STATE OF NORTH CAROLINA

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Vance-Granville Community College Endowment Fund Corporation, the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Vance-Granville Community College Endowment Fund Corporation, is based solely 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 from material misstatement. The financial statements of the Vance-Granville Community College Endowment Fund Corporation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Vance-Granville Community College and its discretely presented component unit, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014 on our consideration of the College's internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 15, 2014

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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 Position: This statement includes all assets and liabilities. The College's net position (the difference between assets and liabilities) is 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 Position: 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 and No. 61, the enclosed report also contains the Vance-Granville Community College Endowment Fund Corporation's (Corporation) "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* and No. 61, *The Financial Reporting Entity Omnibus,* clarify 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

The assets of the College are divided between current and noncurrent assets. Current assets include cash, receivables, and inventories. Noncurrent assets include long-term investments, bond funds for construction due from the State, and capital assets. Below is a condensed comparative analysis of the Statement of Net Position for the years ended June 30, 2013 and June 30, 2012.

Condensed Statement of Net Position
For the Year Ended June 30, 2013 with Comparative Data for the Year Ended June 30, 2012

	2013	2012	Change Amount	Change Percentage
Assets				
Current	$ 7,508,401.46	$ 7,093,761.64	$ 414,639.82	5.85%
Capital Assets, Net	28,200,436.40	28,644,068.42	(443,632.02)	(1.55%)
Other Noncurrent	2,919,153.18	2,426,604.29	492,548.89	20.30%
Total Assets	38,627,991.04	38,164,434.35		
Liabilities				
Current	705,680.71	761,781.19	(56,100.48)	(7.36%)
Noncurrent	1,523,630.19	1,299,681.78	223,948.41	17.23%
Total Liabilities	2,229,310.90	2,061,462.97		
Net Position				
Net Investment in Capital Assets	28,200,436.40	28,644,068.42	(443,632.02)	(1.55%)
Restricted	1,355,486.53	656,946.39	698,540.14	106.33%
Unrestricted	6,842,757.21	6,801,956.57	40,800.64	0.60%
TOTAL NET POSITION	**$ 36,398,680.14**	**$ 36,102,971.38**		

The 20.30% increase in other noncurrent assets can be attributed to the restricted due from primary government receivable booked for equipment monies transferred from state funds into capital projects for the renovation of Building 10.

Noncurrent liabilities increased 17.23% as a result of an increase in the College's liability for compensated absences.

Restricted net position increased substantially from the prior year due primarily to the fact that the College moved $846,261 in state equipment funds to restricted funds for capital improvements on Building 10.

Current Assets			
Cash and Cash Equivalents	$	6,192,889.47	16.03%
Receivables, Net		620,989.12	1.61%
Inventories		694,522.87	1.80%
Sub-Total Current		7,508,401.46	
Noncurrent Assets			
Restricted Due from Prim. Gov't		1,043,881.61	2.70%
Investments		1,875,271.57	4.85%
Capital Assets, Net		28,200,436.40	73.01%
Sub-Total Noncurrent		31,119,589.58	
TOTAL ASSETS	**$**	**38,627,991.04**	**100.00%**

The composition of assets at June 30, 2013 is presented in the table to the left.

Total assets increased $463,557 over the prior year. This is due to increases in restricted due from primary government, as discussed earlier.

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.

Total liabilities increased from the prior year by $167,848, an increase of 8.14%. The College's overall liability for compensated absences increased by $148,173 due to fewer payments made to employees retiring or leaving the College.

The composition of liabilities on June 30, 2013 is presented in the table to the right.

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.

Current Liabilities			
Accounts Payable	$	337,077.06	15.12%
Compensated Absences		138,088.85	6.19%
Funds Held for Others		63,386.91	2.84%
Unearned Revenue		167,127.89	7.50%
Sub-Total Current		705,680.71	31.65%
Noncurrent Liabilities			
Compensated Absences		1,523,630.19	68.35%
TOTAL LIABILITIES	**$**	**2,229,310.90**	**100.00%**

Total net position is the difference between assets and liabilities. The composition of the College's net position at June 30, 2013 is shown in the table below:

Net Position			
Net Investment in Capital Assets	$	28,200,436.40	77.48%
Restricted Expendable		1,355,486.53	3.72%
Unrestricted		6,842,757.21	18.80%
TOTAL NET POSITION	**$**	**36,398,680.14**	100.00%

