STATE OF NORTH CAROLINA

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Vance-Granville 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.

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the accompanying financial statements of Vance-Granville 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 Vance-Granville Community College Endowment Fund Corporation, 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 the discretely presented component unit, 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 Vance-Granville Community College Endowment Fund Corporation 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 Vance-Granville Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 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

Beth A. Wood, CPA
State Auditor

January 16, 2012

The Financial Statements

In accordance with GASB Statements No. 34 and No. 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of the College as a whole. As required, this report contains three basic financial statements and the Notes to the Financial Statements:

Statement of Net Assets: This statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels. (Exhibit A-1)

Statement of Revenues, Expenses and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public. (Exhibit A-2)

Statement of Cash Flows: This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature. (Exhibit A-3)

Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

In accordance with GASB Statement No. 39, the enclosed report also contains the Vance-Granville Community College Endowment Fund Corporation's "Statement of Financial Position" (Exhibit B-1) and "Statement of Activities" (Exhibit B-2). GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* clarifies GASB Statement No. 14, *The Financial Reporting Entity*, as to which organizations affiliated with the College, but separately accountable, should be reported as a component unit based on the organization's nature and significance to the College. The Notes to the Financial Statements do not address the Corporation unless specified.

Financial Highlights

Below is a condensed comparative analysis between the June 30, 2011 Statement of Net Assets and the Statement of Net Assets for the fiscal year ended June 30, 2010, followed by a discussion on the changes in assets, liabilities, and net assets.

Statement of Net Assets
For the Year Ended June 30, 2011 with Comparative Data for the Year Ended June 30, 2010

			Change	
	2011	2010	Amount	Percentage
Assets				
Current	$ 5,992,950.44	$ 6,298,671.30	$ (305,720.86)	(4.85%)
Capital Assets, Net	28,880,089.92	28,393,801.36	486,288.56	1.71%
Other Noncurrent	1,828,233.15	1,673,080.65	155,152.50	9.27%
Total Assets	36,701,273.51	36,365,553.31		
Liabilities				
Current	492,663.26	639,376.20	(146,712.94)	(22.95%)
Noncurrent	1,599,117.80	1,826,179.67	(227,061.87)	(12.43%)
Total Liabilities	2,091,781.06	2,465,555.87		
Net Assets				
Invested in Capital Assets	28,880,089.92	28,393,801.36	486,288.56	1.71%
Restricted	91,987.32	273,775.65	(181,788.33)	(66.40%)
Unrestricted	5,637,415.21	5,232,420.43	404,994.78	7.74%
TOTAL NET ASSETS	**$ 34,609,492.45**	**$ 33,899,997.44**		

The College classifies its assets as current and noncurrent. Current assets include cash, receivables and inventories. Noncurrent assets include long-term investments, bond funds for construction due from the State, as well as buildings, infrastructure, and equipment with a historical cost of $5,000 or more. Current Assets decreased 4.85% from the prior year primarily as a result of two factors; the decrease in accounts receivable due to late processing of summer term PELL awards in the previous fiscal year, and the establishment of an allowance for doubtful accounts in the current fiscal year to more accurately report the amount of accounts receivable.

Current liabilities decreased 22.95% from the previous year and noncurrent liabilities decreased 12.43%, both as a result of the decline in the College's liability for compensated absences.

Restricted Net Assets decreased substantially from the prior year due primarily to the fact that the College expended funds previously earmarked for capital projects.

Current Assets			
Cash and Cash Equivalents	$	5,048,975.93	13.76%
Receivables		318,308.33	0.87%
Inventories		625,666.18	1.70%
Sub-Total Current		5,992,950.44	
Noncurrent Assets			
Due from Primary Government		1.13	0.00%
Investments		1,828,232.02	4.98%
Capital Assets, Net		28,880,089.92	78.69%
Sub-Total Noncurrent		30,708,323.07	
TOTAL ASSETS	**$**	**36,701,273.51**	100.00%

The composition of assets at June 30, 2011 is presented in the table to the left.

