



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Edgecombe Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no reportable audit findings.

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
June 29, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Edgecombe Community College
Tarboro, North Carolina

We have audited the accompanying basic financial statements of Edgecombe Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, 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 the 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 Edgecombe Community College as of June 30, 2005, 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Leslie W. Merritt, Jr.

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

June 13, 2006

EDGECOMBE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis is to provide an overview of the financial position and activities of Edgecombe Community College for the year ended June 30, 2005. The Management's Discussion and Analysis section will:

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

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

Financial Highlights

The College, considered as Phase 2B site, has successfully completed the implementation of the Colleague Computer Information System (CIS) for both the College financial and human resource modules. The College is currently in the process of preparing for the implementation of the student module. The initial student system activities began in March 2005. The student implementation activities outside of the initial training and set-up will begin in July 2005, with a planned "Go Live" scheduled for student registration in July 2006, for the fall 2006 semester.

Using the Annual Financial Report

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

The financial statements prescribed by GASB Statement No. 35 presents financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned and expenses and liabilities are recognized when an obligation has been incurred, regardless of when cash is exchanged.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Three basic financial statements are included: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

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

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

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

Financial Analysis

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College and presents the fiscal information in a summary format.

Current assets include cash and cash equivalents, receivables, inventories and prepaid items. Current assets at June 30, 2005, were \$1,164,111.81. Current assets increased by 15.58% during fiscal year 2004-2005.

Noncurrent assets are comprised of restricted cash and cash equivalents, restricted due from primary government and capital assets - nondepreciable and depreciable. Capital assets - depreciable (buildings, general infrastructure and equipment are stated at historical cost less depreciation). The Arts, Civic and Technology building was completed in May 2004, and was transferred from construction in progress to buildings during the 2005 fiscal year. Noncurrent assets at June 30, 2005 were \$17,954,270.83.

Current liabilities are comprised of accounts payable and accrued liabilities, due to primary government, deferred revenue and current portions of long-term liabilities. Total current liabilities at year-end were \$364,646.53, and represented a \$711,165.98 (or 66.11%) decrease from the previous year.

Noncurrent liabilities consist of funds held for others and long-term liabilities totaling \$1,793,529.47. The largest portion of funds held for others consists of cash held by the College on behalf of the Foundation in the College's Short-term Investment Fund (STIF) account. Long-term liabilities are the accrued vacation and bonus leave.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

Invested in capital assets are the net assets representing the College's capital assets net of accumulated depreciation.

Restricted Net Assets - (Expendable) consists of resources in which the College is legally or contractually obligated to spend in accordance with restrictions by external parties.

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

Net assets is the difference between total assets and total liabilities. This figure is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year. Total net assets at June 30, 2005 were \$16,960,206.64. The College's net assets increased by \$406,815.07 during the year, or by 2.46%.

Condensed Statement of Net Assets

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Difference</u>	<u>% Difference</u>
ASSETS				
Current Assets	\$ 1,164,111.81	\$ 1,007,157.29	\$ 156,954.52	15.58 %
Capital Assets, Net	16,681,148.27	16,592,979.91	88,168.36	0.53 %
Other Noncurrent Assets	<u>1,273,122.56</u>	<u>1,628,650.89</u>	<u>(355,528.33)</u>	<u>(21.83) %</u>
Total Assets	<u>\$ 19,118,382.64</u>	<u>\$ 19,228,788.09</u>	<u>\$ (110,405.45)</u>	<u>(0.57) %</u>
LIABILITIES				
Current Liabilities	\$ 364,646.53	\$ 1,075,812.51	\$ (711,165.98)	(66.11) %
Noncurrent Liabilities	<u>1,793,529.47</u>	<u>1,599,584.01</u>	<u>193,945.46</u>	<u>12.12 %</u>
Total Liabilities	<u>\$ 2,158,176.00</u>	<u>\$ 2,675,396.52</u>	<u>\$ (517,220.52)</u>	<u>(19.33) %</u>
NET ASSETS				
Invested in Capital Assets	\$ 16,681,148.27	\$ 16,592,979.91	\$ 88,168.36	0.53 %
Restricted, Expendable	141,233.79	(143,453.25)	284,687.04	(198.45) %
Unrestricted	<u>137,824.58</u>	<u>103,864.91</u>	<u>33,959.67</u>	<u>32.70 %</u>
Total Net Assets	<u>\$ 16,960,206.64</u>	<u>\$ 16,553,391.57</u>	<u>\$ 406,815.07</u>	<u>2.46 %</u>

Statement of Revenues, Expenses and Changes in Net Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenues

Operating revenues include student tuition and fees, federal, State and local operating grants, revenue obtained from sales and services, and other operating revenues. Tuition rates increased from \$35.50 per credit hour for in-State tuition to \$38.00 per credit hour and from \$197.00 per credit hour for out-of-State tuition to \$211.00 per credit hour causing an increase in tuition and fees. There was an overall increase of 1.63% in total operating revenues.

