



EDGECOMBE COMMUNITY COLLEGE

FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

And Independent Auditor's Report

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
COLLEGE EXHIBITS	
A-1 STATEMENT OF NET POSITION.....	10
A-2 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION ...	11
A-3 STATEMENT OF CASH FLOWS.....	12
COMPONENT UNIT EXHIBITS	
B-1 STATEMENT OF FINANCIAL POSITION	14
B-2 STATEMENT OF ACTIVITIES.....	15
NOTES TO THE FINANCIAL STATEMENTS.....	16
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 <i>GOVERNMENT AUDITING STANDARDS</i>	34
SCHEDULE OF FINDINGS AND RESPONSES	36

Independent Auditor's Report

Members of the Board of Trustees
Edgecombe Community College
Tarboro, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Edgecombe Community College (the "College"), a component unit of the State of North Carolina, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of Edgecombe Community College Foundation, Inc. (the "Foundation") which are presented as component unit exhibits in the accompanying table of contents. 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 Foundation, 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 Foundation 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 opinion.

Opinion

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 financial position of the College and the Foundation as of June 30, 2013, and the respective 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, as listed in the table of contents, 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 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 June 30, 2014 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, 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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
June 30, 2014

EDGECOMBE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis is to provide an overview of the financial position and activities of Edgecombe Community College for the year ended June 30, 2013. The Management Discussion and Analysis section will:

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

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

Financial Highlights

For the fiscal year ending June 30, 2013, the College experienced a slight increase in net position. The small increase is due to the college making capitalized improvements to existing buildings on campus. The increase is due to additions to machinery and equipment that were capitalized during the year.

The College's enrollment decreased slightly from the prior year. The College's enrollment was down approximately 200 FTE, which resulted in a reduction in budget of \$1 million.

Using the Annual Financial Report

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

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

EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

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

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

Financial Analysis

Statement of Net Position

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

Current assets include cash and cash equivalents, short-term investments, receivables, inventories, and prepaid items. Current assets at June 30, 2013 decreased 40.01% from the previous year due to campus upgrades and improvements which decreased the College's short-term investment account.

Noncurrent assets are comprised primarily of restricted cash and cash equivalents, restricted receivables from primary government and receivables from the State of North Carolina component units. Noncurrent assets had a 129.97% increase at June 30, 2013 due to the receipt of a capital aid grant and an increase in the amount due from the primary government. Capital assets (land, construction in progress, buildings, general infrastructure and equipment) are stated at historical cost less depreciation. Capital assets had a slight increase of 11.80% in fiscal year 2013. These increases were a result of the construction in progress for the new Auto Body Shop, equipment being capitalized, and the performance contract improvements made to existing buildings being capitalized.

Current liabilities are comprised of accounts payable, accrued payroll, due to primary government, unearned revenue, funds held for others and the current portion of long-term liabilities. This area experienced a 32.28% increase due to the increase in accounts payable and funds held for others.

**EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Noncurrent liabilities consist of notes payable and accrued vacation and bonus leave totaling \$2,461,840.19. Noncurrent liabilities only had a slight decrease of 1.61%. The increase in current and the decrease in noncurrent liabilities as mentioned resulted in a 9.40% overall increase in total liabilities.

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

Net investment in capital assets is the net position representing the College's capital assets net of accumulated depreciation and any related debt. There was an 11.80% increase from the previous year, due primarily from construction in progress for the new Auto Body Shop, equipment being capitalized, and the performance contract improvements made to existing buildings being capitalized.

Restricted net position - expendable consist of resources in which the College is legally or contractually obligated to spend in accordance with restrictions by external parties. It consists of Scholarships and Fellowships, and other expendable assets. The decrease of 49.21% during fiscal year 2013 is mainly due to the performance contract being expended in the current year.

Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. The decrease of 81.58% in fiscal year 2013 is due to the conversion of unrestricted net position in the form of construction in progress from fiscal year 2012 to restricted net position in the form of net investment in capital assets in 2013.