Total Assets increased $335,720 over the prior year. This is a combination of a decrease in cash and cash equivalents and receivables, a substantial increase in gains on investments and an increase in capital assets, net. The increase in capital assets, net was primarily the result of the purchase of a parcel of land and a building.

There was a decrease of $74,555 in "Due from Primary Government" which was the result of receiving previously allocated bond funds for construction.

Additional details for the composition of assets are available in Exhibit A-1 and Notes to the Financial Statements 1-D, 1-E, 1-F, 1-G, 1-H, 1-I, 2, 3, and 4.

Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements.

Current Liabilities			
Accounts Payable	$	182,040.18	8.70%
Compensated Absences		62,488.78	2.99%
Funds Held for Others		58,652.77	2.80%
Unearned Revenue		189,481.53	9.06%
Sub-Total Current		492,663.26	23.55%
Noncurrent Liabilities			
Compensated Absences		1,599,117.80	76.45%
TOTAL LIABILITIES	**$**	**2,091,781.06**	100.00%

Total liabilities decreased from the prior year by $373,775. This was the result of small decreases in accounts payable and unearned revenue, but the primary factor contributing to this decrease was the decrease in the liability for compensated absences due to a significant number of leave payouts during the year.

The composition of liabilities on June 30, 2011 is presented in the table above.

Additional details for the composition of liabilities are available in Exhibit A-1 and Notes to the Financial Statements 1-J, 1-K, 5, and 6.

Total net assets is the difference between assets and liabilities. The composition of the College's net assets at June 30, 2011 is shown in the table below:

Net Assets		
Invested in Capital Assets	$ 28,880,089.92	83.44%
Restricted Expendable	91,987.32	0.27%
Unrestricted	5,637,415.21	16.29%
TOTAL NET ASSETS	**$ 34,609,492.45**	100.00%

Additional information on net assets is available in Exhibit A-1 and Notes to the Financial Statements 1-L and 4.

The table below is a condensed comparative analysis between the June 30, 2011 Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) contained herein and the year ended June 30, 2010, followed by discussion on the changes in revenues and expenses.

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011 with Comparative Data for the Year Ended June 30, 2010

			Change	
	2011	2010	Amount	Percent
Operating Revenues	$ 5,047,508.75	$ 6,026,235.76	$ (978,727.01)	(16.24%)
Operating Expenses	(37,748,150.10)	(37,536,832.13)	211,317.97	0.56%
Nonoperating Revenues	31,608,341.64	30,349,272.89	1,259,068.75	4.15%
Other Revenues	1,801,794.72	1,541,514.60	260,280.12	16.88%
INCREASE IN NET ASSETS	**$ 709,495.01**	**$ 380,191.12**		

Revenues are presented as operating and nonoperating. Operating revenues are derived from activities that are necessary and essential to the mission of the College. As the table above illustrates, operating revenues decreased by $978,727. This decrease was due primarily to an increase in scholarship discounts of $1,281,156 as the result of more students receiving Pell awards. This discount is reflected in the operating revenue accounts.

Operating expenses are all expenses incurred by the College except for those related to investing, capital and related financing and noncapital financing activities. Again, as the table above illustrates, operating expenses increased by $211,318. This increase was due primarily to an increase in the amount of financial aid awarded to students during this fiscal year and to an increase in the amount of supplies and materials expensed during the year. The increase in financial aid awarded is reflected in the Scholarships and Fellowships category of expenses. Federal Pell Grants alone awarded to students during the current year were $2,170,301 greater than those awarded in the previous year. Services expensed during the year were $163,536 greater than the previous year. Operating expenses are presented in Exhibit A-2 by classification – Salaries and Benefits, Supplies and Materials, etc. An analysis of expenses by their functional classification (i.e. instruction, financial aid, etc.) is shown in Note 8.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. For instance, a gift to the College is a nonexchange transaction because the College did not exchange a good or service to receive the gift. Net nonoperating revenues increased by $1,259,069 over the previous year. This increase is primarily due to the increase in the amount of Federal Pell Grants awarded to students.