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues				
Tuition and Fees, Net	\$ 1,300,164.65	\$ 1,064,758.70	\$ 235,405.95	22.11 %
Federal Grants and Contracts	5,503,857.72	5,284,233.90	219,623.82	4.16 %
State and Local Grants and Contracts	72,824.85	436,264.50	(363,439.65)	(83.31) %
Sales and Services, Net	429,660.89	412,057.44	17,603.45	4.27 %
Other Operating Revenues	8,632.25	690.25	7,942.00	1,150.60 %
Total Operating Revenues	<u>\$ 7,315,140.36</u>	<u>\$ 7,198,004.79</u>	<u>\$ 117,135.57</u>	<u>1.63 %</u>

Nonoperating Revenues

Nonoperating revenues are revenues received for which goods and services are not provided. They include appropriations from State and local governments. The nonoperating revenues increased by 15.72%. The largest portion of nonoperating revenues was \$9,616,553.11 in State aid, which consists of funds allotted from the North Carolina Board of Community Colleges for operations of the College. Revenues received from State and local governments to support operations both increased 13.56% and 13.51% respectively.

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Differences</u>	<u>% Difference</u>
Nonoperating Revenues				
State Aid	\$ 9,616,553.11	\$ 8,468,536.71	\$ 1,148,016.40	13.56 %
County Appropriations	887,027.34	781,479.00	105,548.34	13.51 %
Noncapital Grants	833,772.46	568,033.67	265,738.79	46.78 %
Noncapital Gifts	168,467.11		168,467.11	
Investment Income	6,485.71		6,485.71	
Other Nonoperating Revenues	2,114.40	132,409.27	(130,294.87)	(98.40) %
Total Nonoperating Revenues	<u>\$ 11,514,420.13</u>	<u>\$ 9,950,458.65</u>	<u>\$ 1,563,961.48</u>	<u>15.72 %</u>

Capital Revenues

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities. These revenues are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Assets. Edgecombe Community College received \$1,125,511.21 for State capital aid and \$400,000.04 for county capital appropriations in fiscal year 2005. Capital grants decreased by 99.75% in fiscal year 2005 due to the completion of the Arts, Civic, and Technology Center on the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Tarboro Campus. Total capital revenues at June 30, 2005 were \$1,529,554.25, which is a decrease of \$4,040.715.55 from June 30, 2004.

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Differences</u>	<u>% Difference</u>
State Capital Aid	\$ 1,125,511.21	\$ 3,761,656.58	\$ (2,636,145.37)	(70.08) %
County Capital Appropriations	400,000.04	200,000.00	200,000.04	100.00 %
Capital Grants and Capital Gifts	<u>4,043.00</u>	<u>1,608,613.22</u>	<u>(1,604,570.22)</u>	<u>(99.75) %</u>
Total Capital Revenues	<u>\$ 1,529,554.25</u>	<u>\$ 5,570,269.80</u>	<u>\$ (4,040,715.55)</u>	<u>(72.54) %</u>

Operating Expenses

Operating expenses are expenses used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. The operating expenses increased by 10.13%. The majority of the increase is due to hiring new full-time and part-time employees, salary increases, and increases in supplies and materials.

Operating expenses for fiscal year 2004-2005 totaled \$20,124,874.42 and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

Personal service expenses are salary and benefits for the faculty and staff of the College. Salaries and benefit expenditures increased 7.14% or \$774,379.56 in fiscal year 2004-2005.

Supplies and Material expenditures consisted mainly of instructional supplies used in the classrooms, office supplies, and maintenance supplies. Supplies and materials increased 25.10% or \$547,330.24 from fiscal year 2003-2004. This was due to supplies bought for use in the new Arts, Civic and Technology Building.

Current services expenditures include expenditures for repair and maintenance services, contracted services, travel expenses, printing costs, and telecommunications cost. They increased by 16.89% or \$306,827.79 from fiscal year 2003-2004.

