



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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STATE OF NORTH CAROLINA
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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, 2004. 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.

AUDITOR'S TRANSMITTAL (CONTINUED)

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:

Findings

Finding 1 - Cash Journal Entries

Finding 2 - Financial Reporting/Audit Trail

Finding 3 - Segregation of Duties

Finding 4 - Password Sharing/Deletion of Access Rights for Terminated Employees

Finding 5 - Pell Grant Program

Finding 6 - Violation of the Daily Deposit Act

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

3. **Objective** - To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

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

Finding

Finding 5- Pell Grant Program

These matters are described in the Audit Findings and Recommendations section of this report.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt Jr., CPA, CFP
State Auditor

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STATE OF NORTH CAROLINA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Randolph Community College
Asheboro, North Carolina

We have audited the accompanying financial statements of Randolph Community College, a component unit of the State of North Carolina, and its discretely presented component unit of and for the year ended June 30, 2004, which collectively comprise Randolph Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Randolph Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Randolph Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Randolph Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2005, 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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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.



Leslie W. Merritt Jr., CPA, CFP
State Auditor

May 15, 2005

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, 2004. 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* and Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights (Amounts in thousands)

- The assets of Randolph Community College exceeded its liabilities at fiscal year end June 30, 2004, by \$17,789 (net assets). Net assets increased \$918 over the prior fiscal year of 2003 including a \$30 restatement described in Note 15.
- Operating revenues at June 30, 2004, increased over June 30, 2003, by \$611.
- Operating expenses increased at June 30, 2004, by \$1,227 over the same period in fiscal year 2003.
- Capital assets of Randolph Community College increased by \$840 before accumulated depreciation increases of \$344.
- 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.

Condensed Statement of Net Assets As of June 30,

	(Amounts in thousands)	
	2004	2003
Current Assets	\$ 2,177	\$ 2,071
Noncurrent Assets:		
Capital Assets, Net of Depreciation	14,726	14,226
Other	2,272	1,570
Total Assets	19,175	17,867
Current Liabilities	644	577
Noncurrent Liabilities	742	419
Total Liabilities	1,386	996
Net Assets		
Investment in Capital Assets	14,726	14,226
Restricted Expendable	2,520	1,637
Unrestricted	543	1,008
Total Net Assets	\$ 17,789	\$ 16,871

Total net assets at June 30, 2004, increased \$918 over the prior fiscal year of 2003. The increase was primarily due to the completion of the Foundation Conference Center and the renovation of several buildings on the Asheboro campus.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets as of June 30,

	(Amounts in thousands)	
	2004	2003
Operating Revenues:		
Tuition and Fees	\$ 1,468	\$ 1,217
Other	3,940	3,580
Total Operating Revenues	5,408	4,797
Less: Operating Expenses	16,361	15,134
Operating Loss	(10,953)	(10,337)
Nonoperating Revenues (Expenses)		
State/Local Grants, Contracts, Gifts	9,764	9,225
Investment Income	54	53
Other Nonoperating Revenues (Expenses)	(107)	
Net Nonoperating Revenues	9,711	9,278
Loss Before Other Revenues	(1,242)	(1,059)
Capital Contributions	2,190	1,684
Increase in Net Assets	948	625
Net Assets, Beginning of year	16,871	16,246
Restatement, Note 15	(30)	
Net Assets, End of year	\$ 17,789	\$ 16,871

Operating revenue increased overall by \$611. The largest component changes were as follows:

- Federal grants and contracts had a \$407 increase that was directly related to the Pell Grant program.
- Increases in existing tuition and fee rates and new generic fees along with increased enrollment growth contributed to a \$251 increase in tuition and fees.

Operating expenses for fiscal year 2004 increased by \$1,227 over fiscal year 2003. Salaries and benefits increased approximately \$1,011 due to the effects of contractual increases for faculty and staff salaries, additional faculty needed due to enrollment growth and increase in employer costs for fringe benefits. Depreciation decreased in the current year by \$251 due to the full conversion of the College's capital assets to the new computer system that used different depreciation start dates from the manual system previously used.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenue increased by \$433 in fiscal year 2004 over fiscal year 2003. State and local appropriations increased \$673 caused by increased allotments of State aid and County appropriations due to increased enrollment growth and the increases for faculty and staff salaries and benefits.