Condensed Statement of Net Position

	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>	<u>Difference</u>	<u>% Difference</u>
Assets				
Current Assets	\$ 3,111,343.15	\$ 5,186,387.69	\$ (2,075,044.54)	(40.01%)
Noncurrent Assets	1,806,829.31	785,684.78	1,021,144.53	129.97%
Capital Assets, Net	<u>20,921,971.80</u>	<u>18,713,120.35</u>	<u>2,208,851.45</u>	<u>11.80%</u>
 Total Assets	 <u>25,840,144.26</u>	 <u>24,685,192.82</u>	 <u>1,154,951.44</u>	 <u>4.68%</u>
Liabilities				
Current Liabilities	1,593,056.34	1,204,338.70	388,717.64	32.28%
Noncurrent Liabilities	<u>2,461,840.19</u>	<u>2,502,216.03</u>	<u>(40,375.84)</u>	<u>(1.61%)</u>
Total Liabilities	<u>4,054,896.53</u>	<u>3,706,554.73</u>	<u>348,341.80</u>	<u>9.40%</u>
Net Position				
Net Investment in Capital Assets	20,921,971.80	18,713,120.35	2,208,851.45	11.80%
Restricted Expendable	699,780.59	1,377,882.59	(678,102.00)	(49.21%)
Unrestricted	<u>163,495.34</u>	<u>887,635.15</u>	<u>(724,139.81)</u>	<u>(81.58%)</u>
Total Net Position	<u>\$ 21,785,247.73</u>	<u>\$ 20,978,638.09</u>	<u>\$ 806,609.64</u>	<u>3.84%</u>

**EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Statement of Revenues, Expenses and Changes in Net Position

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Position represent the changes in total net position. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues include student tuition revenues and fees, federal, state and local operating grants, revenue obtained from sales and services, and other operating revenues. There was a decrease of 1.24% in tuition and fees due to a decrease in enrollment.

Federal Grants and Contracts includes the Workforce Development, Dislocated Worker ARRA program, and the Dislocated Worker budgets. This line item experienced a decrease of 100%. This is due to the reclassification per state auditors suggestions. The Workforce Development grants are now classified as nonoperating, noncapital grants.

There was a 100% increase in operating State and Local Grants and Contracts to report during fiscal year 2013. This increase is a result of an Early Childhood Associate Degree Accreditation Grant (ECADA). This grant was provided to allow colleges to pursue or move to the next phase of the process of Early Childhood Education Associate Degree Accreditation. The grant is processed in three phases and phase one in fiscal year 2013 totaled \$3,500.00.

Sales and Services saw a slight decrease of 2.47% during fiscal year 2013. Patron fees were lower, and the performance arts series saw a slight decline in ticket sales due to a smaller number of events offered throughout the program year.

Other Operating Revenues had a 13.16% increase during the year. The majority of this increase is due to the gift received for health science programs of \$25,000.00 from the area hospital.

Operating Revenues

	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues				
Tuition and Fees, Net	\$ 1,038,150.14	\$ 1,051,138.97	\$ (12,988.83)	-1.24%
Federal Grants and Contracts	0.00	52,508.24	(52,508.24)	(100.00%)
State and Local Grants and Contracts	3,500.00	0.00	3,500.00	100.00%
Sales and Services, Net	386,593.84	396,367.93	(9,774.09)	-2.47%
Other Operating Revenues	<u>208,601.34</u>	<u>184,346.56</u>	<u>24,254.78</u>	<u>13.16%</u>
Total Operating Revenues	<u>\$ 1,636,845.32</u>	<u>\$ 1,684,361.70</u>	<u>\$ (47,516.38)</u>	<u>-2.82%</u>

**EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Nonoperating revenues are revenues received for which goods and services are not provided. They include appropriations from state and local governments. The net nonoperating revenues increased by 2.76%. The largest portion of nonoperating revenue is state aid, which consists of funds allotted from the North Carolina Board of Community Colleges for operations of the College. Revenues received from state governments to support operations increased 10.70% while revenues from local governments decreased 1.61%.

Non-Capital Grants for Federal Student Financial Aid decreased by 13.56%. The decrease is due to the start of a decline in enrollment and also due to less financial aid being awarded to students during fiscal year 2013 due to new limits related to the Pell Grant funds.

Other noncapital grants increased by \$632,848.14 or 36.41% due to reclassifying the Workforce Development program budgets and the addition of the Texas Engineering Experiment Grant and the Advanced Manufacturing Alliance Grant.