Net position increased $295,709 from the previous fiscal year. Additional information on net position 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, 2013 Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2) contained herein and the year ended June 30, 2012.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013 with Comparative Data for the Year Ended June 30, 2012

					Change		
		2013		2012		Amount	Percent
Operating Revenues	$	4,656,214.19	$	6,096,332.77	$	(1,440,118.58)	(23.62%)
Operating Expenses		(33,867,653.73)		(35,672,632.37)		(1,804,978.64)	(5.06%)
Net Nonoperating Revenues		27,785,221.84		28,690,157.69		(904,935.85)	(3.15%)
Other Revenues		1,721,926.46		2,379,620.84		(657,694.38)	(27.64%)
INCREASE IN NET POSITION	**$**	**295,708.76**	**$**	**1,493,478.93**			

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 $1,440,119 due to a decrease of $1,566,934 in student tuition and fees related to decreased student enrollment.

Operating expenses are all expenses except for those related to investing, capital and related financing and noncapital financing activities. As the table above illustrates, operating expenses decreased by $1,804,979. This decrease was due primarily to a $1,120,040 decrease in scholarship expense as a result of a decline in enrollment. Operating expenses are presented in Exhibit A-2 by classification – salaries and benefits, supplies and materials, etc. An analysis of expenses by 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 decreased by $904,936 over the previous year. This decrease is due to a $1,334,136 decrease in Pell grants given to students caused by a decrease in enrollment. There were also increases of $142,833 on its investments, as compared to a loss of $37,898 on investments in the previous year.

The table below presents the College's revenues for the fiscal year ended June 30, 2013 with comparative data for the fiscal year ended June 30, 2012.

	2013	2012	Change Amount	Change Percent
Operating Revenues				
Student Tuition & Fees, Net	$ 2,756,411.82	$ 4,323,345.82	$ (1,566,934.00)	-36.24%
State and Local Grants and Contracts	246,431.95	224,714.41	21,717.54	9.66%
Sales and Services, Net	1,594,216.42	1,462,345.63	131,870.79	9.02%
Other Operating Revenues	59,154.00	85,926.91	(26,772.91)	-31.16%
Sub-Total Operating	4,656,214.19	6,096,332.77		
Nonoperating Revenues				
State Aid	16,691,718.36	16,344,032.15	347,686.21	2.13%
County Appropriations	2,015,537.58	2,002,537.00	13,000.58	0.65%
Noncapital Grants and Gifts	8,972,444.20	10,388,842.01	(1,416,397.81)	-13.63%
Investment Income	142,832.60	(37,898.10)	180,730.70	476.89%
Other Nonoperating Expenses	(37,310.90)	(7,355.37)	(29,955.53)	-407.26%
Sub-Total Net Nonoperating	27,785,221.84	28,690,157.69		
Other Revenues				
State Capital Aid	1,571,104.94	2,195,176.62	(624,071.68)	-28.43%
County Capital Aid	132,708.42	184,444.22	(51,735.80)	-28.05%
Capital Gifts	18,113.10	0.00	18,113.10	100.00%
Sub-Total Other Revenues	1,721,926.46	2,379,620.84		
TOTAL REVENUES	**$ 34,163,362.49**	**$ 37,166,111.30**		

The sales and services, net increase is due to price increases of textbooks along with expanded sales of general merchandise in the bookstore.

The decline in noncapital grants and gifts is a result of lower Pell awards to students receiving financial aid due to a decline in enrollment during this fiscal year.

State capital aid decreased 28.43% due to less state funds being received for repairs and maintenance compared to prior year. The decrease in county capital aid reflects the prior year one-time allocation from Franklin County for a new chiller.

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, 2013, with comparative data for the fiscal year ended June 30, 2012.

Operating Expenses	2013	2012	Change Amount	Change Percent
Salaries and Benefits	$ 22,457,585.20	$ 21,867,472.45	$ 590,112.75	2.70%
Supplies and Materials	3,989,289.50	3,893,664.33	95,625.17	2.46%
Services	2,423,606.29	2,274,453.65	149,152.64	6.56%
Scholarships and Fellowships	3,619,169.04	6,269,941.25	(2,650,772.21)	-42.28%
Utilities	498,700.90	503,740.43	(5,039.53)	-1.00%
Depreciation	879,302.80	863,360.26	15,942.54	1.85%
Total Operating Expenses	**$ 33,867,653.73**	**$ 35,672,632.37**		

Salaries and benefits increased due to the overall 1.2% salary increase and the College's ability to give merit raises. Scholarship expense decreased due to reductions in financial aid awarded to students as a result of a decline in enrollment.