Scholarships and fellowships expenditures include expenses associated with student loans and scholarships awarded to students. Total expenditures in this category for fiscal year 2005 did not have a large change, showing only a 3.21% or \$91,185.16 increase.

Utility expenditures increased 31.80% or \$99,879.74 in fiscal year 2005, due to occupancy in the new building.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Depreciation expense increased 11.05% or \$31,425.98 in fiscal year 2005.

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Differences</u>	<u>% Difference</u>
Operating Expenses				
Personal Services	\$ 11,612,745.92	\$ 10,838,366.36	\$ 774,379.56	7.14%
Supplies and Materials	2,727,823.14	2,180,492.90	547,330.24	25.10%
Services	2,123,381.28	1,816,553.49	306,827.79	16.89%
Scholarships and Fellowships	2,931,167.47	2,839,982.31	91,185.16	3.21%
Utilities	413,940.63	314,060.89	99,879.74	31.80%
Depreciation	315,815.98	284,390.00	31,425.98	11.05%
Total Operating Expenses	<u>\$ 20,124,874.42</u>	<u>\$ 18,273,845.95</u>	<u>\$ 1,851,028.47</u>	<u>10.13%</u>

Statement of Cash Flows

The Statement of Cash Flows is used to provide detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity. These activities are operating, noncapital financing, capital financing and invested. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Differences</u>	<u>% Difference</u>
Cash Provided (Used) by:				
Operating Activities	\$ (12,114,870.45)	\$ (11,889,673.86)	\$ (225,196.59)	1.89 %
Noncapital Financing Activities	10,751,511.29	9,917,438.63	834,072.66	8.41 %
Capital and Related Financing Activities	1,418,287.18	591,314.08	826,973.10	139.85 %
Investing Activities	6,485.71	18,758.66	(12,272.95)	(65.43) %
Net Change in Cash	<u>\$ 61,413.73</u>	<u>\$ (1,362,162.49)</u>	<u>\$ 1,423,576.22</u>	<u>(104.51) %</u>
Cash, Beginning of the Year	<u>\$ 1,241,011.56</u>	<u>\$ 2,603,174.05</u>	<u>\$ (1,362,162.49)</u>	<u>(52.33) %</u>
Cash, End of Year	<u>\$ 1,302,425.29</u>	<u>\$ 1,241,011.56</u>	<u>\$ 61,413.73</u>	<u>4.95 %</u>

Edgecombe Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 76,274.14
Restricted Cash and Cash Equivalents	137,983.18
Receivables, Net (Note 3)	637,310.79
Inventories	292,277.05
Prepaid Items	20,266.65
	<hr/>
Total Current Assets	1,164,111.81

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,088,167.97
Restricted Due from Primary Government	184,954.59
Capital Assets - Nondepreciable (Note 4)	883,463.71
Capital Assets - Depreciable, Net (Note 4)	15,797,684.56
	<hr/>
Total Noncurrent Assets	17,954,270.83

Total Assets	<hr/> <hr/> 19,118,382.64
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	178,939.28
Due to Primary Government	4,412.00
Deferred Revenue	88,921.67
Long-Term Liabilities - Current Portion (Note 6)	92,373.58
	<hr/>
Total Current Liabilities	364,646.53

Noncurrent Liabilities:

Funds Held for Others	1,088,203.72
Long-Term Liabilities (Note 6)	705,325.75
	<hr/>
Total Noncurrent Liabilities	1,793,529.47

Total Liabilities	<hr/> <hr/> 2,158,176.00
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NET ASSETS

Invested in Capital Assets	16,681,148.27
Restricted for:	
Expendable:	
Scholarships and Fellowships	22,967.25
Capital Projects	32,266.75
Other	85,999.79
Unrestricted	137,824.58
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 16,960,206.64

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

***Edgecombe Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,300,164.65
Federal Grants and Contracts	5,503,857.72
State and Local Grants and Contracts	72,824.85
Sales and Services, Net (Note 8)	429,660.89
Other Operating Revenues	8,632.25
	<hr/>
Total Operating Revenues	7,315,140.36
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	11,612,745.92
Supplies and Materials	2,727,823.14
Services	2,123,381.28
Scholarships and Fellowships	2,931,167.47
Utilities	413,940.63
Depreciation	315,815.98
	<hr/>
Total Operating Expenses	20,124,874.42
	<hr/>
Operating (Loss)	(12,809,734.06)
	<hr/>