Nonoperating Revenues

	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>	<u>Differences</u>	<u>% Difference</u>
Nonoperating Revenues				
State Aid	\$ 12,803,565.47	\$ 11,566,084.97	\$ 1,237,480.50	10.70%
County Appropriations	1,386,000.00	1,408,710.00	(22,710.00)	(1.61%)
Noncapital Grants - Federal Student Financial Aid	8,985,303.09	10,394,635.57	(1,409,332.48)	(13.56%)
Noncapital Grants	2,371,067.07	1,738,218.93	632,848.14	36.41%
Noncapital Gifts	163,540.00	159,353.68	4,186.32	2.63%
Interest Income	10,821.98	12,495.17	(1,673.19)	(13.39%)
Other Nonoperating Revenues (Expenses)	(518,818.55)	(755,237.00)	236,418.45	(31.30%)
Net Nonoperating Revenues	<u>\$ 25,201,479.06</u>	<u>\$ 24,524,261.32</u>	<u>\$ 677,217.74</u>	<u>2.76%</u>

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities. These revenues are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Position. A 20.10% decrease occurred in state capital aid. This was due largely to the slight drop in enrollment during the current year.

Capital Revenues

	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>	<u>Differences</u>	<u>% Difference</u>
State Capital Aid	\$ 1,307,796.88	\$ 1,636,744.67	\$ (328,947.79)	(20.10%)
County Capital Appropriations	250,000.08	300,000.00	(49,999.92)	(16.67%)
Total Capital Revenues	<u>\$ 1,557,796.96</u>	<u>\$ 1,936,744.67</u>	<u>\$ (378,947.71)</u>	<u>(19.57%)</u>

Due to economic conditions, Edgecombe County was not able to provide the College with the same level of funding that they have in the past, as shown by the 16.67% decline in county capital appropriations.

**EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. Personnel Services experienced a slight increase of 4.70%. Personal services include personnel cost, which include new employees hired during fiscal year 2013. Supplies and Materials had an increase of 6.01% due to more supplies and materials being needed to help aid all instructional areas. The Scholarships and Fellowships expense account had a decrease during the year of 21.69%. This account includes expenses associated with student loans and scholarships awarded to students. Due to a slight decline in Pell and enrollment and the changes in eligibility for students to receive Pell, fewer students were awarded scholarships.

While the overall operating expenses reflect a minimal increase of 1.11% from fiscal year 2012, the College operated conservatively and within their required needs.

Operating Expenses

	<u>FY 2012-2013</u>	<u>FY 2011-2012</u>	<u>Differences</u>	<u>% Difference</u>
Operating Expenses				
Personal Services	\$ 16,721,258.73	\$ 15,970,654.33	\$ 750,604.40	4.70%
Supplies and Materials	3,930,871.93	3,708,068.19	222,803.74	6.01%
Services	2,220,082.17	2,392,273.09	(172,190.92)	(7.20%)
Scholarships and Fellowships	3,541,591.12	4,522,567.78	(980,976.66)	(21.69%)
Utilities	513,341.23	565,804.99	(52,463.76)	(9.27%)
Depreciation	662,366.52	624,401.15	37,965.37	6.08%
Total Operating Expenses	<u>\$ 27,589,511.70</u>	<u>\$ 27,783,769.53</u>	<u>\$ (194,257.83)</u>	<u>(0.70%)</u>

Economic Forecast

Economic recovery has taken a back seat to slowly rising unemployment in Edgecombe County. According to the *Daily Southerner*, Edgecombe's July 2013 unemployment rate increased from 14.5 percent in June to 14.7 percent in July.

July was the third straight month that the rate increased, leaving Edgecombe with the second-highest unemployment rate in the state, bettering only Scotland County's 16.0 percent. Out of a labor force of 24,633 individuals, 3,633 were unemployed, according to the newspaper.

Training the unemployed and underemployed and retraining displaced workers is and will continue to be a primary focus of Edgecombe Community College's programs and offerings. The college is proud to have been recognized in 2013 for its efforts by:

- Being one of the first four counties in North Carolina to be certified as a WorkReady Community
- Receiving the 2013 national Career Preparedness Award for a community college from ACT, Inc.

