STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, 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

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FOR THE YEAR ENDED JUNE 30, 2005

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Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Randolph 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 and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grant***s*** disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

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
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, as of and for the year ended June 30, 2005, which collectively comprise the 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 the 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 discretely presented component unit as of June 30, 2005, and the respective changes in financial position and 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. 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 May 17, 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.

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

May 17, 2006

RANDOLPH COMMUNITY COLLEGE
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, 2005, and comparisons with 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, the 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 nonfinancial 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.

Financial Highlights

- The assets of Randolph Community College exceeded its liabilities at June 30, 2005, by $18,602,891.97 (net assets). Net assets increased $813,521.47 over the prior fiscal year of 2004.
- Operating revenues at June 30, 2005, decreased from June 30, 2004, by $405,181.87.
- Operating expenses increased at June 30, 2005, by $921,931.55 over the same period in fiscal year 2004.
- Capital assets of Randolph Community College increased by $710,767.03 before accumulated depreciation increases of $650,231.01.
- The College did not incur debt during the current fiscal year.

Financial Analysis of the College's Funds

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

Net Assets
As of June 30,

	2004	2005
Current Assets	$ 2,176,894.78	$ 1,462,555.66
Noncurrent Assets		
Capital Assets, Net of Depreciation	14,726,210.71	14,786,746.73
Other	2,272,352.31	3,621,862.00
Total Assets	19,175,457.80	19,871,164.39
Current Liabilities	643,592.77	594,989.33
Noncurrent Liabilities	742,494.53	673,283.09
Total Liabilities	1,386,087.30	1,268,272.42
Net Assets		
Invested in Capital Assets	14,726,210.71	14,786,746.73
Expendable	2,520,241.37	4,152,500.34
Unrestricted	542,918.42	(336,355.10)
Total Net Assets	$ 17,789,370.50	$ 18,602,891.97

Total net assets at June 30, 2005, increased $813,521.47 over the prior fiscal year of 2004. The largest component of this change was a $1,151,929.90 increase in capital projects – expendable. This was due to an increase of $671,976.46 due from primary government and an increase in cash in unexpended plant funds of $687,699.84. Unrestricted net assets decreased by $879,273.52. This was due primarily to an increase in compensated absences liability of $29,122.41 and interfund borrowing of $830,162.75 from unrestricted cash to cover deficit cash in restricted funds.

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

Operation Results
At June 30,

	2004	2005
Operating Revenue		
Tuition and Fees	$ 1,467,806.66	$ 1,435,976.75
Other	3,939,868.12	3,566,516.06
Total Operating Revenues	5,407,674.78	5,002,492.81
Personal Services	10,693,023.98	11,158,532.56
Supplies and materials	1,998,718.63	2,014,512.63
Services	1,229,891.70	1,667,710.88
Scholarships and fellowships	1,662,271.18	1,386,156.02
Utilities	346,868.27	361,678.97
Depreciation	430,199.49	694,313.74
Total Operating Expenses	16,360,973.25	17,282,904.80
Operating Loss	(10,953,298.47)	(12,280,411.99)
Nonoperating Revenues (Expenses)		
State/Local Grants and Contracts	9,764,128.72	11,202,608.23
Investment Income	54,239.48	66,576.04
Other Nonoperating Revenues (Expenses)	(107,242.30)	42,600.00
Net Nonoperating Revenues	9,711,125.90	11,311,784.27
Loss Before Other Revenues	(1,242,172.57)	(968,627.72)
Other Revenues	2,190,066.28	1,782,149.19
Increase in Net Assets	947,893.71	813,521.47
Net Assets, Beginning of Year	16,841,476.79	17,789,370.50
Net Assets, End of Year	$ 17,789,370.50	$ 18,602,891.97

Operating revenue decreased overall by $405,181.97. The largest component change was a $367,896.35 decrease in federal grants and contracts that was directly related to the Pell Grant program.

Operating expenses for fiscal year 2005 increased by $921,931.55 over fiscal year 2004. Personal Services increased $465,508.58 due to the effects of contractual increases for faculty and staff salaries. Additional faculty was needed due to enrollment growth and increase in employer costs for fringe benefits. Expenses for supplies and materials increased $15,794.00 over fiscal year 2004 due to increased costs associated with the increased costs of additional programs. Services increased $437,819.18 over the prior year due to increases in facilities repairs, advertising, printing and other general categories. Fellowships and scholarships decreased $276,115.16 due to adjustments related to prior year errors in Federal Student Financial Aid.

