STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

Financial Statement Audit Report Of

Randolph Community College

Asheboro, North Carolina

For the Year Ended June 30, 2003

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Randolph Community College

This report presents the results of our financial statement audit of Randolph Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes.*

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report,* the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Randolph Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Randolph Community College. A summary of our reporting objectives and audit results is:

1. **Objective –** To express an opinion on the accompanying financial statements that relate solely to Randolph Community College.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

   Finding

   1. Lack of Reconciliation - Pell
   2. Federal Pell Grant Overawards
   3. Cash Drawdown from Incorrect Award Year
   4. Financial Reporting
   5. Bank Reconciliation
   6. Capital Assets

   These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Randolph Community College
Asheboro, North Carolina

We have audited the accompanying basic financial statements of Randolph Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Randolph Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

April 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Randolph Community College's Annual Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2003. College management has prepared this discussion, along with the financial statements and related notes to the financial statements. It should be read in conjunction with and is qualified in its entirety by the financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

Using the Annual Report/ Overview of Financial Statements

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

One of the most important questions asked about College finances is whether the College as a whole is better off or worse off as a result of the year's activities. The key to understanding this question is the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The College's net assets are one indicator of the College's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The financial reporting model classifies State and county appropriations and gifts as nonoperating revenues. Public colleges' dependency on State and county aid and gifts usually results in an operating deficit under new governmental accounting standards. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities.

Financial Highlights

- The assets of Randolph Community College exceeded its liabilities at fiscal year end June 30, 2003 by $16,871,452.81 (net assets). Net assets increased $624,875.19 over the prior fiscal year of 2002.
- Operating revenues at June 30, 2003 increased over June 30, 2002, by $793.276.41.
- Operating expenses increased at June 30, 2003 by $891,330.60 over the same period in fiscal year 2002.
- Capital assets of Randolph Community College increased by $607,491.15 before depreciation. Accumulated depreciation had a net increase of $644,718.47. Capital assets (net) increased by $467,709.04.
- The College did not incur debt during the current fiscal year.

Financial Analysis of the College's Funds

Net Assets - This schedule is prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting.

Net Assets as of June 30,

	2003	2002
Current Assets	$ 2,071,244.11	$ 1,775,909.42
Noncurrent Assets		
Capital Assets, Net of Depreciation	14,225,789.22	13,758,080.18
Other	1,570,681.68	1,284,358.89
Total Assets	17,867,715.01	16,818,348.49
Current Liabilities	577,442.15	217,763.83
Noncurrent Liabillities	418,820.05	354,007.04
Total Liabilities	996,262.20	571,770.87
Net Assets		
Investment in Capital Assets	14,225,789.22	13,758,080.18
Restricted for:		
Expendable	1,637,398.08	1,374,247.94
Unrestricted	1,008,265.51	1,114,249.50
Total Net Assets	$ 16,871,452.81	$ 16,246,577.62

Total net assets at June 30, 2003, increased $624,875.19 over the prior fiscal year of 2002. The increase was primarily due to the Emergency Training Center additions and the Construction in Progress additions for the Foundation Conference Center.

Revenues and Expenses - This schedule is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets, which is presented on an accrual basis of accounting.

Operating Results at June 30,

	2003	2002
Operating Revenue		
Tuition and Fees	$ 1,216,905.22	$ 1,327,200.35
Other	3,579,837.55	2,676,266.01
Total	4,796,742.77	4,003,466.36
Less Operating Expenses		
Personal Services	9,682,187.65	9,475,218.89
Supplies and Materials	1,859,349.05	1,576,901.83
Services	1,067,679.05	961,793.19
Scholarships and Fellowships	1,503,743.99	1,282,029.73
Utilities	340,487.16	390,867.16
Depreciation	681,128.42	556,433.92
Total	15,134,575.32	14,243,244.72
Operating Loss	(10,337,832.55)	(10,239,778.36)
Nonoperating Revenue		
State/Local Grants and Contracts	9,225,174.30	9,313,569.78
Investment Income	52,683.72	65,593.76
Other Nonoperation Revenue	413.42	223,003.51
Total	9,278,271.44	9,602,167.05
Loss Before Other Revenue	(1,059,561.11)	(637,611.31)
Other Revenue	1,684,436.30	3,633,403.57
Increase in Net Assets	624,875.19	2,995,792.26
Net Assets, Beginning of Year	16,246,577.62	13,250,785.36
Net Assets, End of Year	$ 16,871,452.81	$ 16,246,577.62

The State and local appropriations are not classified as operating revenue per GASB Statement No. 35; therefore, the College will usually show a significant operating loss.