EDGECOMBE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

In addition to the widespread use of WorkKeys and the Career Readiness Certificate as workplace credentials, other industry recognized credentials and employability skills have become a large part of career preparation. The college tries to offer as many programs as possible to achieve these credentials and will continue to add them as the workplace requests them.

The College's programs for Emergency Medical Technicians – Initial, Intermediate, and Paramedic; Lean Six Sigma Green Belt and Black Belt; Medication Aide; Nurse Assistant; Phlebotomy; and Welding all offer industry recognized credentials. The continuing education division and the curriculum division collaborate to offer the opportunity to earn Manufacturing Skill Standards Certification, Certified Production Technician credentials and National Center for Construction Education and Research certifications in skilled trades.

Employability training also is offered through the college's Human Resource Development program. General Education Development ("GED") students can earn a Nurse Assistant I credential concurrently with their GED through the Basic Skills Plus program.

Edgecombe Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,275,119.81
Restricted Cash and Cash Equivalents	899,446.77
Short-Term Investments	39,616.57
Receivables, Net (Note 3)	444,286.33
Inventories	316,968.91
Prepaid Items	135,904.76

Total Current Assets	3,111,343.15
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	520,029.11
Restricted Due from Primary Government	1,286,800.20
Capital Assets - Nondepreciable (Note 4)	1,951,197.22
Capital Assets - Depreciable, Net (Note 4)	18,970,774.58

Total Noncurrent Assets	22,728,801.11
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Total Assets	25,840,144.26
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	620,110.10
Unearned Revenue	222,153.71
Funds Held for Others	520,871.21
Long-Term Liabilities - Current Portion (Note 6)	229,921.32

Total Current Liabilities	1,593,056.34
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	2,461,840.19
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Total Liabilities	4,054,896.53
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NET POSITION

Net Investment in Capital Assets	20,921,971.80
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Restricted for:

Expendable:

Scholarships and Fellowships	15,217.75
Other	684,562.84

Unrestricted	163,495.34
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Total Net Position	\$ 21,785,247.73
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The accompanying notes to the financial statements are an integral part of this statement.

***Edgecombe Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,038,150.14
State and Local Grants and Contracts	3,500.00
Sales and Services, Net (Note 9)	386,593.84
Other Operating Revenues	208,601.34
	<hr/>
Total Operating Revenues	1,636,845.32

EXPENSES

Operating Expenses:	
Salaries and Benefits	16,721,258.73
Supplies and Materials	3,930,871.93
Services	2,220,082.17
Scholarships and Fellowships	3,541,591.12
Utilities	513,341.23
Depreciation	662,366.52
	<hr/>
Total Operating Expenses	27,589,511.70
	<hr/>
Operating Loss	(25,952,666.38)

NONOPERATING REVENUES (EXPENSES)

State Aid	12,803,565.47
County Appropriations	1,386,000.00
Noncapital Grants - Federal Student Financial Aid	8,985,303.09
Noncapital Grants	2,371,067.07
Noncapital Gifts	163,540.00
Investment Income, Net	10,821.98
Other Nonoperating Revenues (Expenses)	(518,818.55)
	<hr/>
Net Nonoperating Revenues	25,201,479.06
	<hr/>
Loss Before Other Revenues, Expenses, Gains, and Losses	(751,187.32)
	<hr/>
State Capital Aid	1,307,796.88
County Capital Aid	250,000.08
	<hr/>
Increase in Net Position	806,609.64

NET POSITION

Net Position, July 1, 2012 as Restated (Note 17)	<hr/> 20,978,638.09
Net Position, June 30, 2013	<hr/> <hr/> \$ 21,785,247.73

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

***Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,916,369.83
Payments to Employees and Fringe Benefits	(16,726,802.79)
Payments to Vendors and Suppliers	(6,802,808.20)
Payments for Scholarships and Fellowships	(3,541,591.12)
Other Receipts	432,930.94
	<u>432,930.94</u>
Net Cash Used In Operating Activities	<u>(24,721,901.34)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,803,565.47
County Appropriations	1,386,000.00
Noncapital Grants - Federal Student Financial Aid	9,015,189.27
Noncapital Grants Received	2,392,419.56
Noncapital Gifts and Endowments Received	163,540.00
	<u>163,540.00</u>
Net Cash Provided by Noncapital Financing Activities	<u>25,760,714.30</u>