The table below presents the College's revenues for the fiscal year ended June 30, 2011, with comparative data for the fiscal year ended June 30, 2010.

	2011	2010	Change Amount	Change Percent
Operating Revenues				
Student Tuition & Fees, Net	$ 3,405,541.55	$ 4,170,403.91	$ (764,862.36)	-18.34%
Grants & Contracts (Federal)	130,836.00	-	130,836.00	
Grants & Contracts (State & Local)	243,021.82	143,706.17	99,315.65	69.11%
Sales and Services, Net	1,195,448.26	1,671,849.67	(476,401.41)	-28.50%
Other Operating Revenues	72,661.12	40,276.01	32,385.11	80.41%
Sub-Total Operating	5,047,508.75	6,026,235.76		
Nonoperating Revenues				
State Aid	17,392,875.70	18,000,873.54	(607,997.84)	-3.38%
County Appropriations	1,980,268.00	1,971,268.00	9,000.00	0.46%
Grants and Gifts (Noncapital)	11,969,301.27	10,130,739.92	1,838,561.35	18.15%
Investment Income	267,157.62	246,391.43	20,766.19	8.43%
Other Nonoperating Expenses	(1,260.95)	-	(1,260.95)	
Sub-Total Nonoperating	31,608,341.64	30,349,272.89		
Other Revenues				
State Capital Aid	1,744,934.80	1,485,119.68	259,815.12	17.49%
County Capital Aid	56,859.92	56,394.92	465.00	0.82%
Sub-Total Other Revenues	1,801,794.72	1,541,514.60		
TOTAL REVENUES	**$ 38,457,645.11**	**$ 37,917,023.25**		

The decreases in Student Tuition & Fees, Net, and Sales and Services, Net, were a result of the significant increase of Pell Grant awards this past year. Those decreases were more than offset by the increase in Pell Grants which are reflected in grants and gifts (noncapital). The decrease in State Aid was a result of poor state economic conditions, budget cuts, and budget reversions.

More information on the composition of revenues can be found in Exhibit A-2 and Notes 1-N and 7.

The table below presents the College's operating expenses for the fiscal year ended June 30, 2011, with comparative data for the fiscal year ended June 30, 2010.

Operating Expenses	2011	2010	Change Amount	Change Percent
Salaries and Benefits	$ 21,925,221.33	$ 21,997,437.76	$ (72,216.43)	-0.33%
Supplies and Materials	4,408,909.14	4,506,282.77	(97,373.63)	-2.16%
Services	2,248,189.95	2,084,653.99	163,535.96	7.84%
Scholarships and Fellowships	7,484,943.66	7,247,130.18	237,813.48	3.28%
Utilities	558,317.37	562,993.51	(4,676.14)	-0.83%
Depreciation	1,122,568.65	1,138,333.92	(15,765.27)	-1.38%
Total Operating Expenses	$ 37,748,150.10	$ 37,536,832.13		

There were no significant variances from the previous year in any category of operating expenses.

The change in net assets is the difference between total revenues and total expenses. The change in net assets, as presented in Exhibit A-2, is an increase of $709,495, bringing the College's total net assets to $34,609,492 as follows:

Beginning Net Assets	$	33,899,997.44
Revenues		
Operating		5,047,508.75
Nonoperating		31,609,602.59
Other		1,801,794.72
Sub-Total Revenues		38,458,906.06
Expenses		
Operating		37,748,150.10
Nonoperating		1,260.95
Sub-Total Expenses		37,749,411.05
Change in Net Assets		709,495.01
ENDING NET ASSETS	**$**	**34,609,492.45**

Capital Assets

As of June 30, 2011, the College recorded $41,095,226 invested in capital assets, both depreciable and nondepreciable, and $12,215,136 in accumulated depreciation, resulting in net capital assets of $28,880,090. The composition of net capital assets is detailed in Note 4.