Capital contributions increased by \$506 million in fiscal year 2004 from fiscal year 2003 due to increase in funding availability from the 2000 State bond referendum.

Capital Asset and Debt Administration

Capital Assets: Randolph Community College's investment in capital assets as of June 30, 2004, was \$14,726 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 \$496.

Capital Assets, Net As of June 30,

	(Amounts in thousands)	
	2004	2003
Capital Assets		
Land	\$ 376	\$ 346
Construction in Progress	98	531
Buildings	18,559	17,431
Infrastructure	698	698
Equipment	2,191	2,078
Total	21,922	21,084
Less: Accumulated Depreciation	(7,197)	(6,853)

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

- Completed the Foundation Conference Center \$634;
- Renovations to existing Asheboro campus buildings \$416.

Long-Term Debt: The College did not incur any long-term debt for fiscal year ending June 30, 2004.

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 44 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

economy and that of Randolph County is expected to rebound more slowly than the national economy. Plant closures and 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, PO Box 1009, Asheboro, NC 27204.

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, 2004. 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.

Randolph Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,340,466.19
Restricted Cash and Cash Equivalents	279,164.15
Receivables, Net (Note 3)	121,544.08
Due from Community College Component Units	13,477.95
Inventories	422,242.41
	<hr/>
Total Current Assets	2,176,894.78

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,453,751.99
Restricted Due from Primary Government	818,600.32
Capital Assets - Nondepreciable (Note 4)	473,975.57
Capital Assets - Depreciable, Net (Note 4)	14,252,235.14
	<hr/>
Total Noncurrent Assets	16,998,563.02

Total Assets	<hr/> <hr/> 19,175,457.80
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	486,196.91
Due to State of North Carolina Component Units	90,736.26
Funds Held for Others	19,505.01
Long-Term Liabilities - Current Portion (Note 6)	47,154.59
	<hr/>
Total Current Liabilities	643,592.77

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 742,494.53
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Total Liabilities	<hr/> <hr/> 1,386,087.30
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NET ASSETS

Invested in Capital Assets	14,726,210.71
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Restricted for:

Expendable:

Scholarships and Fellowships	13,636.40
Loans	1,298.96
Capital Projects	2,386,989.62
Other	118,316.39

Unrestricted	<hr/> 542,918.42
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Total Net Assets	<hr/> <hr/> <hr/> \$ 17,789,370.50
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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, 2004

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,467,806.66
Federal Grants and Contracts	2,805,110.65
State and Local Grants and Contracts	147,596.82
Sales and Services, Net (Note 8)	950,861.79
Other Operating Revenues	36,298.86
	<hr/>
Total Operating Revenues	5,407,674.78
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	10,693,023.98
Supplies and Materials	1,998,718.63
Services	1,229,891.70
Scholarships and Fellowships	1,662,271.18
Utilities	346,868.27
Depreciation	430,199.49
	<hr/>
Total Operating Expenses	16,360,973.25
	<hr/>
Operating Loss	(10,953,298.47)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	7,577,340.94
County Appropriations	1,716,453.00
Noncapital Grants	467,450.90
Noncapital Gifts	2,883.88
Investment Income, Net	54,239.48
Other Nonoperating Expenses	(107,242.30)
	<hr/>
Net Nonoperating Revenues	9,711,125.90
	<hr/>
Loss Before Other Revenues	(1,242,172.57)
	<hr/>
State Capital Aid	1,603,015.43
County Capital Appropriations	216,004.00
Capital Grants	103,175.61
Capital Gifts	267,871.24
	<hr/>
Increase in Net Assets	947,893.71
	<hr/>

NET ASSETS

Net Assets, July 1, 2003 as Restated (Note 15)	16,841,476.79
	<hr/>
Net Assets, June 30, 2004	\$ 17,789,370.50
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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, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,354,708.50
Payments to Employees and Fringe Benefits	(10,394,615.16)
Payments to Vendors and Suppliers	(3,615,153.29)
Payments for Scholarships and Fellowships	(1,662,271.18)
Other Payments	(198,255.89)