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

State Capital Aid Received	707,796.88
County Capital Aid	250,000.08
Capital Grants Received	17,503.00
Proceeds from Capital Debt	78,274.08
Acquisition and Construction of Capital Assets	(3,372,533.52)
Interest Paid on Capital Debt and Leases	(16,663.27)
	<u>(16,663.27)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(2,335,622.75)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,421,636.43
Investment Income	10,821.98
	<u>10,821.98</u>
Net Cash Provided by Investing Activities	<u>1,432,458.41</u>

Net Increase in Cash and Cash Equivalents	135,648.62
Cash and Cash Equivalents, July 1, 2012	2,558,947.07
	<u>2,558,947.07</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 2,694,595.69</u>

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

Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (25,952,666.38)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	662,366.52
Miscellaneous Nonoperating Expenses	(17,503.00)
Changes in Assets and Liabilities:	
Receivables, Net	285,368.41
Inventories	99,564.48
Prepaid Items	(85,762.36)
Accounts Payable and Accrued Liabilities	(143,094.57)
Unearned Revenue	(5,843.90)
Funds Held for Others	450,433.94
Compensated Absences	(14,764.48)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (24,721,901.34)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,275,119.81
Restricted Cash and Cash Equivalents	899,446.77
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	520,029.11
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	<u><u>\$ 2,694,595.69</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 600,000.00
Loss on Disposal of Capital Assets	\$ 501,315.55

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

Edgecombe Community College Foundation, Inc.
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	7,261.00
Investments		1,770,353.00
Long-Term Investments		282,699.00
Due to Foundation		11,760.00
		<hr/>
Total Assets	\$	<u>2,072,073.00</u>

LIABILITIES AND NET ASSETS

Net assets:		
Unrestricted	\$	607,548.00
Temporarily Restricted		279,761.00
Permanently Restricted		1,184,764.00
		<hr/>
Total Net Assets		<u>2,072,073.00</u>
		<hr/>
Total Liabilities and Net Assets	\$	<u>2,072,073.00</u>

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

Edgecombe Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 215,046.00
Other Investment Income	28,294.00
Fund Raising Projects	35,655.00
Gain (Loss) on Sale of Capital Assets	(174.00)
Other	40,564.00
	<hr/>
Total Revenues and Gains	319,385.00
	<hr/>
Expenses:	
Grants/Scholarships	104,109.00
Management and General	23,695.00
	<hr/>
Total Expenses	127,804.00
	<hr/>
Increase in Unrestricted Net Assets	191,581.00
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Interest income	51,567.00
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	131,095.00
	<hr/>
Increase in Net Assets	374,243.00
Net Assets at Beginning of Year	1,697,830.00
	<hr/>
Net Assets at End of Year	\$ 2,072,073.00
	<hr/> <hr/>

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

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

- B. Discretely Presented Component Unit** - Edgecombe Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation's board consists of up to 30 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or incomes thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

Complete financial statements for the Foundation can be obtained from The Foundation Office, Edgecombe Community College, 2009 West Wilson Street, Tarboro, NC 27886.

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

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

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

- D. 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.

- E. 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.

- F. Investments** - The College's short term investment account is a money market account. All other investments belong to Edgecombe Community College Foundation, Inc. and consist of certificates of deposit, money market funds and life annuity contracts. Certificates of deposit and money market funds are reported at cost, if purchased or at fair value or appraised value at date of gift, if donated. The life annuity contracts are reported at fair value of the underlying investments.

- G. 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.

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

- H. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value using last invoice cost.
- I. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- J. 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 or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- K. Unearned Revenue** – Unearned revenue includes student tuition and fees collected prior to year end for fall courses.
- L. Funds Held for Others** – Funds held for others includes money held by the College on behalf of the Foundation until the Foundation uses the money.
- M. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences and notes payable that will not be paid within the next fiscal year.
- N. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

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

O. 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, net of outstanding debt obligations related to those 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.

P. 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 either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

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.

- Q. 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.

- R. 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 are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$635.00, and

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

deposits in private financial institutions with a carrying value of \$30,000.00 and a bank balance of \$157,703.35.

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 was covered by the federal depository insurance.