During the 1999 – 2000 Session, the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State to provide for capital improvements to community colleges. Vance-Granville Community College's share of the general obligation bonds was $17,070,446 with $15,797,311 designated for new construction and $1,273,135 designated for repairs and renovations. Since bond issuance, the College has expended $16,335,777 of the bond appropriation for various projects at its main and satellite campuses, leaving a balance of $734,669 yet to be spent.

In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with a positive experience rating, temporarily reduced the unemployment insurance tax by twenty percent for most employers, and substituted an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to purchase equipment. At June 30, 2011, the College had $965,222 remaining from its original House Bill 275 equipment appropriation.

The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are State and County appropriations and the Federal Vocational

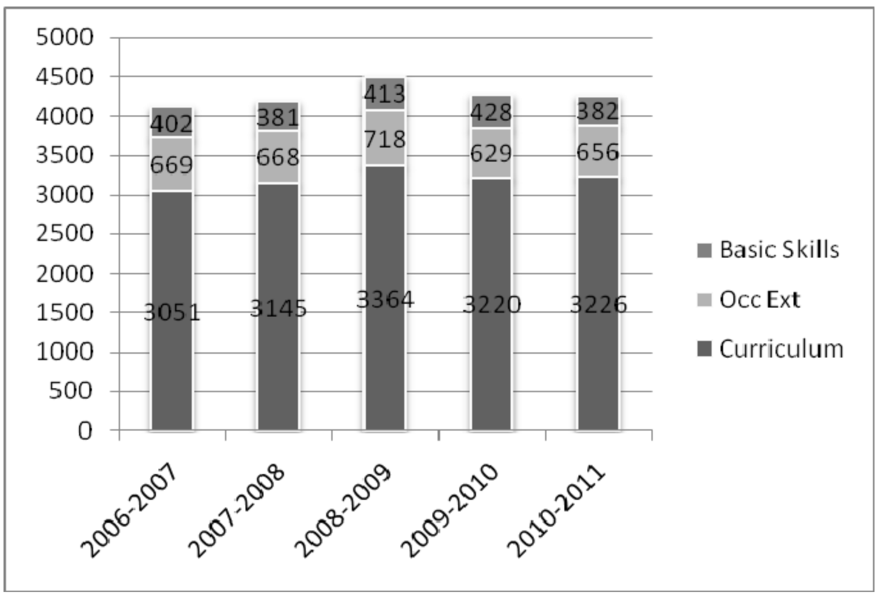
Education Grant. Construction expenditures are funded by State issued general obligation bonds and matching local funds, as required.

The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, Federal, and County support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year. To ensure the fiscal stability of community colleges, State support is based on the higher of total budgetary full-time equivalency (FTE) enrollment of the year prior to the budget year or the average of the three prior year's FTE. The table below illustrates the actual FTE for the past five years.

ACTUAL FULL TIME EQUIVALENCY



The State appropriation for 2011 – 2012 for curriculum, basic skills and occupational extension is based on the average of the three prior year's FTE. Budget FTE for 2011 -2012 is 3,262 for curriculum, 407 for basic skills, and 668 for occupational extension.

Appropriations from Vance, Granville, Warren and Franklin Counties are primarily for plant operations and maintenance. For the budget year 2011 – 2012, County appropriations increased by approximately 1% over the prior year. This increase is reflected in county appropriations for current expenses.

Historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. As the economy improves, job availability increases and community colleges see a decline in enrollment. Vance-Granville Community College (VGCC) has historically followed this trend. This past year, the College experienced slight increases in enrollment in two of its major areas, curriculum and occupational extension. It experienced a slight decrease in its third major area, basic skills.

In addition to focusing on the College's current economic needs, the College also concentrated on looking towards the future and how the College could better serve our community. During the 2010-2011 year, the North Carolina Department of Health and Human Services asked VGCC to develop a new curriculum for mandatory in-service training for Direct Care Workers, who provide health-care and assistance to patients at mental health facilities. VGCC's South Campus in Creedmoor is conveniently located near the state's newest psychiatric hospital, Central Regional Hospital in Butner. VGCC started training the first of around 2,000 employees in April 2011 on-site at state facilities.