Operating revenue increased overall by $793,276.41. The largest change was in Federal grants and contracts, which had a $755,818.88 increase that was directly related to the Pell Grant program.

Operating expenses for fiscal year 2003 increased by $891,330.60 over fiscal year 2002. Personal Services increased $206,968.76 due to the effects of contractual increases for faculty and staff salaries and additional faculty needed due to enrollment growth. Expenses for supplies and materials increased $282,447.22 over fiscal year 2002. Instructional supplies and materials primarily accounted for this increase. We did not experience a spending freeze in fiscal year 2003 as we did for fiscal year 2002.

Nonoperating revenue decreased by $323,895.61 in fiscal year 2003 over fiscal year 2002. State appropriations decreased $431,507.71. Noncapital grants increased by $603,472.09 as the result of a grant from Duke Endowment and Kate B. Reynolds for the Radiography program and due to a reclassification of several accounts from non-capital gifts to noncapital grants. Noncapital gifts decreased by $322,792.41 due primarily to this reclassification.

Capital Asset and Debt Administration

Capital Assets - Randolph Community College's investment in capital assets as of June 30, 2003, amounted to $14,225,789.22 net of accumulated depreciation. This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment and vehicles. The total increase in Randolph Community College's investment in capital assets was $467,709.04.

Major capital asset events during the current fiscal year included the following:

- Completed addition to Emergency Training Center $473,179.34.
- Additional $504,936.36 construction in progress included the Foundation Conference Center.

Capital Assets, Net as of June 30,

	2003	2002
Capital Assets		
Land	$ 345,962.78	$ 345,962.78
Construction in Progress	530,636.36	25,700.00
Buildings	17,430,644.03	16,894,591.54
Infrastructure	698,326.47	688,058.47
Equipment	2,072,847.87	2,011,677.21
Total Capital Assets	21,078,417.51	19,965,990.00
Less Accumulated Depreciation	(6,852,628.29)	(6,207,909.82)
Net Capital Assets	$ 14,225,789.22	$ 13,758,080.18

Long-Term Debt - The College did not incur any long-term debt for fiscal years ending June 30, 2003.

Economic and Other Factors Impacting Future Periods

The economic position of Randolph Community College is closely tied to that of the State of North Carolina. State appropriation for higher education comprises 29 percent of total revenues and is the largest source of funding. The appropriation for the upcoming year has not been finalized. As the national economy remains sluggish, the State economy also lagged. North Carolina's economy and that of Randolph County is expected to rebound more slowly than the national economy. Plant closures, layoffs, and changes in the textile and furniture sectors have impacted local revenues while simultaneously student enrollment increased due to higher numbers of unemployment. This will most likely result in smaller increases in State and local appropriations for higher education. The specific impact on the College is uncertain.

The biggest challenges facing the College are:

- The level of federal, State and local support
- Continued implementation of the new administrative computing system
- Assessment and reallocation of available resources
- Additional funding needs for equipment purchases
- Additional funding for new buildings

Requests for Information

This financial report is designed to provide a general overview of Randolph Community College's finances for all those with an interest in the College's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Randolph Community College, P. O. Box 1009, Asheboro, NC 27204.

Randolph Community College
Statement of Net Assets
June 30, 2003 ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,333,202.98
Restricted Cash and Cash Equivalents		224,452.88
Receivables (Note 3)		139,952.60
Inventories		373,635.65
Total Current Assets		2,071,244.11
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,526,576.00
Restricted Due from Primary Government		44,105.68
Capital Assets - Nondepreciable, Net (Note 4)		876,599.14
Capital Assets - Depreciable, Net (Note 4)		13,349,190.08
Total Noncurrent Assets		15,796,470.90
Total Assets		17,867,715.01
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		282,069.29
Due to State of North Carolina Component Units		1,777.74
Deferred Revenue		45,116.95
Funds Held for Others		21,822.50
Long-Term Liabilities - Current Portion (Note 6)		226,655.67
Total Current Liabilities		577,442.15
Noncurrent Liabilities:		
Funds Held for Others		102,586.07
Long-Term Liabilities (Note 6)		316,233.98
Total Noncurrent Liabilities		418,820.05
Total Liabilities		996,262.20
NET ASSETS		
Invested in Capital Assets		14,225,789.22
Restricted for:		
Nonexpendable:		
Expendable:		
Scholarships and Fellowships		6,558.70
Loans		1,298.96
Capital Projects		1,480,694.93
Other		148,845.49
Unrestricted		1,008,265.51
Total Net Assets	$	16,871,452.81