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 and banker's acceptances; 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.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,638,212, 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 1.6 years as of June 30, 2013. 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

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

(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.ncosc.net/> 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. Investments of Component Unit - Investments of the College’s component unit, the Edgecombe Community College Foundation, Inc., are subject to and restricted by any requirement placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risk are not required. The following is an analysis of investments by type:

Investment Type	Fair Value
Certificates of Deposit	\$ 1,039,678
Money Market Funds	139,719
State Treasurer Short-Term Investment Fund	435,459
Edward D Jones	155,497
Life Annuity Contracts	282,699
	\$ 2,053,052

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013 are as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 704,036.08	\$ 645,007.39	\$ 59,028.69
Accounts	52,542.61	-	52,542.61
Intergovernmental	194,935.17	-	194,935.17
Other	137,779.86	-	137,779.86
	\$ 1,089,293.72	\$ 645,007.39	\$ 444,286.33
Total Current Receivables			

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in 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	\$ 976,014.71	\$ -	\$ -	\$ 976,014.71
Construction in progress	573,299.36	902,776.88	500,893.73	975,182.51
Total Capital Assets - Nondepreciable	<u>1,549,314.07</u>	<u>902,776.88</u>	<u>500,893.73</u>	<u>1,951,197.22</u>
Capital Assets, Depreciable:				
Buildings	19,941,261.25	1,458,525.00	-	21,399,786.25
Machinery and Equipment	3,077,145.24	1,011,231.64	29,389.36	4,058,987.52
General Infrastructure	658,198.53	-	-	658,198.53
Total Capital Assets - Depreciable	<u>23,676,605.02</u>	<u>2,469,756.64</u>	<u>29,389.36</u>	<u>26,116,972.30</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	5,333,281.21	398,825.16	-	5,732,106.37
Machinery and Equipment	943,234.46	250,377.36	28,967.54	1,164,644.28
General Infrastructure	236,283.07	13,164.00	-	249,447.07
Total Accumulated Depreciation	<u>6,512,798.74</u>	<u>662,366.52</u>	<u>28,967.54</u>	<u>7,146,197.72</u>
Total Capital Assets, Depreciable, Net	<u>17,163,806.28</u>	<u>1,807,390.12</u>	<u>421.82</u>	<u>18,970,774.58</u>
Capital Assets, Net	<u>\$ 18,713,120.35</u>	<u>\$ 2,710,167.00</u>	<u>\$ 501,315.55</u>	<u>\$ 20,921,971.80</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 374,876.21
Accrued Payroll	239,172.58
Other	6,061.31
Total Accounts Payable and Accrued Liabilities	<u>\$ 620,110.10</u>

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Equipment Lease Notes Payable	\$ 1,461,253.00	\$ 78,274.08	\$ -	\$ 1,539,527.08	\$ 105,480.00
Compensated Absences	1,166,998.91	115,572.13	130,336.61	1,152,234.43	124,441.32
Total Long-Term Liabilities	<u>\$ 2,628,251.91</u>	<u>\$ 193,846.21</u>	<u>\$ 130,336.61</u>	<u>\$ 2,691,761.51</u>	<u>\$ 229,921.32</u>

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

The College has an equipment lease note payable from a financial institution dated June 15, 2012, which has an interest rate of 3.10%, a term of 192 months, and is due on July 1, 2028. For the first 12 months, all interest was added to the outstanding principle balance. Beginning August 1, 2013, monthly principle and interest payments are due. Monthly payments will increase each year, ranging from \$8,790 to \$12,763 over the term of the note. The following is a schedule of future minimum principle payments:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 59,466	\$ 46,014	\$ 105,480
2015	64,223	44,101	108,324
2016	69,216	42,036	111,252
2017	74,438	39,814	114,252
2018	79,911	37,425	117,336
2019 - 2023	491,014	144,938	635,952
2024 - 2028	<u>701,258</u>	<u>55,492</u>	<u>756,751</u>
	<u>\$ 1,539,527</u>	<u>\$ 409,819</u>	<u>\$ 1,949,347</u>

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 76,465.00
2015	75,935.00
2016	72,631.00
2017	24,811.00
Total Minimum Lease Payments	<u>\$ 249,842.00</u>

Rental expense for all operating leases during the year ended June 30, 2013 was \$76,465.00.