VGCC received a Project Skill-UP grant from the North Carolina Tobacco Trust Fund Commission which allowed the College to assist a total of 173 students during the fiscal year. Project Skill-UP funds helped students pay for tuition, books, fees and supplies in training programs such as Occupational Healthcare. The College has received Project Skill-UP funds each year since 2006, benefiting many students.

VGCC was also the recipient of a state funded Minority Male Mentoring Grant in the amount of $25,000 this past year. The Male Mentoring Program reached out into the community through various service projects, often partnering with other community groups. These efforts benefited not only VGCC students, but the community as a whole.

There were several ways in which VGCC went "green" in 2010-2011, as the College responded to the increasing importance of environmental sustainability in the economy of the future. As part of the N.C. Community College System's "Code Green" curriculum improvement initiative, five faculty members represented VGCC on the state level as content matter experts for different sectors (Building Sector, Energy Sector, Environment Sector, Engineering Technology Sector and Transportation Sector). Earth Day events were held at both the Main Campus and the South Campus to help educate the college and community about conservation and the natural world. The VGCC Board of Trustees approved the addition of a new curriculum program, Sustainability Technologies, including several certificates. Along with other organizations, VGCC formed a "Green Jobs Partnership" with Interstate BioEconomic Alliance, the non-profit organization that is working to create the GreenTech Campus in Warren County. The partners plan to provide training in skills needed by the agriculture/biotechnology research and manufacturing businesses locating at the campus.

During the 2010-2011 year, VGCC took several actions to plan for significant changes and additions to facilities in order to better serve the students and businesses of our region. In 2008, VGCC adopted a ten-year Facilities Master Plan to meet its building and growth needs; so that the College would have the initial plans for expansion in place should funds become available in the future. In 2011, college officials began working with the MBAJ architectural firm on an update of the Master Plan. The architects started researching how the College's programming, enrollment, facilities and available property have changed in the past few years, to see if the Master Plan needs to adapt to these changing conditions.

The College received preliminary architectural plans for a new Allied Health classroom/lab building on Main Campus, a 45,000 square foot facility which would house all the College's current health care training programs in one location. The College continued long-range planning on other college priorities, including a new 43,000 square foot classroom/library/student lounge building at the Franklin County Campus. Additionally, the College purchased property and a building opposite the College's main campus which is slated to eventually become a new "Corporate Campus." This facility will house business and industry training programs and support economic development.

The College's Financial Future

The College remains confident in its ability to maintain its fiscal stability and to attract citizens into higher education. The College's Board of Trustees and administrators are dedicated in their efforts toward program assessment; cost containment; continuous improvement; expansion of curriculum, occupational training, and continuing education programs; and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to institutional goals, freeing up resources to support change, and growing new programs and opportunities. As a result, Vance-Granville Community College is positioned to increase enrollment strategically, and when appropriate, eliminate programs, partner with the State in economic development and meet public expectations, while remaining financially sound.

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

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,896,461.97
Restricted Cash and Cash Equivalents		152,513.96
Receivables, Net (Note 3)		309,704.41
Due from State of North Carolina Component Units		7,451.42
Due from Community College Component Units		1,152.50
Inventories		625,666.18
Total Current Assets		5,992,950.44
Noncurrent Assets:		
Restricted Due from Primary Government		1.13
Investments		1,828,232.02
Capital Assets - Nondepreciable (Note 4)		1,098,221.18
Capital Assets - Depreciable, Net (Note 4)		27,781,868.74
Total Noncurrent Assets		30,708,323.07
Total Assets		36,701,273.51
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		182,040.18
Unearned Revenue		189,481.53
Funds Held for Others		58,652.77
Long-Term Liabilities - Current Portion (Note 6)		62,488.78
Total Current Liabilities		492,663.26
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		1,599,117.80
Total Liabilities		2,091,781.06
NET ASSETS		
Invested in Capital Assets		28,880,089.92
Restricted for:		
Expendable:		
Scholarships and Fellowships		12,831.41
Loans		14,922.00
Capital Projects		54,502.62
Other		9,731.29
Unrestricted		5,637,415.21
Total Net Assets	$	34,609,492.45