Net Cash Used by Operating Activities (10,515,587.02)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,577,340.94
County Appropriations	1,716,453.00
Noncapital Grants Received	639,479.88
Noncapital Gifts and Endowments Received	2,883.88

Net Cash Provided by Noncapital Financing Activities 9,936,157.70

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	791,372.79
County Capital Appropriations	216,004.00
Capital Grants Received	112,001.15
Proceeds from Sale of Capital Assets	11,614.52
Acquisition and Construction of Capital Assets	(616,652.15)

Net Cash Provided by Capital and Related Financing Activities 514,340.31

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>54,239.48</u>
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Net Decrease in Cash and Cash Equivalents (10,849.53)

Cash and Cash Equivalents, July 1, 2003 3,084,231.86

Cash and Cash Equivalents, June 30, 2004 \$ 3,073,382.33

RECONCILIATION OF OPERATING LOSS

TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss \$ (10,953,298.47)

Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:

Depreciation Expense	430,199.49
Miscellaneous Nonoperating Expense	(107,242.30)

Changes in Assets and Liabilities:

Receivables, Net	6,040.62
Inventories	(48,606.76)
Accounts Payable and Accrued Liabilities	(28,377.10)
Dut to State of North Carolina Component Units	88,958.52
Deferred Revenue	(45,116.93)
Funds Held for Others	(104,903.56)
Compensated Absences	246,759.47

Net Cash Used by Operating Activities \$ (10,515,587.02)

Randolph Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 1,340,466.19
Restricted Cash and Cash Equivalents	279,164.15

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>1,453,751.99</u>
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Total Cash and Cash Equivalents - June 30, 2004

\$ <u><u>3,073,382.33</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 55,070.00
Assets Acquired through a Gift	265,730.29
Increase in Receivables Related to Nonoperating Income	818,008.80

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

Randolph Community College Foundation, Inc.
Statement of Financial Position
December 31, 2003

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	115,299
Investments Held by Fiscal Agent		6,756,765
Accounts Receivable		14,266
Pledges Receivable		170,391
Coin Collection		300
		<u>300</u>
Total Assets	\$	<u>7,057,021</u>

LIABILITIES

Accounts Payable		164,205
Promise to give		15,750
		<u>15,750</u>
Total Liabilities		<u>179,955</u>

NET ASSETS

Unrestricted		891,465
Temporarily Restricted		2,878,992
Permanently Restricted		3,106,609
		<u>3,106,609</u>
Total Net Assets		<u>6,877,066</u>

Total Liabilities and Net Assets	\$	<u>7,057,021</u>
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See Note 1 in the Notes to the Financial Statements

Randolph Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended December 31, 2003

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Revenues and Gains:				
Contributions	\$ 16,624	\$ 37,066	\$ 40,113	\$ 93,803
Income Earned on Investments	16,933	125,467		142,400
Net Realized and Unrealized Gains on Investments	104,702	585,345		690,047
Other Income	17,969			17,969
Net Assets Released from Restrictions				
Satisfaction on Program Restrictions	101,462	(101,462)		
Satisfaction on Gift Restrictions			15,320	
	<u>257,690</u>	<u>646,416</u>	<u>55,433</u>	<u>944,219</u>
EXPENSES				
Contributions to Randolph Community College for Scholarships	52,085			52,085
Support of various College Programs	6,956			6,956
Grants	2,243			2,243
Management and General	62,808			62,808
	<u>124,092</u>			<u>124,092</u>
Total Expenses	124,092			124,092
Change in Net Assets	133,598	646,416	55,433	820,127
Net Assets at Beginning of Year	<u>757,867</u>	<u>2,247,896</u>	<u>3,051,176</u>	<u>6,056,939</u>
Net Assets at End of Year	<u>\$ 891,465</u>	<u>\$ 2,894,312</u>	<u>\$ 3,106,609</u>	<u>\$ 6,877,066</u>

See Note 1 in the Notes to the Financial Statements

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RANDOLPH COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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

Discretely Presented Component Unit - Randolph Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Randolph Community College Foundation, Inc., (Foundation) is a legally separate, tax-exempt component unit of 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 board consists of 26 members of which five are officers of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below. The Randolph Community College Foundation, Inc., is a private not-for-profit organization that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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.