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenues under the noncancelable operating lease related to the College's excess capacity of wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 9,898.00
2015	9,898.00
2016	9,898.00
2017	9,898.00
2018	9,898.00
2019-2023	49,490.00
2024-2028	49,490.00
Total Minimum Lease Revenues	\$ 148,470.00

Rental revenue for the operating lease during the year was \$10,722.79.

NOTE 9 - REVENUES

A summary of eliminations and allowances by revenue classification for the year ended June 30, 2013 is presented as follows:

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	\$ 4,645,570.97	\$ 3,607,420.83	\$ 1,038,150.14
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 2,289,881.39	\$ 2,002,942.22	\$ 286,939.17
Other	54,688.47	-	54,688.47
Sales and Services of Education and Related Activities	44,966.20	-	44,966.20
Total Sales and Services	\$ 2,389,536.06	\$ 2,002,942.22	\$ 386,593.84

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 10 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification for the year ended June 30, 2013 are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,080,541.80	\$ 974,117.39	\$ 496,139.85	\$ 7,555.76	\$ -	\$ -	\$ 11,558,354.80
Academic Support	1,989,028.09	50,616.57	43,310.37	-	-	-	2,082,955.03
Student Services	1,775,276.67	82,321.63	561,094.18	61,115.31	-	-	2,479,807.79
Institutional Support	2,357,488.05	323,568.12	481,705.57	-	-	-	3,162,761.74
Operations and Maintenance of Plant	457,252.99	352,582.60	295,162.75	-	513,341.23	-	1,618,339.57
Student Financial Aid	-	-	128,932.30	3,472,920.05	-	-	3,601,852.35
Auxiliary Enterprises	61,671.13	2,147,665.62	213,737.15	-	-	-	2,423,073.90
Depreciation	-	-	-	-	-	662,366.52	662,366.52
Total Operating Expenses	\$ 16,721,258.73	\$ 3,930,871.93	\$ 2,220,082.17	\$ 3,541,591.12	\$ 513,341.23	\$ 662,366.52	\$ 27,589,511.70

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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 \$13,188,800.56, of which \$10,992,631.21 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$915,686.18 and \$659,557.87, respectively.

Required employer contribution rates for the years ended June 30, 2013, 2012, and 2011, were 8.33%, 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 \$915,686.18, \$769,344.77, and \$501,940.71, respectively.

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS

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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 (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 \$15,870.00 for the year ended June 30, 2013.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs incurred by the College. The voluntary contributions by employees amounted to \$213,246.00 for the year ended June 30, 2013.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. The plan administrators are JEM Resource Partners. No costs are incurred by the College. The voluntary contributions by employees amounted to \$43,515.00 for the year ended June 30, 2013.

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

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 \$582,609.45, \$517,032.78, and \$498,866.30, 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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "Reports," or

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

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 in the Appropriations Bill 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 \$48,367.58, \$53,771.41, and \$52,943.04, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a state-administered public entity risk pool. This fund is financed by premiums and

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

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

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

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

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

NOTE 14 - COMMITMENTS

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. At June 30, 2013 the outstanding commitment on construction contracts was \$95,949. These include contracts with Danco for \$45,042, MBAJ for \$4,984, and REI for \$45,923. Outstanding commitments on other supplies and materials ordered but not received or paid for at June 30, 2013 were \$193,632.00.

B. Contingencies - Federal funded financial aid programs are subject to special audits. Such audits could result in claims against the resources of the College.

NOTE 15 - RELATED PARTIES

Foundation - The Edgecombe Community College Educational Projects Foundation is a separately incorporated nonprofit foundation associated with the College. This foundation is specifically to augment the budget of the College, rather than provide scholarships, as is the purpose of the Edgecombe Community College Foundation. Furthermore, the Educational Projects Foundation is to assist, strengthen, and further the work and services of the College by providing training and consulting services and by engaging in entrepreneurial initiatives in collaboration with the College. The College's financial statements do not include the assets, liabilities, net assets or operational transactions of the Educational Projects Foundation. The Educational Projects Foundation did not provide any financial support to the College during the year ended June 30, 2013 because it has not had any financial activity through June 30, 2013.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2013, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements
- GASB statement No. 61, The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB Statement No. 60 sets forth criteria used to establish when a Service Concession Arrangement exists, and the various reporting and disclosure requirements related to both transferors and governmental operators in such an arrangement.