Nonoperating revenue increased by $1,600,658.37 in fiscal year 2005 over fiscal year 2004. State and local appropriations increased $1,438,479.51 caused by increased allotments of State aid and county appropriations due to increased enrollment growth and the increases for faulty and staff salaries and benefits.

Other revenue decreased by $407,917.09 in fiscal year 2005 due to decrease in funding availability from the 2000 State bond referendum.

Randolph Community College's total revenue increased $787,559.41 from $17,308,866.96 in 2004 to $18,096,426.37 in 2005. The increase is primarily related to the changes in operating revenue, nonoperating revenue and other revenue as stated previously.

Capital Assets: Randolph Community College's investment in capital assets as of June 30, 2005, was $14,786,746.73 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 $60,536.02.

Capital Assets, Net
As of June 30,

	2004	2005
Capital Assets		
Land	$ 375,809.78	$ 375,809.78
Construction in progress	98,165.79	541,440.36
Buildings	18,559,559.92	18,673,535.89
Infrastructure	698,326.47	698,326.47
Equipment	2,191,360.84	2,344,877.33
Total	21,923,222.80	22,633,989.83
Less Accumulated Depreciation	7,197,012.09	7,847,243.10
Net Capital Assets	$ 14,726,210.71	$ 14,786,746.73

Economic and Other Factors Impacting Future Periods

The economic position of Randolph Community College is closely tied to that of the State of North Carolina. State appropriation for higher education comprises 29 percent of total revenues and is the largest source of funding. The appropriation for the upcoming year has not been finalized. As the national economy remains sluggish, the State economy also lagged. North Carolina's economy and that of Randolph County is expected to rebound more slowly than the national economy. Plant closures 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.

Randolph Community College
Statement of Net Assets
June 30, 2005 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	396,868.10
Restricted Cash and Cash Equivalents		330,601.43
Receivables, Net (Note 3)		397,382.10
Inventories		337,704.03
Total Current Assets		1,462,555.66
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,131,285.21
Restricted Due from Primary Government		1,490,576.79
Capital Assets - Nondepreciable (Note 4)		917,250.14
Capital Assets - Depreciable, Net (Note 4)		13,869,496.59
Total Noncurrent Assets		18,408,608.73
Total Assets		19,871,164.39
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		297,615.87
Deferred Revenue		123,632.42
Funds Held for Others		28,252.60
Long-Term Liabilities - Current Portion (Note 6)		145,488.44
Total Current Liabilities		594,989.33
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		673,283.09
Total Liabilities		1,268,272.42
NET ASSETS		
Invested in Capital Assets		14,786,746.73
Restricted for:		
Expendable:		
Scholarships and Fellowships		448,980.55
Loans		1,298.96
Capital Projects		3,538,919.52
Other		163,301.31
Unrestricted		(336,355.10)
Total Net Assets	$	18,602,891.97

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, 2005 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	1,435,976.75
Federal Grants and Contracts		2,437,214.30
State and Local Grants and Contracts		142,747.08
Sales and Services, Net (Note 8)		954,101.64
Other Operating Revenues		32,453.04
Total Operating Revenues		5,002,492.81
EXPENSES		
Operating Expenses:		
Personal Services		11,158,532.56
Supplies and Materials		2,014,512.63
Services		1,667,710.88
Scholarships and Fellowships		1,386,156.02
Utilities		361,678.97
Depreciation		694,313.74
Total Operating Expenses		17,282,904.80
Operating Loss		(12,280,411.99)
NONOPERATING REVENUES		
State Aid		8,816,831.16
County Appropriations		1,895,054.09
Noncapital Grants		480,163.03
Noncapital Gifts		10,559.95
Investment Income, Net		66,576.04
Other Nonoperating Revenues		42,600.00
Net Nonoperating Revenues		11,311,784.27
Loss Before Other Revenues and Expenses		(968,627.72)
State Capital Aid		1,133,229.63
County Capital Appropriations		475,064.91
Capital Grants		178,892.56
Special Items		(5,037.91)
Increase in Net Assets		813,521.47
NET ASSETS		
Net Assets, July 1, 2004		17,789,370.50
Net Assets, June 30, 2005	$	18,602,891.97

