year or less at June 30, 2011.

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2011, the NCCMT carried a credit rating of AAAm by Standard & Poor’s.

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

Cash on Hand	\$	1,680.00
Carrying Amount of Deposits with Private Financial Institutions		598,774.23
Investments in the Short-Term Investment Fund		1,387,985.32
Other Investments		<u>141,713.00</u>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>2,130,152.55</u></b>
<b>Current:</b>		
Cash and Cash Equivalents	\$	965,530.48
Restricted Cash and Cash Equivalents		604,668.04
Short-Term Investments		41,678.45
<b>Noncurrent:</b>		
Restricted Cash and Cash Equivalents		418,241.03
Restricted Investments		<u>100,034.55</u>
<b>Total</b>	<b>\$</b>	<b><u>2,130,152.55</u></b>

**Component Unit** - Investments of the College’s discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements. 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:

		Fair Value
		<u>                    </u>
<b>Investment Type</b>		
Cash and Money Market Funds	\$	106,355
Fixed Income Mutual Funds		1,234,749
Equity Mutual Funds		2,230,010
Real Estate		<u>88,500</u>
<b>Total Investments</b>	<b>\$</b>	<b><u>3,659,614</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 150,027.45	\$ 3,265.55	\$ 146,761.90
Intergovernmental	36,591.63		36,591.63
Employee	6,166.93		6,166.93
Other	7,394.13		7,394.13
<b>Total Current Receivables</b>	<b>\$ 200,180.14</b>	<b>\$ 3,265.55</b>	<b>\$ 196,914.59</b>

### 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	\$ 1,845,937.70	\$ 0.00	\$ 0.00	\$ 1,845,937.70
Construction in Progress	100,000.00	411,900.51		511,900.51
<b>Total Capital Assets, Nondepreciable</b>	<b>1,945,937.70</b>	<b>411,900.51</b>		<b>2,357,838.21</b>
Capital Assets, Depreciable:				
Buildings	20,249,195.66			20,249,195.66
General Infrastructure	1,992,854.71			1,992,854.71
Machinery and Equipment	3,269,394.09	857,628.79	75,374.37	4,051,648.51
<b>Total Capital Assets, Depreciable</b>	<b>25,511,444.46</b>	<b>857,628.79</b>	<b>75,374.37</b>	<b>26,293,698.88</b>
Less Accumulated Depreciation for:				
Buildings	6,895,452.75	507,214.80		7,402,667.55
General Infrastructure	1,367,331.43	47,014.44		1,414,345.87
Machinery and Equipment	1,649,039.22	185,560.67	67,737.36	1,766,862.53
<b>Total Accumulated Depreciation</b>	<b>9,911,823.40</b>	<b>739,789.91</b>	<b>67,737.36</b>	<b>10,583,875.95</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>15,599,621.06</b>	<b>117,838.88</b>	<b>7,637.01</b>	<b>15,709,822.93</b>
<b>Capital Assets, Net</b>	<b>\$ 17,545,558.76</b>	<b>\$ 529,739.39</b>	<b>\$ 7,637.01</b>	<b>\$ 18,067,661.14</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 196,732.74
Accrued Payroll	205,886.82
Excess Financial Aid	126.74
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 402,746.30</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

**Changes in 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	\$ 1,444,724.41	\$ 973,329.34	\$ 925,683.90	\$ 1,492,369.85	\$ 154,877.32

### NOTE 7 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,036,269.02	\$ 0.00	\$ 1,994,567.66	\$ 2,041,701.36
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Food Service	\$ 156,906.25	\$ 0.00	\$ 0.00	\$ 156,906.25
Vending	26,539.77			26,539.77
Print Shop	129,410.68	129,410.68		
Bookstore	1,934,794.44		1,117,082.36	817,712.08
Child Development Center	306,827.39			306,827.39
Brown Auditorium	64,621.18			64,621.18
Other	4,085.99			4,085.99
Sales and Services of Education and Related Activities - Cosmetology	16,886.75			16,886.75
<b>Total Sales and Services</b>	\$ 2,640,072.45	\$ 129,410.68	\$ 1,117,082.36	\$ 1,393,579.41

### NOTE 8 - 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	\$ 9,666,368.42	\$ 1,297,950.23	\$ 910,024.82	\$ 27,231.34	\$ 0.00	\$ 0.00	\$ 11,901,574.81
Academic Support	1,156,590.23	41,421.86	23,729.96				1,221,742.05
Student Services	944,971.93	47,131.57	65,560.72	28,175.00			1,085,839.22
Institutional Support	2,205,751.16	203,459.18	589,862.71	1,200.00			3,000,273.05
Operations and Maintenance of Plant	523,311.89	249,608.80	524,651.72		516,352.23		1,813,924.64
Student Financial Aid				3,320,999.36			3,320,999.36
Auxiliary Enterprises	519,640.53	1,795,134.80	309,670.81	1,000.00			2,625,446.14
Depreciation						739,789.91	739,789.91
<b>Total Operating Expenses</b>	\$ 15,016,634.16	\$ 3,634,706.44	\$ 2,423,500.74	\$ 3,378,605.70	\$ 516,352.23	\$ 739,789.91	\$ 25,709,589.18

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 9 - 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 \$13,044,340.46 of which \$10,459,277.83 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$515,642.40 and \$627,556.67, 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 \$515,642.40, \$361,172.79, and \$345,029.82, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$29,845.00 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. The voluntary contributions by employees amounted to \$146,087.00 for the year ended June 30, 2011.

### NOTE 10 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$512,504.61 \$455,259.82, and \$421,018.53, 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 \$54,388.24, \$52,607.80, and \$53,397.47, 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 11 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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. For employees paid with non-state funds, the College has acquired coverage of \$100,000 per occurrence with a \$500 deductible, through a private insurer.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a 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 0.16% 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 12 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on purchases. Outstanding commitments on purchases were \$58,160.30 at June 30, 2011.
- B. **Contingent Liabilities** - The College has conveyed to the U.S. Department of Commerce, Economic Development Administration (EDA) a mortgage lien on the Science & Technology Center in the amount of \$1,000,000. This lien secures the EDA's investment in the building should the College no longer use the building for educational or economic development purposes. This mortgage lien shall terminate and be dismissed 20 years from May 17, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 13 - NET ASSET RESTATEMENTS

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

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 21,294,660.98
Restatements:	
Correction to Prior Years Accumulated Depreciation	20,774.27
Correction to Year Ending 2009 Accrual Reversals	<u>89,404.63</u>
July 1, 2010 Net Assets as Restated	<u><u>\$ 21,404,839.88</u></u>



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

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**Office of the 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  
Nash Community College  
Rocky Mount, North Carolina

We have audited the financial statements of Nash Community College, a component unit of the State of North Carolina, 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 10, 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 Nash Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Nash Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

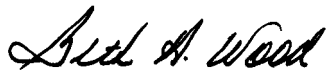
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Beth A. Wood, CPA  
State Auditor

February 10, 2012

## **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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