GASB Statement No. 61 sets forth additional requirements for identifying component units, blending identified component units, presenting condensed combining information for blended component units, and accounting for certain equity interests.

GASB Statement No. 62 does not propose any new guidance. The purpose of this statement is to incorporate into the GASB's authoritative literature certain guidance from Pre-November 1989 FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting research Bulletins from the AICPA Committee on Accounting Procedure.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

NOTE 17 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated due to an expense that related to fiscal year 2012, but was recorded in fiscal year 2013.

	Amount
July 1, 2012 Net Position as Previously Reported	\$ 21,067,031.36
Restatements: Accounts Payable Accrual	(88,393.27)
July 1, 2012 Net Position as Restated	\$ 20,978,638.09

NOTE 18 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through June 30, 2014, which is the date the financial statements were available to be issued.

**EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 19 - AUDIT HOURS AND COST

The audit required 435 hours at an approximate cost of \$34,500. The cost represents 0.134% of the College's total assets and 0.123% of total expenses subjected to audit.

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*

Members of the Board of Trustees
Edgecombe Community College
Tarboro, 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 Edgecombe Community College (the “College”) as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Edgecombe Community College Foundation, Inc. (the “Foundation”), as described in our report on the College’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses, referenced as 2013-01, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses, referenced as 2013-02, to be a significant deficiency.

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 that are required to be reported under *Government Auditing Standards*.

College's Response to Finding

The College's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
June 30, 2014

EDGECOMBE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

2013-01 Material Weaknesses in Controls over Financial Reporting

- a. **Criteria:** Controls over financial reporting should ensure that management's estimates are based on appropriate information.
- b. **Condition:** During our audit, we identified corrections to the general ledger that materially impacted the financial statements. Management's estimate for the allowance for doubtful student accounts receivable was not considered adequate based on analysis of prior collections. Based on further analysis, the allowance was increased by approximately \$175,000.
- c. **Cause:** The corrections were due to the College following a prescribed method of determining the allowance for doubtful accounts instead of evaluating facts and circumstances surrounding the collectability of students accounts receivable.
- d. **Effect:** There is a risk that the financial statements might be materially misstated if there are not sufficient controls in place over the development of estimates that can materially impact the financial statements.
- e. **Recommendation:** We recommend that management evaluate the collectability of student accounts receivable at the end of each year based on historical collection rates, current economic conditions, and other knowledge of outstanding accounts.
- f. **Management response and corrective action plan:** Management agrees with the finding and recommendation. In the future, management will take further steps to evaluate the collectability of student accounts receivable based on historical collection trends, current economic conditions, and other knowledge of outstanding accounts in determining the estimate for the allowance of doubtful accounts receivable.

EDGECOMBE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

2013-02 Significant Deficiencies in Controls over Financial Reporting

- a. **Criteria:** Controls over financial reporting should ensure that the appropriate year-end closing entries are identified and recorded for financial statement reporting purposes to ensure that no significant or material journal entries would result from the audit process.
- b. **Condition:** During our audit, we identified various corrections to the financial statements and to the general ledger with regards to the cut-off of accounts payable and to the accrual for compensated absences.
- c. **Cause:** The corrections were due to oversight on the part of the College with regard to year end closing procedures and detailed review of the financial statements.
- d. **Effect:** There is a risk that the financial statements might be materially misstated if there are not sufficient controls in place over the year end closing and preparation and review of financial statements.
- e. **Recommendation:** We recommend that the College implement a more comprehensive review of the financial statements after completion in order to ensure the College's financial statements are free from errors and that any new accounting statements are implemented. We also recommend that the College review current accounting policies and procedures to ensure proper cutoff of expenses and accruals.
- f. **Management response and corrective action plan:** Management agrees with the finding and recommendation. In the future, management will implement a more comprehensive review of the financial statements to ensure the College's financial statements are free from errors and that any new accounting statements are implemented. We will also implement a process whereby the calculation of accrued compensated absences and cut-off of payables are prepared by the Controller and reviewed and approved by the Vice President of Administrative Services to ensure they are properly stated.