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

Vance-Granville 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)	$	3,405,541.55
Federal Grants and Contracts		130,836.00
State and Local Grants and Contracts		243,021.82
Sales and Services, Net (Note 7)		1,195,448.26
Other Operating Revenues		72,661.12
Total Operating Revenues		5,047,508.75
EXPENSES		
Operating Expenses:		
Salaries and Benefits		21,925,221.33
Supplies and Materials		4,408,909.14
Services		2,248,189.95
Scholarships and Fellowships		7,484,943.66
Utilities		558,317.37
Depreciation		1,122,568.65
Total Operating Expenses		37,748,150.10
Operating Loss		(32,700,641.35)
NONOPERATING REVENUES (EXPENSES)		
State Aid		17,392,875.70
County Appropriations		1,980,268.00
Noncapital Grants - Student Financial Aid		10,024,094.76
Noncapital Grants		1,943,553.81
Noncapital Gifts		1,652.70
Investment Income, Net		267,157.62
Other Nonoperating Expenses		(1,260.95)
Net Nonoperating Revenues		31,608,341.64
Loss Before Other Revenues		(1,092,299.71)
State Capital Aid		1,744,934.80
County Capital Aid		56,859.92
Increase in Net Assets		709,495.01
NET ASSETS		
Net Assets, July 1, 2010		33,899,997.44
Net Assets, June 30, 2011	$	34,609,492.45

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

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,437,641.13
Payments to Employees and Fringe Benefits	(22,263,186.49)
Payments to Vendors and Suppliers	(7,342,102.70)
Payments for Scholarships and Fellowships	(7,485,365.97)
Other Payments	(4,875.92)
Net Cash Used by Operating Activities	(31,657,889.95)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,392,875.70
County Appropriations	1,980,268.00
Noncapital Grants - Student Financial Aid	9,992,736.91
Noncapital Grants Received	1,946,584.89
Noncapital Gifts Received	500.20
Cash Provided by Noncapital Financing Activities	31,312,965.70
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,819,489.80
County Capital Aid	56,859.92
Acquisition and Construction of Capital Assets	(1,608,857.21)
Net Cash Provided by Capital and Related Financing Activities	267,492.51
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,126,904.63
Investment Income	147,406.17
Purchase of Investments and Related Fees	(1,236,860.68)
Net Cash Provided by Investing Activities	37,450.12
Net Decrease in Cash and Cash Equivalents	(39,981.62)
Cash and Cash Equivalents, July 1, 2010	5,088,957.55
Cash and Cash Equivalents, June 30, 2011	$ 5,048,975.93

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(32,700,641.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,122,568.65
Miscellaneous Nonoperating Expense		(1,260.95)
Changes in Assets and Liabilities:		
Receivables, Net		407,184.73
Inventories		(111,966.22)
Accounts Payable and Accrued Liabilities		(23,046.80)
Due to Primary Government		(311.44)
Unearned Revenue		(17,474.66)
Funds Held for Others		(3,614.97)
Compensated Absences		(329,326.94)
Net Cash Used by Operating Activities	$	(31,657,889.95)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	4,896,461.97
Restricted Cash and Cash Equivalents		152,513.96
Total Cash and Cash Equivalents - June 30, 2011	$	5,048,975.93

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	83,694.04
Increase in Receivables Related to Nonoperating Income		30,875.35

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

Vance-Granville Community College Endowment Fund Corporation
Statement of Financial Position
June 30, 2011 — *Exhibit B-1*

ASSETS	
Cash and Cash Equivalents	$ 719,676
Investments	3,566,886
Total Assets	4,286,562
LIABILITIES	
Due to Community College	1,152
NET ASSETS	
Unrestricted	(198,865)
Temporarily Restricted	98,971
Permanently Restricted	4,385,304
Total Net Assets	$ 4,285,410