The change in net position is the difference between total revenues and total expenses. The change in net position, as presented in Exhibit A-2, is an increase of $295,709, bringing the College's total net position to $36,398,680 as follows:

Beginning Net Position	$ 36,102,971.38
Revenues	
Operating	4,656,214.19
Nonoperating	27,822,532.74
Other	1,721,926.46
Sub-Total Revenues	34,200,673.39
Expenses	
Operating	33,867,653.73
Nonoperating	37,310.90
Sub-Total Expenses	33,904,964.63
Change in Net Position	295,708.76
ENDING NET POSITION	**$ 36,398,680.14**

Capital Assets

As of June 30, 2013, the College recorded $41,848,590 in investment in capital assets, $13,648,154 in accumulated depreciation, resulting in net investment in capital assets of $28,200,436. The composition of net investment in 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 $17,000,136 of the bond appropriation for various projects at its main and satellite campuses, leaving a balance of $70,310 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 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, 2013, 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. Construction expenditures are funded by State issued general obligation bonds and matching local funds, as required.

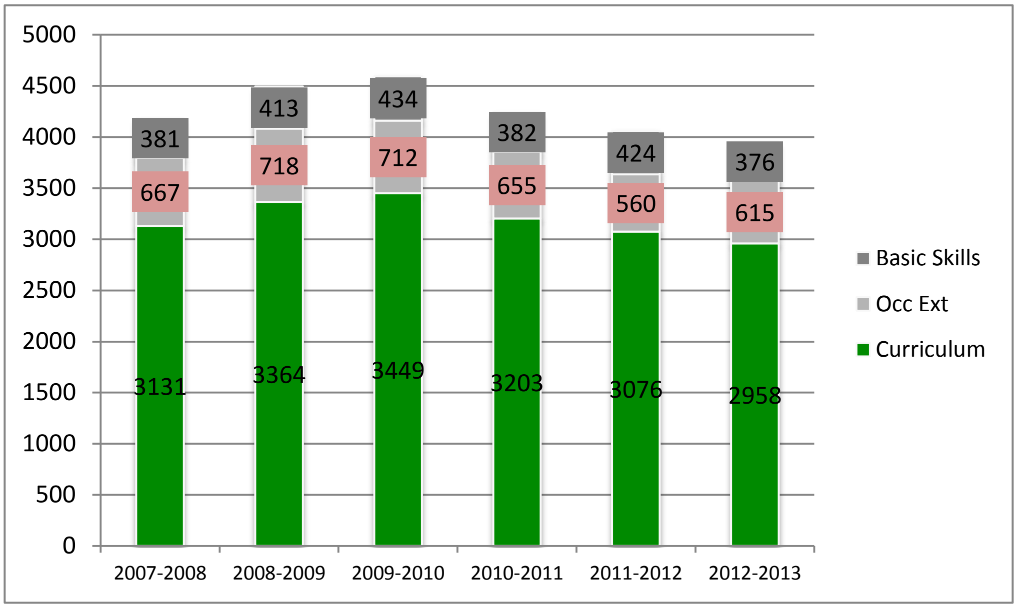
As part of the two-year budget for fiscal years 2011-2012 and 2012-2013, the College is permitted to use state equipment funds for repair and renovation projects. During FY 2013, the College transferred $846,261 from equipment to repairs and renovations.

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's appropriation for Vance-Granville Community College for Basic Skills, Curriculum, and Occupational Extension is based on the average of the three prior years' FTE. Budget FTE for 2013-2014 is 3,017 for curriculum, 615 for occupational extension, and 400 for basic skills.

Appropriations from Vance, Granville, Warren and Franklin Counties are primarily for plant operations and maintenance. For the budget year 2013 – 2014, County appropriations increased by approximately 1.75% 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 has historically followed this trend. During fiscal year 2013, the College experienced an increase in enrollment for occupational extension, while recording a drop in enrollment for basic skills and curriculum programs.