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, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,484,160.01
Payments to Employees and Fringe Benefits	(11,332,518.79)
Payments to Vendors and Suppliers	(3,715,262.42)
Payments for Scholarships and Fellowships	(1,105,707.18)
Other Receipts	49,069.13
Net Cash Used by Operating Activities	(11,620,259.25)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,816,831.16
County Appropriations	1,895,054.09
Noncapital Grants Received	300,508.60
Noncapital Gifts and Endowments Received	10,559.95
Cash Provided by Noncapital Financing Activities	11,022,953.80
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	461,253.16
County Capital Appropriations	475,064.91
Capital Grants Received	176,225.56
Capital Gifts Received	13,477.95
Proceeds from Sale of Capital Assets	12,155.79
Acquisition and Construction of Capital Assets	(822,075.56)
Net Cash Provided by Capital and Related Financing Activities	316,101.81
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	66,576.05
Net Decrease in Cash and Cash Equivalents	(214,627.59)
Cash and Cash Equivalents, July 1, 2004	3,073,382.33
Cash and Cash Equivalents, June 30, 2005	$ 2,858,754.74
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (12,280,411.99)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	694,313.74
Miscellaneous Nonoperating Income	42,600.00
Special Items	(5,037.91)
Changes in Assets and Liabilities:	
Receivables, Net	(273,058.58)
Due from Community College Component Units	84,538.38
Accounts Payable and Accrued Liabilities	46,030.95
Deferred Revenue	32,896.16
Funds Held for Others	8,747.59
Compensated Absences	29,122.41
Net Cash Used by Operating Activities	$ (11,620,259.25)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	396,868.10
Restricted Cash and Cash Equivalents		330,601.43
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,131,285.21
Total Cash and Cash Equivalents - June 30, 2005	$	2,858,754.74

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	674,976.47

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

Randolph Community College Foundation, Inc.
Statement of Financial Position
For the Fiscal Year Ended June 30, 2005 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	106,852
Investments Held by Fiscal Agents		7,532,020
Accounts Receivable		497
Pledges Receivable		53,391
Coin Collection		300
Total Assets	$	7,693,060
LIABILITIES		
Accounts Payable	$	9,384
NET ASSETS		
Unrestricted		964,296
Temporarily Restricted		3,428,032
Permanently Restricted		3,291,348
Total Net Assets		7,683,676
Total Liabilities and Net Assets	$	7,693,060

Randolph Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005 — *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contribution	$ 1,418	$ 61,969	$ 59,778	$ 123,165
Income earned on investments	22,925	169,633		192,558
Net realized and unrealized gains on investments	57,356	350,341		407,697
Other income	839			839
Net Assets released from restrictions				
Satisfaction of program restrictions	140,769	(140,769)		
Satisfaction of gift requirements		(96,614)	96,614	
Total revenues, gains and other support	223,307	344,560	156,392	724,259
EXPENSES				
Contributions to Randolph Community College for				
Scholarships	67,908			67,908
Support of various College programs (refunds)	7,408			7,408
Grants	17,117			17,117
Special Projects	12,864			12,864
Management and general	71,095			71,095
Total expenses	176,392			176,392
Change in net assets	46,915	344,560	156,392	547,867
Net assets at beginning of period	917,381	3,083,472	3,134,956	7,135,809
Net assets at end of period	$ 964,296	$ 3,428,032	$ 3,291,348	$ 7,683,676

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds 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 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.

During the year ended June 30, 2005, the Foundation distributed $108,429.97 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.

The fiscal year end for Randolph Community College Foundation changed from January 1 through December 31 to July 1 through June 30. This change was made by having a six month fiscal period of January 1, 2004, through June 30, 2004. Due to this change, the amount distributed to the College is for an 18 month period (January 1, 2004, through June 30, 2005.

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.

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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

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 25 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment. The College does not capitalize the *Library & Audio Visual* collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 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 June 30 plus the leave earned, less the leave taken between July 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 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.

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 eitherinvesting, 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 county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

A. Deposits - 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 $2,650.00, and deposits in private financial institutions with a carrying value of $2,074,106.67 and a bank balance of $2,141,328.94.