Financial statements for the College and its discretely presented component unit are presented as of and for the fiscal year ended June 30, 2004, except for Randolph Community College Foundation, Inc., whose financial statements are as of and for the fiscal year ended December 31, 2003.

During the year ended June 30, 2004, the Foundation distributed \$25,339.78 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Robin Johnston, Executive Director at (336) 633-0296.

- 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- 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 method over the estimated useful lives of the assets, generally 10 to 15 years for general infrastructure, 15 to 40 years for buildings, and five 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 bonuses awarded by the College to all full-time permanent employees as of January 1, 2003, and as of July 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, campus food, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,650. The carrying amount of cash on deposit was \$3,070,732.33 and the bank balance was \$2,793,365.95.

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:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 261,949.86	\$ 261,565.74
Cash on Deposit with Private Financial Institutions	<u>2,808,782.47</u>	<u>2,531,800.21</u>
	<u>\$ 3,070,732.33</u>	<u>\$ 2,793,365.95</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$200,000 of the bank balance was covered by federal depository insurance, \$2,608,782.47 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, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 127,043.24	\$ 24,628.22	\$ 102,415.02
Accounts	18,478.31		18,478.31
Other	650.75		650.75
	<u>146,172.30</u>	<u>24,628.22</u>	<u>121,544.08</u>
Total Current Receivables	<u>\$ 146,172.30</u>	<u>\$ 24,628.22</u>	<u>\$ 121,544.08</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 345,962.78	\$ 0.00	\$ 29,847.00	\$ 0.00	\$ 375,809.78
Construction in Progress	530,636.36	(1,128,915.89)	696,445.32		98,165.79
Total Capital Assets, Nondepreciable	876,599.14	(1,128,915.89)	726,292.32		473,975.57
Capital Assets, Depreciable:					
Buildings	17,430,644.03	1,128,915.89			18,559,559.92
Machinery and Equipment	2,077,630.93		211,160.12	97,430.21	2,191,360.84
General Infrastructure	698,326.47				698,326.47
Total Capital Assets, Depreciable	20,206,601.43	1,128,915.89	211,160.12	97,430.21	21,449,247.23
Less Accumulated Depreciation:					
Buildings	5,281,988.51		307,139.76		5,589,128.27
Machinery and Equipment	1,208,268.50		85,747.45	85,815.69	1,208,200.26
General Infrastructure	362,371.28		37,312.28		399,683.56
Total Accumulated Depreciation	6,852,628.29		430,199.49	85,815.69	7,197,012.09
Total Capital Assets, Depreciable, Net	13,353,973.14	1,128,915.89	(219,039.37)	11,614.52	14,252,235.14
Capital Assets, Net	\$ 14,230,572.28	\$ 0.00	\$ 507,252.95	\$ 11,614.52	\$ 14,726,210.71

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 39,367.24
Accrued Payroll	212,217.68
Contract Retainage	55,070.00
Intergovernmental Payables	176,874.99
Other	2,667.00
Total Accounts Payable and Accrued Liabilities	\$ 486,196.91

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 542,889.65	\$ 633,728.34	\$ 386,968.87	\$ 789,649.12	\$ 47,154.59

NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 16,498.76
2006	12,216.09
2007	2,875.69
Total Minimum Lease Payments	\$ 31,590.54