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

Randolph Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2003

		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,216,905.22
Federal Grants and Contracts		2,397,919.29
State and Local Grants and Contracts		152,776.01
Sales and Services, Net (Note 8)		1,018,328.95
Other Operating Revenues		10,813.30
Total Operating Revenues		4,796,742.77
EXPENSES		
Operating Expenses:		
Personal Services		9,682,187.65
Supplies and Materials		1,859,349.05
Services		1,067,679.05
Scholarships and Fellowships		1,503,743.99
Utilities		340,487.16
Depreciation		681,128.42
Total Operating Expenses		15,134,575.32
Operating Loss		(10,337,832.55)
NONOPERATING REVENUES		
State Aid		6,944,616.87
County Appropriations		1,675,759.90
Noncapital Grants		604,797.53
Noncapital Gifts, Net (Note 8)		126.35
Investment Income, Net		52,683.72
Other Nonoperating Revenues		287.07
Net Nonoperating Revenues		9,278,271.44
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,059,561.11)
State Capital Aid		411,126.99
County Capital Appropriations		194,697.10
Capital Grants		40,962.00
Capital Gifts, Net (Note 8)		1,037,650.21
Increase in Net Assets		624,875.19
NET ASSETS		
Net Assets, July 1, 2002		16,246,577.62
Net Assets, June 30, 2003	$	16,871,452.81

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

Randolph Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003 **_Exhibit C_**

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	4,819,238.94
Payments to Employees and Fringe Benefits		(9,489,021.33)
Payments to Vendors and Suppliers		(3,168,859.31)
Payments for Scholarships and Fellowships		(1,503,743.99)
Other Receipts		108,046.84
Net Cash Used by Operating Activities		(9,234,338.85)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,944,616.87
County Appropriations		1,675,759.90
Noncapital Grants Received		594,953.21
Noncapital Gifts and Endowments Received		126.35
Net Cash Provided by Noncapital Financing Activities		9,215,456.33
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		368,579.55
County Capital Appropriations		194,697.10
Capital Grants Received		40,962.00
Capital Gifts Received		
Acquisition and Construction of Capital Assets		(111,187.25)
Net Cash Provided by Capital and Related Financing Activities		493,051.40
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		52,683.72
Net Cash Provided by Investing Activities		52,683.72
Net Increase in Cash and Cash Equivalents		526,852.60
Cash and Cash Equivalents, July 1, 2002		2,557,379.26
Cash and Cash Equivalents, June 30, 2003	$	3,084,231.86
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(10,337,832.55)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		681,128.42
Miscellaneous Nonoperating Income		287.07
Changes in Assets and Liabilities:		
Receivables, Net		(22,620.78)
Inventories		21,700.34
Accounts Payable and Accrued Liabilities		110,789.53
Due to Primary Government		1,635.31
Deferred Revenue		45,116.95
Funds Held for Others		107,759.77
Compensated Absences		157,697.09
Net Cash Used by Operating Activities	$	(9,234,338.85)

Randolph Community College
Statement of Cash Flows — ***Exhibit C***
For the Fiscal Year Ended June 30, 2003 — ***Page 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	1,333,202.98
Restricted Cash and Cash Equivalents		224,452.88
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,526,576.00
Total Cash and Cash Equivalents - June 30, 2003	$	3,084,231.86
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through a Gift	$	1,037,650.21
Increase in Receivables Related to Nonoperating Income		53,884.44

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, 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. Randolph 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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 Governmental Accounting Standards Board (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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. **Cash and Cash Equivalents –** This classification includes petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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. **Receivables –** Receivables consist of tuition and fees charges 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 at book value with no provision for doubtful accounts necessary.

F. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the last invoice cost method.

G. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment. The College does not capitalize the *Library & Audio Visual* collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

H. **Restricted Assets –** Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous June 30th, plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of January 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. **Net Assets –** The College's net assets are classified as follows:

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities.

Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

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

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

N. **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 central stores and copy centers.. The expense is charged to the user department.