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

Vance-Granville Community College Endowment Fund Corporation
Statement of Activities
For the Fiscal Year Ended June 30, 2011 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	30,439
Net Unrealized and Realized Gains on Long-Term Investments		133,993
Other		108,773
Total Unrestricted Revenues and Gains		273,205
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		392,364
Total Unrestricted Revenues, Gains, and Other Support		665,569
Expenses:		
Scholarships		122,498
Other		10,277
Management and General		84,379
Fund Raising		37,384
Total Expenses		254,538
Increase in Unrestricted Net Assets		411,031
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		25,674
Income on Long-Term Investments		288,212
Net Unrealized and Realized Gains on Long-Term Investments		84,128
Net Assets Released from Restrictions		(392,364)
Increase in Temporarily Restricted Net Assets		5,650
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		69,361
Increase in Net Assets		486,042
Net Assets at Beginning of Year		3,799,368
Net Assets at End of Year	$	4,285,410

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

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. Vance-Granville 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 Vance-Granville Community College Endowment Fund Corporation (the "Corporation") 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 Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Corporation board consists of eighteen (18) members including the College's President serving as chair. Although the College does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Corporation can only be used by, or for the benefit of the College, the Corporation 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 Vance-Granville Community College Endowment Fund Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Corporation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2011, the Corporation distributed $122,498.24 to the College for both restricted and unrestricted purposes. Complete financial statements for the Corporation can be obtained from the College's Vice-President of Finance and Operations at P.O. Box 917, Henderson, NC 27536 or by calling (252) 738-3221.

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

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

E. **Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also 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 the last invoice cost method. Merchandise for resale is valued at cost using the first-in, first-out 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 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.

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 July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at June 30th is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30th is retained by employees and transferred into the next fiscal 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.

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.

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 Day Care Center. 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.

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 $4,475.00. The carrying amount of the College's deposits not with the State Treasurer was $633,697.75, and the bank balance was $848,241.56.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments - In addition to donated securities and real estate held by the College, 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 $4,410,803.18, 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Investments of the College's component unit, the Vance-Granville Community College Endowment Fund Corporation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

	Fair Value	Investment Maturities (Years)
Investment Type		
Debt Securities		
Mutual Bond Funds		
Short Duration Fund	$ 787,624.83	1.76
Balanced Wealth Strategy	645,509.21	6.87
Annuity Contracts	395,097.98	0.00
Total Investments	$ 1,828,232.02	

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 College's investments in mutual bond funds were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in AXA Equitable annuities, which represent 22% of the College's investments.

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

Cash on Hand	$	4,475.00
Carrying Amount of Deposits with Private Financial Institutions		633,697.75
Investments in the Short-Term Investment Fund		4,410,803.18
Investments		1,828,232.02
Total Deposits and Investments	$	6,877,207.95
Current:		
Cash and Cash Equivalents	$	4,896,461.97
Restricted Cash and Cash Equivalents		152,513.96
Noncurrent:		
Investments		1,828,232.02
Total	$	6,877,207.95

Component Unit - Investments of the College's discretely presented component unit, the Vance-Granville Community College Endowment Fund Corporation, 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 Vance-Granville Community College Endowment Fund Corporation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type as of June 30, 2011:

	Cost	Fair Value	Carry Value
Permanently Restricted:			
AllianceBernstein Port Balanced Wealth Strategy FD CL A	$ 570,667	$ 468,728	$ 468,728
Alliance Bernstein Port Wealth Appreciation Strategy FD CL A	515,016	517,085	517,085
Bernstein Sanford C Fund Inc Alliance Bernstein Short Duration CL A	1,181,948	1,180,973	1,180,973
AXA Equitable Accumulator Plus	1,489,052	1,400,100	1,400,100
	$ 3,756,683	$ 3,566,886	$ 3,566,886