Rental expense for all operating leases during the year was \$22,827.41.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,133,814.15	\$ 0.00	\$ 666,007.49	\$ 1,467,806.66
Sales and Services:				
Dining	\$ 210,297.68	\$ 5,745.48	\$ 0.00	\$ 204,552.20
Student Union Services	9,733.35			9,733.35
Health, Physical Education, and Recreation Services				
Bookstore	1,094,835.45		407,538.66	687,296.79
Other	49,279.45			49,279.45
Total Sales and Services	\$ 1,364,145.93	\$ 5,745.48	\$ 407,538.66	\$ 950,861.79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 6,417,216.69	\$ 701,105.97	\$ 192,250.48	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,310,573.14
Public Service	89,153.01	634.75	5,978.02				95,765.78
Academic Support	1,041,502.26	43,753.54	46,546.19				1,131,801.99
Student Services	604,627.39	33,757.56	74,981.75				713,366.70
Institutional Support	1,523,044.20	93,687.60	470,004.75				2,086,736.55
Operations and Maintenance of Plant	696,272.40	152,680.88	418,323.16		346,868.27		1,614,144.71
Student Financial Aid		98.13	2,178.60	1,662,271.18			1,664,547.91
Auxiliary Enterprises	321,208.03	973,000.20	19,628.75				1,313,836.98
Depreciation						430,199.49	430,199.49
Total Operating Expenses	<u>\$ 10,693,023.98</u>	<u>\$ 1,998,718.63</u>	<u>\$ 1,229,891.70</u>	<u>\$ 1,662,271.18</u>	<u>\$ 346,868.27</u>	<u>\$ 430,199.49</u>	<u>\$ 16,360,973.25</u>

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,914,064.75, of which \$6,475,180.91 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$388,509.21 and \$14,245.40, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,245.40, \$0.00, and \$123,280.65, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004.

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 \$122,693.00 for the year ended June 30, 2004.

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 \$2,350.00 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$207,205.79. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,000,000 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 from all other founded employees, Board of Trustees, Trustees, Directors, volunteers, and student under supervision of a College employee. This 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. There were no employer contributions required for the current fiscal year.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$146,420.00 and on other purchases were \$69,345.93 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 \$1,614,184.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

NOTE 15 - NET ASSET RESTATEMENT(S)

As of July 1, 2003, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2003 Net Assets as Previously Reported	\$ 16,871,452.81
Restatements: Correction of Audit Adjustment	(37,148.00)
Correction of Fixed Asset Conversion	4,783.08
Correction of AR and AP Balances	<u>2,388.90</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 16,841,476.79</u></u>

***Randolph Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Project #1174 Bundle #1	Mar 2001	May 2001	\$ 244,413.00	\$ 0.00	\$ 244,413.00	\$ 244,413.00	100.00%	Jun 2001	Mar 2003
Bundle #2	Jul 2001	Mar 2003	293,396.00		293,396.00	293,396.00	100.00%	Jun 2002	Jun 2004
Bundle #3	Jul 2002	Jun 2004	512,450.00		512,450.00	10,100.00	1.97%	Jun 2003	Sep 2005
Project #1317 Archdale Campus Addition	Feb 2004	Jun 2004	1,344,379.00	275,621.00	1,620,000.00	49,215.00	3.04%	Jul 2005	Sep 2005
<i>Projects Pending Approval by the State Board</i>									
Repairs and Renovations	Jul 2005	Jul 2005	635,271.00		635,271.00			Jul 2006	Jul 2006
Total All Projects			\$ 3,029,909.00	\$ 275,621.00	\$ 3,305,530.00	\$ 597,124.00			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.



STATE OF NORTH CAROLINA
Office of the State Auditor

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

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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Randolph Community College's basic financial statements, and have issued our report thereon dated May 15, 2005. We did not audit the financial statements of Randolph Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Randolph Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

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 our opinions on the financial statements and not to provide an opinion 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

Finding

1. Cash Journal Entries
2. Financial reporting/Audit Trail
3. Segregation of Duties
4. Password Sharing/Deletion of Access Rights for Terminated Employees
5. Pell Grant Program

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described above, we consider Finding 1, 2, 3, 4, and 5 material weaknesses.

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, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Finding

5. Pell Grant Program
6. Violation of the Daily Deposit Act

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt Jr., CPA, CFP
State Auditor

May 15, 2005

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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, grant agreements or other matters. Finding number 5 was also reported in the prior year.

1. CASH JOURNAL ENTRIES

Our review of the June 30, 2004, bank statement and reconciling items revealed journal entries affecting cash, which were posted to the College's general ledger in August 2004. There were four journal entries, ranging in individual amounts from (\$5,287.00) to \$4,050.00, recorded to increase or decrease cash accounts. There was no actual cash disbursed or receipted in August, which affected the June 30th bank reconciliation.