O. 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

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $2,680.00. The carrying amount of cash on deposit was $3,081,551.86 and the bank balance was $2,955,268.40

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 252,440.29	$ 252,440.29
Cash on Deposit with Private Financial Institutions	2,829,111.57	2,702,828.11
	$ 3,081,551.86	$ 2,955,268.40

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool 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.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, $200,000 of the bank balance was covered by federal depository insurance, and $2,502,828.11 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Receivables Balance
Current Receivables:	
Students	$ 98,885.17
Accounts	29,730.43
Other (Foundation)	11,337.00
Total Current Receivables	$ 139,952.60

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	$ 345,962.78	$ 0.00	$ 0.00	$ 345,962.78
Construction in Progress	25,700.00	504,936.36		530,636.36
Total Capital Assets, Nondepreciable	371,662.78	504,936.36		876,599.14
Capital Assets, Depreciable:				
Buildings	16,894,591.54	536,052.49		17,430,644.03
Machinery and Equipment	2,011,677.21	97,580.61	36,409.95	2,072,847.87
General Infrastructure	688,058.47	10,268.00		698,326.47
Total Capital Assets, Depreciable	19,594,327.22	643,901.10	36,409.95	20,201,818.37
Less Accumulated Depreciation:				
Buildings	4,852,354.41	429,634.10		5,281,988.51
Machinery and Equipment	1,029,978.72	214,699.73	36,409.95	1,208,268.50
General Infrastructure	325,576.69	36,794.59		362,371.28
Total Accumulated Depreciation	6,207,909.82	681,128.42	36,409.95	6,852,628.29
Total Capital Assets, Depreciable, Net	13,386,417.40	(37,227.32)		13,349,190.08
Capital Assets, Net	$ 13,758,080.18	$ 467,709.04	$ 0.00	$ 14,225,789.22

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	$ 121,501.01
Accrued Payroll	160,568.28
Total Accounts Payable and Accrued Liabilities	$ 282,069.29

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	$ 385,192.56	$ 562,736.15	$ 405,039.06	$ 542,889.65	$ 226,655.67

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	$ 12,523.40
2005	6,031.59
2006	1,743.14
Total Minimum Lease Payments	$ 20,298.13

Rental expense for all operating leases during the year was $16,581.53.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 1,818,281.55	$ 601,376.33	$ 1,216,905.22
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Dining	$ 186,769.67	$ 0.00	$ 186,769.67
Bookstore	986,846.93	211,294.35	775,552.58
Vending and Games	8,726.66		8,726.66
Other	47,280.04		47,280.04
Total Sales and Services	$ 1,229,623.30	$ 211,294.35	$ 1,018,328.95
Nonoperating - Noncapital Gifts	$ 126.35	$ 0.00	$ 126.35
Capital Gifts	$ 1,037,650.21	$ 0.00	$ 1,037,650.21

NOTE 9 - 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	$ 5,633,522.15	$ 725,672.33	$ 210,154.72	$ 0.00	$ 0.00	$ 0.00	$ 6,569,349.20
Public Service	8,810.55		3,853.15				12,663.70
Academic Support	1,275,522.45	25,842.39	73,176.70				1,374,541.54
Student Services	610,522.11	72,585.37	8,211.93				691,319.41
Institutional Support	1,290,912.83	66,909.94	342,638.67				1,700,461.44
Operations and Maintenance of Plant	617,281.70	91,980.11	385,032.70		340,487.16		1,434,781.67
Student Financial Aid			3,221.34	1,503,743.99			1,506,965.33
Auxiliary Enterprises	245,615.86	876,358.91	41,389.84				1,163,364.61
Depreciation						681,128.42	681,128.42
Total Operating Expenses	$ 9,682,187.65	$ 1,859,349.05	$ 1,067,679.05	$ 1,503,743.99	$ 340,487.16	$ 681,128.42	$ 15,134,575.32

NOTE 10 - 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 (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of $8,153,201.14, of which $6,073789.70 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $364,427.54. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were $0.00, $123,280.65, and $312,354.41, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $0.00 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $118,871.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $14,850.00 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs, which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was $142,734.06. 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.*

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was $31,583.71. 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 12 - RISK MANAGEMENT

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

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. 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 used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. 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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. The College provides coverage for losses from employee dishonesty and fraud for all other founded employees, Board of Trustees, Trustees, Directors, volunteers, and students under supervision of a College employee. The coverage is $100,000 per employee and occurrence.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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 of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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 13 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $99,822.22 and on other purchases were $215,431.65 at June 30, 2003.

A. **Community College General Obligation Bonds –** The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $2,766,919 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - RANDOLPH COMMUNITY COLLEGE FOUNDATION, INC.

The Randolph Community College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $139,499.67 for the year ended June 30, 2003.