The College's Financial Future

The State of North Carolina remains the main source of funding for the College and the level of this support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and continue to meet its core mission. 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 obsolete programs. The College also intends to continue to partner with the State and community in economic development and meet public expectations, while remaining financially sound.

Vance-Granville Community College
Statement of Net Position
June 30, 2013 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 5,805,725.98
Restricted Cash and Cash Equivalents (Note 2)	387,163.49
Receivables, Net (Note 3)	620,989.12
Inventories	694,522.87
Total Current Assets	7,508,401.46
Noncurrent Assets:	
Restricted Due from Primary Government	1,043,881.61
Investments (Note 2)	1,875,271.57
Capital Assets - Nondepreciable (Note 4)	1,110,685.40
Capital Assets - Depreciable, Net (Note 4)	27,089,751.00
Total Noncurrent Assets	31,119,589.58
Total Assets	38,627,991.04
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources	0.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	337,077.06
Unearned Revenue	167,127.89
Funds Held for Others	63,386.91
Long-Term Liabilities - Current Portion (Note 6)	138,088.85
Total Current Liabilities	705,680.71
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,523,630.19
Total Liabilities	2,229,310.90
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	0.00
NET POSITION	
Net Investment in Capital Assets	28,200,436.40
Restricted for:	
Expendable:	
Scholarships and Fellowships	13,688.42
Loans	14,792.90
Capital Projects	1,312,521.46
Other	14,483.75
Unrestricted	6,842,757.21
Total Net Position	$ 36,398,680.14

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

Vance-Granville Communtiy College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	$	2,756,411.82
State and Local Grants and Contracts		246,431.95
Sales and Services, Net (Note 7)		1,594,216.42
Other Operating Revenues		59,154.00
Total Operating Revenues		4,656,214.19
EXPENSES		
Operating Expenses:		
Salaries and Benefits		22,457,585.20
Supplies and Materials		3,989,289.50
Services		2,423,606.29
Scholarships and Fellowships		3,619,169.04
Utilities		498,700.90
Depreciation		879,302.80
Total Operating Expenses		33,867,653.73
Operating Loss		(29,211,439.54)
NONOPERATING REVENUES (EXPENSES)		
State Aid		16,691,718.36
County Appropriations		2,015,537.58
Noncapital Grants - Student Financial Aid		7,616,682.86
Noncapital Grants		1,352,058.64
Noncapital Gifts		3,702.70
Investment Income		142,832.60
Other Nonoperating Expenses		(37,310.90)
Net Nonoperating Revenues		27,785,221.84
Income Before Other Revenues		(1,426,217.70)
State Capital Aid		1,571,104.94
County Capital Aid		132,708.42
Capital Gifts		18,113.10
Increase in Net Position		295,708.76
NET POSITION		
Net Position, July 1, 2012		36,102,971.38
Net Position, June 30, 2013	$	36,398,680.14

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,618,752.89
Payments to Employees and Fringe Benefits	(22,311,987.56)
Payments to Vendors and Suppliers	(6,787,405.22)
Payments for Scholarships and Fellowships	(3,666,418.60)
Other Receipts	3,121.98
Net Cash Used by Operating Activities	(28,143,936.51)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	16,691,718.36
County Appropriations	2,015,537.58
Noncapital Grants - Student Financial Aid	7,590,066.19
Noncapital Grants Received	1,290,086.07
Noncapital Gifts Received	3,702.70
Cash Provided by Noncapital Financing Activities	27,591,110.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,198,620.31
County Capital Aid	132,708.42
Acquisition and Construction of Capital Assets	(603,261.82)
Net Cash Provided by Capital and Related Financing Activities	728,066.91
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	36,182.15
Purchase of Investments and Related Fees	(13,413.81)
Net Cash Provided by Investing Activities	22,768.34
Net Increase in Cash and Cash Equivalents	198,009.64
Cash and Cash Equivalents, July 1, 2012	5,994,879.83
Cash and Cash Equivalents, June 30, 2013	$ 6,192,889.47