Recommendation: Journal entries should not be made to increase or decrease cash. The College should have adequate controls to ensure that journal entries are not made arbitrarily or without legitimate cause. An individual other than the preparer should approve all journal entries.

College's Response: The College agrees with the Findings and the Recommendations of the State Auditor. These four journal entries were discovered and corrected by the College during the October 2004 bank reconciliation process. The College now has a formal procedure for the documentation and the approval of all journal entries. For each and every journal entry the creator and the supervisor both sign the documentation for the journal entry. Furthermore, all journal entries are designated as JE and are automatically sequentially numbered. The journal entries are logged and the log is marked as each and every JE is reviewed for compliance with full source documentation and both the creator and the approver signatures.

2. FINANCIAL REPORTING/AUDIT TRAIL

The audit trail for many accounts reviewed by auditors was unclear and difficult to follow. Accounts contained journal entries that were posted incorrectly. Postings in the general ledger related to the same transaction were posted in multiple journal entries and not cross-referenced.

There were journal entries made to the general ledger that were inaccurate or lacked appropriate supporting documentation. There was little to no explanation for many journal entries. The College hired a consultant at year end to prepare the financial statements. The consultant did large entries to correct the general ledger and to make the general ledger agree to subsidiary ledgers.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

These conditions resulted in excessive amounts of audit time attempting to follow the audit trail, verify transactions within the general ledger and obtain the missing documentation.

Recommendation: A clear audit trail should exist for all items included in the general ledger. Postings to the general ledger that relate to a single transaction should be posted in the same journal entry or cross-referenced. Only valid entries that are supported by proper documentation should be posted to the general ledger.

College's Response: The College agrees with the Findings and the Recommendations of the State Auditor. A clear audit trail will be made for all items included in the general ledger. This audit trail will consist of sequentially numbered journal entries with full documentation of the source and explanation of each and every journal entry including the signature of both the creator and approving supervisor. Transactions will not be commingled in journal entries. Separate journal entries will be prepared for separate transactions.

3. SEGREGATION OF DUTIES

Our evaluation of internal controls revealed two weaknesses in segregation of duties. One employee has full access rights to computerized files in registration and records office and in the student financial aid office. This dual access to both offices' records allows this employee the ability to change records without detection. One employee in the business office creates vendors in the accounts payable system, prints automatically signed checks, and mails the checks. This ability to initiate the transaction, process, sign, and mail the checks allows one employee sole responsibility for these transactions.

Recommendation: To achieve adequate internal control, we recommend that no one employee have access to make changes within both the financial aid system and the records and registration system. The duties of creating a vendor, printing automatically signed checks and mailing the checks should be segregated. At a minimum, the checks should be verified to the voucher package containing the source documentation by an employee independent of the check vouchering and printing process.

College's Response: The College agrees with the Findings and the Recommendations of the State Auditor. The access rights to the student financial aid office have been removed from the employee who had these rights along with the access rights to the registration and records system. The access rights to create vendors in the accounts payable system have been removed from the employee in the business office who prints the automatically signed checks. The printed checks are now reconciled to the check register, randomly vouched to the source documentation, and mailed by another employee independent of the check vouchering and printing process.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. PASSWORD SHARING/DELETION OF ACCESS RIGHTS FOR TERMINATED EMPLOYEES

Employees in the financial aid office shared passwords to the financial aid system. Student employees were logging into the system using the ID of a permanent employee. Financial aid employees were using a User ID and password for the EDEXpress systems that had been assigned to a former employee. This employee resigned from the College in June 2003. Sharing of passwords prohibits assignment of responsibility for transactions processed to an individual employee and therefore creates a significant weakness in internal controls.

Recommendation: Employees should not share passwords. Employees that are determined by management to have a need to access data within any computerized system should be given a unique ID and password. Employees should be advised that it is a security violation to share passwords. Employee access rights to all computer systems should be terminated when the employee ceases to be employed by the College.

College's Response: The College agrees with the Findings and the Recommendations of the State Auditor. The EDEXpress User ID and password of a former College employee have been terminated. The College computer system access rights for a former College employee have been terminated. All employees in the financial aid office have been assigned individual passwords and counseled that sharing a password is a security violation. Furthermore, a reminder email has been sent to all College personnel advising them that it is a security violation to share passwords.