Randolph Community College
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Project #1174 Bundle #1	Jun 2001	$ 244,413.00	$ 0.00	$ 244,413.00	$ 244,413.00	100.00%	Completed
Bundle #2	Nov.2002	293,396.00		293,396.00	11,620.00	3.96%	Jun 2004
Bundle #3	Jun 2004	512,450.00		512,450.00			Sept. 2005
Project #1317 Archdale Campus Addition	Feb 2004	1,344,379.00	275,621.00	1,620,000.00			Aug. 2005
Projects Pending Approval by the State Board							
Repairs and Renovations	Jul 2005	635,271.00		635,271.00			Jun 2006
Total All Projects		$ 3,029,909.00	$ 275,621.00	$ 3,305,530.00	$ 256,033.00		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System.
The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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

Board of Trustees
Randolph Community College
Asheboro, North Carolina

We have audited the financial statements of Randolph Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 23, 2004. 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.

Compliance

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 grants, 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards:*

Finding

1. Lack of Reconciliation - Pell
2. Federal Pell Grant Overawards
3. Cash Drawdown from Incorrect Award Year

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing

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

our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

4. Financial Reporting
5. Bank Reconciliation
6. Capital Assets

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

April 23, 2004

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

1. LACK OF RECONCILIATION - PELL

There were no reconciliations performed between the Student Financial Aid Office and the Business Office for the Federal Pell Grant. The Federal Pell Grant amounts were not reconciled with the U.S. Department of Education - Disbursements Processed report or the Fiscal Operations Report 2002-2003 and Application to Participate for 2004-2005 (FISAP). The following were recorded on the separate reports for Federal Pell Grant:

Student Financial Aid Office - Awards	$2,085,154
General Ledger - Awards	$2,079,597
U. S. Department of Education - Processed Disbursements	$2,480,473
General Ledger – Disbursements	$2,643,371
FISAP - Expenditures for 2002-2003	$2,079,172

Recommendation: All student Financial Aid Office reports for the Federal Pell Grant authorizations and expenditures must be reconciled to the Business Office accounting reports. These reconciled reports must agree with the amounts reported to the U.S. Department of Education. Procedures should be developed to ensure that reconciliations are performed timely and periodically. The amounts for award year 2002-2003 should be reconciled and reported properly to the U.S. Department of Education.

College's Response: Reconciliation procedures will be developed jointly by the Business Office and the Financial Aid Department to assure that award amounts are reconciled monthly between these two departments and the U. S. Department of Education records. The College has contracted with a consulting firm to assist in the reconciliation of 2002-2003 Pell awards and this process is underway at this time.

2. FEDERAL PELL GRANT OVERAWARDS

We randomly selected a sample of 39 students from the U.S. Department of Education 2002-2003 Federal Pell Grant Program Pell Processed Disbursements List YTD. This sample of 39 students tested $85,316 for eligibility and proper disbursements.

Four students were overawarded Federal Pell Grant. Three of the overawards occurred when the calculation for the Federal Pell Grant was not performed properly using the cost of attendance, expected family contribution and student budget. One student was overawarded when provisions of the satisfactory academic progress policy were not met. The overawards totaled $2,312 or 3% of the dollars tested. Given that the previous finding noted the lack of reconciliation procedures we cannot determine the estimated amount of error in the population.

Recommendation: We recommend that each award for the Federal Pell Grant be made in accordance with the provisions for eligibility provided in OMB Circular A-133 Compliance Supplement. The calculation of Federal Pell Grant awards should be performed using the proper cost of attendance, expected family contribution and student budget.

College's Response: Each student record is being evaluated for potential overaward or overpayment. At the conclusion of the review, a schedule of any and all such overawards or overpayments requiring resolution will be prepared and resolved according to Federal procedures.

3. CASH DRAWDOWN FROM INCORRECT AWARD YEAR

The institution made a cash drawdown from the Grant Administration and Payment System (GAPS) from the 2002-2003 Authorization, which should have been drawn from the 2003-2004 Authorization. The $327,830 cash drawdown is reported in the GAPS system incorrectly.

Recommendation: The Institution should ensure that drawdowns are made from the correct authorization year.

College's Response: The Business Office has initiated corrective procedures to separate cash drawdowns to the appropriate fiscal year. This correction will be accomplished through the use of separate account numbers for differing fiscal years.