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(29,211,439.54)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		879,302.80
Miscellaneous Nonoperating Income		1,618.66
Changes in Assets and Liabilities:		
Receivables, Net		(71,115.63)
Inventories		(56,925.31)
Accounts Payable and Accrued Liabilities		177,405.66
Unearned Revenue		(12,459.71)
Funds Held for Others		1,503.32
Compensated Absences		148,173.24
Net Cash Used by Operating Activities	$	(28,143,936.51)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	5,805,725.98
Restricted Cash and Cash Equivalents		387,163.49
Total Cash and Cash Equivalents - June 30, 2013	$	6,192,889.47

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	$	18,113.10
Change in Fair Value of Investments		106,650.45
Increase in Receivables Related to Nonoperating Income		461,073.87
Loss on Disposal of Capital Assets		38,929.56

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, 2013 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	846,935
Investments		3,649,477
Total Assets		4,496,412
NET ASSETS		
Unrestricted		(176,238)
Temporarily Restricted		104,188
Permanently Restricted		4,568,462
Total Net Assets	$	4,496,412

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, 2013 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	61,803
Unrealized Gains on Investments		249,706
In-kind Contributions		121,631
Total Unrestricted Revenues and Gains		433,140
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		37,751
Total Unrestricted Revenues, Gains, and Other Support		470,891
Expenses:		
Scholarships		30,500
Other Program Services		11,982
Management and General		101,389
Fund Raising		42,442
Total Expenses		186,313
Increase in Unrestricted Net Assets		284,578
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		18,387
Investment Income		23,795
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(37,751)
Increase in Temporarily Restricted Net Assets		4,431
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		91,790
Increase in Permanently Restricted Net Assets		91,790
Increase in Net Assets		380,799
Net Assets at Beginning of Year		4,115,613
Net Assets at End of Year	$	4,496,412

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 seventeen (17) 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 the Financial Accounting Standards Board (FASB) Codification. 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, 2013, the Corporation distributed $30,500 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.

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, include 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 (STIF). The STIF 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.

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.

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, 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.

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 Position** - The College's net position is classified as follows:

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

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

Unrestricted Net Position - Unrestricted net position includes 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and

Changes in Net Position. 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 Position. 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 - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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, 2013 was $4,226.50. The carrying amount of the College's deposits not with the State Treasurer was $1,471,831.75, and the bank balance was $1,689,431.48.

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, 2013, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes $4,716,831.22, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.6 years as of June 30, 2013. Assets and shares of the STIF 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 STIF) 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) 707-0500.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2013, 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.

Investments

	Fair Value	Investment Maturities (Years)
Investment Type		
Debt Securities		
Mutual Bond Funds	$	
Short Duration Fund	784,577.49	2.09
Wealth Appreciation Strategy	367,268.11	0
Balanced Wealth Strategy	322,611.63	5.33
Annuity Contracts	400,814.34	0
Total Investments	$ 1,875,271.57	

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, 2013, 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 21.37% of the College's investments.

Component Units - 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 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, 2013:

	Cost	Fair Value	Carry Value
Permanently Restricted:			
AllianceBernstein Port Balanced Wealth Strategy FD CL A	$ 589,472.77	$ 502,969.09	$ 502,969.09
AllianceBernstein Port Balanced Appreciation Strategy FD CL A	527,004.99	550,683.28	550,683.28
Bernstein Sanford C Fund Inc Alliance Bernstein Short Duration CL A	1,196,361.30	1,176,403.68	1,176,403.68
AXA Equitable Accumulator Plus	1,150,000.00	1,419,421.05	1,419,421.05
Total	$ 3,462,839.06	$ 3,649,477.10	$ 3,649,477.10

Investment fees were $22,518.43

C. **Reconciliation of Deposits and Investments** - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	$ 4,226.50
Carrying Amount of Deposits with Private Financial Institutions	1,471,831.75
Investments in the Short-Term Investment Fund	4,716,831.22
Investments	1,875,271.57
Total Deposits and Investments	$ 8,068,161.04
Current:	
Cash and Cash Equivalents	$ 5,805,725.98
Restricted Cash and Cash Equivalents	387,163.49
Noncurrent:	
Other Investments	1,875,271.57
Total Deposits and Investments	$ 8,068,161.04

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 757,225.66	$ 517,619.39	$ 239,606.27
Student Sponsors	103,245.47	1,741.28	101,504.19
Intergovernmental	279,637.00		279,637.00
Other	241.66		241.66
Total Current Receivables	$ 1,140,349.79	$ 519,360.67	$ 620,989.12