5. PELL GRANT PROGRAM

During the audit of the Pell Grant Revenues and Expenses, auditors noted instances of noncompliance with Federal Regulations and weak internal controls over the Pell Grant program.

There were numerous disbursements to student records and adjustments to student records that were made within the financial aid system and general ledger during the 2003-04 fiscal year that were not transmitted to the U. S. Department of Education until after June 30, 2004. A reconciliation of Pell expenses between the Department of Education, the general ledger and the financial aid system was not prepared until May 2005. Cash drawdown from the Grant Administration and Payment System (GAPS) were not reconciled to the College's Pell revenue and expense on the general ledger at June 30, 2004.

An incorrect entry was posted for a Pell over award estimate that caused expenses and revenues to be overstated by \$280,448.84 on the College's financial statements.

Auditors selected a statistical sample of 39 Pell recipients for the 2003-2004 year to test for eligibility and to verify the amount of the award. Of the 39 examined, three were

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

under awarded. Two errors were made because of incorrect calculations of awards and one error occurred because student budgets were not consistently applied. Total amount of the underpayment to the three students found to be in error was \$2,093.50.

Per OMB Circular A-133 (5-3-21), federal regulations require that student accounts should not be credited more than ten days before the first day of class. Student accounts were credited for Pell awards before the maximum time limit allowed by the Department of Education.

Recommendation: Adjustments to a Pell award should be made to the financial aid system, the subsidiary ledger, the general ledger and the Department of Education's system on a timely basis. A reconciliation of these systems should be performed at least on a monthly basis.

Applicable expenses should support drawdown of federal funds. Revenues and expenses on the College's general ledger should be reconciled to the draw down of federal funds.

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. We also recommend that the College review all Pell records for 2003-04. Each Pell award should be verified to determine that the amount of the award is correct. The College should verify that the award was entered correctly into all applicable systems. Personnel knowledgeable of federal financial aid regulations should perform the reviews.

Pell awards should not be credited to the student account more than ten days prior to the first day of class.

College's Response: The College agrees with the Findings and the Recommendations of the State Auditor. Procedures are now in place to reconcile adjustments to Pell awards that are made in the financial aid system with the subsidiary ledger, and with the general ledger, and with the Department of Education. The reconciliation is done on the last day of each month. In addition the month-end reconciliation, reconciliations are also done during periods of increased activity in order to insure the timely recording of all transactions in all systems.

Supporting documentation for the drawdown of federal funds is now completed and logged for each and every drawdown. Revenues and expenses on the College general ledger are now reconciled to each and every draw down of federal funds.

The College has engaged the services of a knowledgeable, former North Carolina Community College Financial Aid Director to review and revamp and document the operating procedures, the processing calendar and the training of employees in the financial aid office. The College is committing these resources to see 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. Moreover, the College fully intends to calculate Federal Pell Grant awards using the proper cost of attendance, expected family contribution and student budget.

In addition, the College has engaged the services of a second knowledgeable, former North Carolina Community College Financial Aid Director to review all Pell records for the 2003-2004 school year. Each Pell award will be verified to determine that the amount of the award was made correctly and that it was entered correctly into all applicable systems.

Matters Not 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 the management control processes for matters not directly related to financial reporting or federal compliance objectives.

6. VIOLATION OF THE DAILY DEPOSIT ACT

North Carolina General Statute 115D-58.9 requires that all moneys collected be deposited daily. The auditors randomly selected twelve days to determine if receipts were being deposited by the next business day. There were four days out of the 12 that deposits were not made by the next business day. Deposits were not made if the cashier was not at work. This results in loss of interest on the deposit.

Recommendation: We recommend that the college comply with North Carolina General Statute 115D-58.9 by designating an employee to prepare the deposit in the event that the cashier is unavailable.

College's Response: The College agrees with the Findings and the Recommendations from the State Auditor. A procedure is now in place for a back-up cashier and for the preparation and delivery of the bank deposit each and every business day.

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DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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June 30, 2005

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