Investment fees were $45,896.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 228,417.56	$ 115,038.77	$ 113,378.79
Accounts	140,441.91	73,760.16	66,681.75
Intergovernmental	63,048.70		63,048.70
Other	66,595.17		66,595.17
Total Current Receivables	$ 498,503.34	$ 188,798.93	$ 309,704.41

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	$ 792,058.99	$ 171,162.19	$ 0.00	$ 963,221.18
Construction in Progress	92,857.50	42,142.50		135,000.00
Total Capital Assets, Nondepreciable	884,916.49	213,304.69	0.00	1,098,221.18
Capital Assets, Depreciable:				
Buildings	32,335,203.82	430,774.47		32,765,978.29
Machinery and Equipment	4,621,836.06	964,778.05	83,736.35	5,502,877.76
General Infrastructure	1,728,148.77	0.00		1,728,148.77
Total Capital Assets, Depreciable	38,685,188.65	1,395,552.52	83,736.35	39,997,004.82
Less Accumulated Depreciation for:				
Buildings	9,021,877.30	649,038.06		9,670,915.36
Machinery and Equipment	1,737,532.14	441,051.63	83,736.35	2,094,847.42
General Infrastructure	416,894.34	32,478.96		449,373.30
Total Accumulated Depreciation	11,176,303.78	1,122,568.65	83,736.35	12,215,136.08
Total Capital Assets, Depreciable, Net	27,508,884.87	272,983.87	0.00	27,781,868.74
Capital Assets, Net	$ 28,393,801.36	$ 486,288.56	$ 0.00	$ 28,880,089.92

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 123,022.73
Accrued Payroll	59,017.45
Total Accounts Payable and Accrued Liabilities	$ 182,040.18

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	$ 1,990,933.52	$ 1,261,804.11	$ 1,591,131.05	$ 1,661,606.58	$ 62,488.78

NOTE 7 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 6,791,591.36	$ 0.00	$ 3,271,011.04	$ 115,038.77	$ 3,405,541.55
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 2,490,339.57	$ 0.00	$ 1,808,326.60	$ 0.00	$ 682,012.97
Facilities Rental	53,668.39				53,668.39
Vending	39,835.06				39,835.06
Sales and Services of Education and Related Activities	429,967.84	10,036.00			419,931.84
Total Sales and Services	$ 3,013,810.86	$ 10,036.00	$ 1,808,326.60	$ 0.00	$ 1,195,448.26

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	$ 13,407,925.94	$ 1,251,144.55	$ 494,152.73	$ 0.00	$ 0.00	$ 0.00	$ 15,153,223.22
Public Service	9,859.37	1,668.70	5,495.95				17,024.02
Academic Support	1,957,316.00	97,364.02	122,767.51				2,177,447.53
Student Services	1,924,925.00	55,782.65	150,029.37				2,130,737.02
Institutional Support	3,629,429.40	409,959.76	1,067,211.40				5,106,600.56
Operations and Maint of Plant	804,184.41	494,679.21	327,993.46		558,317.37		2,185,174.45
Student Financial Aid			207.10	7,484,943.66			7,485,150.76
Auxiliary Enterprises	191,581.21	2,098,310.25	80,332.43				2,370,223.89
Depreciation						1,122,568.65	1,122,568.65
Total Operating Expenses	$ 21,925,221.33	$ 4,408,909.14	$ 2,248,189.95	$ 7,484,943.66	$ 558,317.37	$ 1,122,568.65	$ 37,748,150.10

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 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 $18,035,190.02, of which $14,927,341.83 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $735,917.95 and $895,640.47**,** 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 $735,917.95, $534,636.31, and $516,642.07, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $1,200.00 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. The voluntary contributions by employees amounted to $318,756.43 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 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 $731,439.75, $673,911.32, and $630,426.34, 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 $77,622.18, $77,874.20, and $79,956.51, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 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.

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the $10 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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

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

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 12 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on construction contracts and outstanding commitments on other purchases were $125,624.74 at June 30, 2011.

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

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the financial statements of Vance-Granville 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 January 16, 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)

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

Beth A. Wood, CPA
State Auditor

January 16, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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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