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	$ 963,221.18	$ 0.00	$ 0.00	$ 963,221.18
Construction in Progress	279,561.34		132,097.12	147,464.22
Total Capital Assets, Nondepreciable	1,242,782.52	0.00	132,097.12	1,110,685.40
Capital Assets, Depreciable:				
Buildings	32,995,252.59	152,654.12		33,147,906.71
Machinery and Equipment	5,685,461.98	130,636.02	310,785.83	5,505,312.17
General Infrastructure	1,761,278.77	323,407.32		2,084,686.09
Total Capital Assets, Depreciable	40,441,993.34	606,697.46	310,785.83	40,737,904.97
Less Accumulated Depreciation/Amortization for:				
Buildings	10,274,858.83	607,275.27		10,882,134.10
Machinery and Equipment	2,284,012.73	227,989.32	271,856.27	2,240,145.78
General Infrastructure	481,835.88	44,038.21		525,874.09
Total Accumulated Depreciation	13,040,707.44	879,302.80	271,856.27	13,648,153.97
Total Capital Assets, Depreciable, Net	27,401,285.90	(272,605.34)	38,929.56	27,089,751.00
Capital Assets, Net	$ 28,644,068.42	$ (272,605.34)	$ 171,026.68	$ 28,200,436.40

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 296,563.65
Accrued Payroll	40,513.41
Total	$ 337,077.06

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	July 1, 2012	Additions	Reductions	June 30, 2013	Portion
Compensated Absences	$ 1,513,545.80	$ 1,162,454.72	$ 1,014,281.48	$ 1,661,719.04	$ 138,088.85

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	$ 5,908,451.63	$ 0.00	$ 2,973,508.81	$ 178,531.00	$ 2,756,411.82
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 2,708,842.29	$ 0.00	$ 1,644,858.13	$ (68,252.72)	$ 1,132,236.88
Facilities Rental	58,749.31				58,749.31
Vending	37,504.32				37,504.32
Sales and Services of Education and Related Activities	373,953.91	8,228.00			365,725.91
Total Sales and Services	$ 3,179,049.83	$ 8,228.00	$ 1,644,858.13	$ (68,252.72)	$ 1,594,216.42

* Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.

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	$ 13,486,445.56	$ 1,004,733.36	$ 560,915.48	$ 0.00	$ 0.00	$ 0.00	$ 15,052,094.40
Public Service	9,080.70	2,100.54	16,507.48				27,688.72
Academic Support	2,162,845.26	73,147.66	152,927.59				2,388,920.51
Student Services	2,180,378.80	25,387.10	197,425.77				2,403,191.67
Institutional Support	3,518,859.83	349,415.54	1,120,032.38				4,988,307.75
Operations and Maintenance of Plant	893,319.68	172,989.10	308,227.16		498,700.90		1,873,236.84
Student Financial Aid			254.16	3,619,169.04			3,619,423.20
Auxiliary Enterprises	206,655.37	2,361,516.20	67,316.27				2,635,487.84
Depreciation						879,302.80	879,302.80
Total Operating Expenses	$ 22,457,585.20	$ 3,989,289.50	$ 2,423,606.29	$ 3,619,169.04	$ 498,700.90	$ 879,302.80	$ 33,867,653.73

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $17,544,041.70, of which $14,262,208.41 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were $1,188,041.96 and $855,732.50, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were $1,188,041.96, $1,067,252.27, and $735,917.95, respectively.

The TSERS 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) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code 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 $353,437.92 for the year ended June 30, 2013.

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 Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were $755,897.05, $717,239.43, and $731,439.75, 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) 707-0500.

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were $62,753.72, $74,592.90, and $77,622.18, 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured 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 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. Outstanding commitments on other purchases were $282,482.81 at June 30, 2013.

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STATE OF NORTH CAROLINA
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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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 15, 2014. Our report includes a reference to other auditors who audited the financial statements of Vance-Granville Community College Endowment Fund Corporation, as described in our report on the College's financial statements. The financial statements of Vance-Granville Community College Endowment Fund Corporation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Corporation.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 15, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919-807-7500

Facsimile: 919-807-7647

Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs

This audit required 405 audit hours at an approximate cost of $30,780.