NONOPERATING REVENUES

State Aid	9,616,553.11
County Appropriations	887,027.34
Noncapital Grants	833,772.46
Noncapital Gifts	168,467.11
Investment Income	6,485.71
Other Nonoperating Revenues	2,114.40
	<hr/>
Total Nonoperating Revenues	11,514,420.13
	<hr/>
(Loss) Before Other Revenues	(1,295,313.93)
	<hr/>
State Capital Aid	1,125,511.21
County Capital Appropriations	400,000.04
Capital Grants	4,043.00
	<hr/>
Increase in Net Assets	234,240.32

NET ASSETS

Net Assets, July 1, 2004 as Restated (Note 16)	<hr/> 16,725,966.32
Net Assets, June 30, 2005	<hr/> <hr/> \$ 16,960,206.64

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

Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 7,401,438.22
Payments to Employees and Fringe Benefits	(11,522,763.64)
Payments to Vendors and Suppliers	(5,203,131.85)
Payments for Scholarships and Fellowships	(2,931,167.47)
Other Receipts	159,220.82
	<u>159,220.82</u>
Net Cash Used by Operating Activities	<u>(12,096,403.92)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,616,553.11
County Appropriations	887,027.34
Noncapital Grants Received	79,463.73
Noncapital Gifts Received	168,467.11
	<u>168,467.11</u>
Net Cash Provided by Noncapital Financing Activities	<u>10,751,511.29</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,638,221.20
County Capital Appropriations	200,000.04
Capital Grants Received	4,043.00
Proceeds from Sale of Capital Assets	11,044.60
Acquisition and Construction of Capital Assets	(453,488.19)
	<u>(453,488.19)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,399,820.65</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>6,485.71</u>
Cash Provided by Investing Activities	<u>6,485.71</u>

Net Increase in Cash and Cash Equivalents	61,413.73
Cash and Cash Equivalents, July 1, 2004	<u>1,241,011.56</u>
Cash and Cash Equivalents, June 30, 2005	<u>\$ 1,302,425.29</u>

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

Operating (Loss)	\$ (12,809,734.06)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	315,815.98
Miscellaneous Nonoperating Income	2,114.40
Changes in Assets and Liabilities:	
Receivables, Net	149,696.20
Inventories	27,824.75
Prepaid Items	(18,281.67)
Accounts Payable and Accrued Liabilities	48,416.20
Due to Primary Government	1,457.05
Deferred Revenue	(63,398.34)
Funds Held for Others	157,106.42
Compensated Absences	74,112.62
	<u>74,112.62</u>
Net Cash Used by Operating Activities	<u>\$ (12,114,870.45)</u>

Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	76,274.14
Restricted Cash and Cash Equivalents		137,983.18

Noncurrent Assets:

Restricted Cash and Cash Equivalents		<u>1,088,167.97</u>
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Total Cash and Cash Equivalents - June 30, 2005

	\$	<u><u>1,302,425.29</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$	411,961.73
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The accompanying notes to the financial statements are an integral part of this statement.

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

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. Edgecombe Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds 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 or for which the nature of their relationship is not considered significant to the College are not part of the accompanying Financial Statements.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 undeposited receipts, petty cash, cash on deposit with private bank 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 charged 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at cost using 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- 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 January 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, 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. 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 and capital appropriations do not revert and are available for future use as approved by the county commissioner.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$410.00, and deposits in private financial institutions with a carrying value of \$14,727.85 and the bank balance of \$416,270.74.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,287,287.44 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 63,961.24	\$ 2,780.00	\$ 61,181.24
Accounts	125,982.19	2,775.00	123,207.19
Intergovernmental	<u>452,922.36</u>	<u> </u>	<u>452,922.36</u>
Total Current Receivables	<u><u>\$ 642,865.79</u></u>	<u><u>\$ 5,555.00</u></u>	<u><u>\$ 637,310.79</u></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, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 883,463.71	\$ 0.00	\$ 0.00	\$ 0.00	\$ 883,463.71
Construction in Progress	10,922,904.35		107,968.53	11,030,872.88	
Total Capital Assets, Nondepreciable	11,806,368.06		107,968.53	11,030,872.88	883,463.71
Capital Assets, Depreciable:					
Buildings	7,570,166.84		11,030,872.88		18,601,039.72
Machinery and Equipment	1,497,791.12		134,485.66	28,245.54	1,604,031.24
General Infrastructure	329,308.91				329,308.91
Total Capital Assets, Depreciable	9,397,266.87		11,165,358.54	28,245.54	20,534,379.87
Less Accumulated Depreciation:					
Buildings	3,466,662.36		189,254.16		3,655,916.52
Machinery and Equipment	814,683.75		119,975.64	17,200.94	917,458.45
General Infrastructure	329,308.91	(172,574.75)	6,586.18		163,320.34
Total Accumulated Depreciation	4,610,655.02	(172,574.75)	315,815.98	17,200.94	4,736,695.31
Total Capital Assets, Depreciable, Net	4,786,611.85	172,574.75	10,849,542.56	11,044.60	15,797,684.56
Capital Assets, Net	\$ 16,592,979.91	\$ 172,574.75	\$ 10,957,511.09	\$ 11,041,917.48	\$ 16,681,148.27