4. FINANCIAL REPORTING

The College's financial statements, notes to the financial statements, and required supplementary information were not ready for audit at the time of our arrival on campus in January 2004. The financial statements submitted to the Office of State Controller did not agree to accounting records. Accounting records revealed an out of balance situation in the net amount of $224,657.59. The primary cause of this was the inadvertent omission of some beginning net assets balances from the general ledger at the time of conversion to a new accounting system. There were also erroneous journal entries posted to beginning net assets instead of an appropriate revenue or expense account. To correct the out of balance situation, a journal entry with debits of $556,412.32 and credits of $781,069.91 was posted with the difference, the out-of-balance amount, posted as a debit (decrease) to beginning net assets.

The notes to the financial statements required supplementary information and documentation supporting the financial statements were not prepared timely and were not available for audit when the auditors arrived on campus in January 2004.

The conditions resulted in excessive amounts of time spent attempting to resolve the out of balance situation and attempting to locate or obtain the missing documentation.

Recommendation: We recommend that management implement a plan to ensure that beginning net assets balances in each account are properly stated in the subsequent fiscal year accounts. We also recommend that financial statements, notes to the financial statements, and required supplementary information be prepared accurately and be properly supported by accounting records. The financial statements, notes to the financial statements, and required supplementary information should be prepared timely and in the proper format. All documentation should be complete and available for audit on a timely basis. This documentation should be prepared in accordance with guidance provided by the North Carolina Community College System Office and generally accepted accounting principles. The financial statements, notes to the financial statements, required supplementary information, journal entries, supporting schedules, and supporting documentation should be reviewed and approved by appropriate level of management to assure quality and accuracy.

College's Response: The College is currently developing a plan to assure that the preparation and review of future financial statements including notes and supplementary information are prepared promptly, accurately, and in the proper format as required by generally accepted accounting principles and guidance as provided by the North Carolina Community College System Office.

5. BANK RECONCILIATION

Bank statements were not properly reconciled to the general ledger on a monthly basis throughout the fiscal year. As a result, cash recorded in the general ledger and on the financial statements was understated by more than $500,000.

Recommendation: Bank statements should be properly reconciled each month and agreed to general ledger cash balances. Any discrepancy should be promptly investigated and resolved. The reconciliation should be reviewed and approved by appropriate level of management.

College's Response: Procedures have been implemented whereby bank statements are being reconciled, balanced to the general ledger, and reviewed and approved by the Controller on a monthly basis.

6. CAPITAL ASSETS

Several weaknesses in internal control were revealed during the examination of the capital assets accounts.

The College lacked adequate reconciliation procedures. The general ledger was not being reconciled to the fixed asset subsidiary ledger for equipment or to supporting spreadsheets for other capital assets. Expenses per the County 112 report could not be reconciled to additions to capital assets. The College has no procedures in place to assure that additions to existing equipment were capitalized.

During our inspection of a sample of ten equipment items with a historical cost of greater than $5,000.00, two items could not be located. Total cost of the two items not located was $15,201.93 and both items were purchased from county funds. We determined that the College does not perform physical inventory procedures for equipment items purchased from sources other than State funds.

In preparing the year-end entries the College failed to capitalize construction-in-progress for the Foundation Conference Center and the Clock Tower. The total amount of construction-in-progress not capitalized was $492,899.36. The College also failed to capitalize one piece of equipment costing $5,065.78.

Recommendation: College personnel should perform a monthly reconciliation of the capital assets subsidiary ledger for equipment and the spreadsheets maintained as a subsidiary for other capital assets to the State and County 112 report expenses for capital assets. Expenses meeting the $5,000 threshold for capitalization should be properly capitalized and recorded as an asset in the general ledger. At least annually, the College should perform reconciliation by category of the general ledger balance for capital assets to the fixed asset subsidiary ledger balance (accounting system and supporting spreadsheets). Equipment listed on the "Equipment Costing Over $5,000" report from the fixed asset subsidiary ledger should agree to the equipment recorded as a capital asset on the general ledger. Other capital assets should agree to supporting schedules by category.

Procedures for the annual inspection of all non-State equipment should be developed and implemented. Missing inventory items should be investigated. Items determined to be missing or obsolete should be deleted from the College's inventory.

Procedures should be established to assure that all assets costing more than $5,000 are recorded as capital assets.

College's Response: The College is developing and implementing procedures whereby: a) monthly and annual reconciliations by class of the fixed asset subsidiary ledger and the general ledger will be performed, b) annual verification of all non-State fixed assets will be completed and any missing asset which is determined to be missing or obsolete will be investigated and removed from the ledger, and c) assure that add-ons to assets resulting in total costs that exceed $5,000 are appropriately capitalized.

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June 23, 2004

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