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 94,841.37
Accrued Payroll	47,489.44
Other	36,608.47
Total Accounts Payable and Accrued Liabilities	\$ 178,939.28

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 723,586.71	\$ 855,501.39	\$ 781,388.77	\$ 797,699.33	\$ 92,373.58

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 63,199.92
2007	62,898.68
2008	56,743.99
2009	56,002.44
2010	<u>28,001.22</u>
Total Minimum Lease Payments	<u><u>\$ 266,846.25</u></u>

Rental expense for all operating leases during the year was \$62,215.08.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	\$ 2,360,307.22	\$ 1,060,142.57	\$ 1,300,164.65
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 944,504.26	\$ 604,131.48	\$ 340,372.78
Other	55,199.86		55,199.86
Sales and Services of Education and Related Activities	<u>34,088.25</u>		<u>34,088.25</u>
Total Sales and Services	<u>\$ 1,033,792.37</u>	<u>\$ 604,131.48</u>	<u>\$ 429,660.89</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,180,551.33	\$ 1,024,776.98	\$ 469,829.74	\$ 245,150.00	\$ 0.00	\$ 0.00	\$ 8,920,308.05
Public Service	48,865.86		15,348.13				64,213.99
Academic Support	1,222,851.18	100,117.23	73,975.04				1,396,943.45
Student Services	1,355,927.36	65,509.29	184,300.11	326,543.40			1,932,280.16
Institutional Support	1,457,349.59	218,420.49	367,838.17				2,043,608.25
Operations and Maintenance of Plant	302,303.54	524,844.17	128,144.92		413,940.63		1,369,233.26
Student Financial Aid			864,410.45	2,359,474.07			3,223,884.52
Auxiliary Enterprises	44,897.06	794,154.98	19,534.72				858,586.76
Depreciation						315,815.98	315,815.98
Total Operating Expenses	<u>\$ 11,612,745.92</u>	<u>\$ 2,727,823.14</u>	<u>\$ 2,123,381.28</u>	<u>\$ 2,931,167.47</u>	<u>\$ 413,940.63</u>	<u>\$ 315,815.98</u>	<u>\$ 20,124,874.42</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 G.S. 135-5 and G.S. 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$9,776,142.48, of which \$8,446,920.95 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$506,815.26 and \$183,298.18, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$183,298.18, \$17,251.43, and \$0.00, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.ncosc.net/> 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 \$9,000.00 for the year ended June 30, 2005.

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 \$163,712.00 for the year ended June 30, 2005.

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 \$94,305.00 for the year ended June 30, 2005.

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, 2005, the College's total contribution to the Plan was \$270,301.47. 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 .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$37,588.80. 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, and can include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles 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 has a blanket honesty bond for all college employees with coverage of \$10,000 per 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 other purchases were \$253,133.93 and the College had no outstanding commitments on construction projects at June 30, 2005.
- 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 \$470,000.00 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - RELATED PARTIES

Foundation – The Edgecombe Community College Foundation 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 includes funds held on behalf of the Foundation in the State Treasurer’s Short-term Investment Fund. The distributions received and/or benefits provided approximately \$79,000 for scholarships and \$3,000 for mini grants for the year ended June 30, 2005.

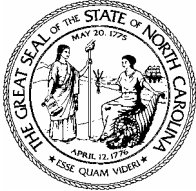
NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks; credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2004, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2004, Net Assets as Previously Reported	\$ 16,553,391.57
General Infrastructure Accumulated Depreciation	<u>172,574.75</u>
July 1, 2004, Net Assets as Restated	<u><u>\$ 16,725,966.32</u></u>



Leslie W. Merritt, Jr., CPA, CFP
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
Edgecombe Community College
Tarboro, North Carolina

We have audited the financial statements of Edgecombe Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated June 13, 2006.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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.

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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**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)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of the College in a separate letter dated June 12, 2006.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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

June 13, 2006

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