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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $781,998.07 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, and external investment pool that is not registered with the Security 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 shared 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 homepage http://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:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 346,730.42	$ 38,893.88	$ 307,836.54
Accounts	89,545.56		89,545.56
Total Current Receivables	$ 436,275.98	$ 38,893.88	$ 397,382.10

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	$ 375,809.78	$ 0.00	$ 0.00	$ 0.00	$ 375,809.78
Construction in Progress	98,165.79	(45,254.79)	488,529.36		541,440.36
Total Capital Assets, Nondepreciable	473,975.57	(45,254.79)	488,529.36		917,250.14
Capital Assets, Depreciable:					
Buildings	18,559,559.92	45,254.79	68,721.18		18,673,535.89
Machinery and Equipment	2,191,360.84		209,755.02	56,238.53	2,344,877.33
General Infrastructure	698,326.47				698,326.47
Total Capital Assets, Depreciable	21,449,247.23	45,254.79	278,476.20	56,238.53	21,716,739.69
Less Accumulated Depreciation:					
Buildings	5,589,128.27		464,106.03		6,053,234.30
Machinery and Equipment	1,208,200.26		193,068.07	44,082.73	1,357,185.60
General Infrastructure	399,683.56		37,139.64		436,823.20
Total Accumulated Depreciation	7,197,012.09		694,313.74	44,082.73	7,847,243.10
Total Capital Assets, Depreciable, Net	14,252,235.14	45,254.79	(415,837.54)	12,155.80	13,869,496.59
Capital Assets, Net	$ 14,726,210.71	$ 0.00	$ 72,691.82	$ 12,155.80	$ 14,786,746.73

NOTE5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 288,506.83
Accrued Payroll	9,109.04
Total Accounts Payable and Accrued Liabilities	$ 297,615.87

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	$ 789,649.12	$ 523,255.69	$ 494,133.28	$ 818,771.53	$ 145,488.44

NOTE 7 - LEASE OBLIGATION

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

Fiscal Year	Amount
2006	$ 33,800.69
2007	24,291.20
2008	17,440.17
Total Minimum Lease Payments	$ 75,532.06

Rental expense for all operating leases during the year was $28,391.07.

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	$ 2,098,598.26	$ 0.00	$ 662,621.51	$ 1,435,976.75
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 211,669.18	$ 4,990.13	$ 0.00	$ 206,679.05
and Recreation Services	10,983.50			10,983.50
Bookstore	1,123,535.19		391,318.36	732,216.83
Sales and Services of Education and Related Activities	4,222.26			4,222.26
Total Sales and Services	$ 1,350,410.13	$ 4,990.13	$ 391,318.36	$ 954,101.64

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	$ 6,682,997.17	$ 684,790.30	$ 339,870.86	$ 6,181.95	$ 0.00	$ 0.00	$ 7,713,840.28
Public Service	36,943.35	984.25	1,772.20				39,699.80
Academic Support	1,142,221.32	86,776.79	73,093.70				1,302,091.81
Student Services	714,156.14	29,340.59	155,023.70	34,192.25			932,712.68
Institutional Support	1,604,847.31	117,849.09	467,996.76				2,190,693.16
Operations and Maintenance of Plant	730,741.58	70,166.67	404,653.33		361,678.97		1,567,240.55
Student Financial Aid			1,588.59	1,345,781.82			1,347,370.41
Auxiliary Enterprises	246,625.69	1,024,604.94	223,711.74				1,494,942.37
Depreciation						694,313.74	694,313.74
Total Operating Expenses	$ 11,158,532.56	$ 2,014,512.63	$ 1,667,710.88	$ 1,386,156.02	$ 361,678.97	$ 694,313.74	$ 17,282,904.80

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, 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 $9,614,284.60, of which $6,900,901.35 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $414,054.24 and $149,749.56, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $149,749.56, $14,245.40, 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 home page http://www.osc.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. There were no voluntary contributions by employees 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 $160,268.00 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. There were no voluntary contributions by employees for the year ended June 30, 2005.

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 $220,828.93. 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 $30,709.01. 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 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 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 students under supervision of a College employee. The coverage is $100,000 per employee and occurrence.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

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

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 $1,073,936.72 and on other purchases were $143,747.93 at June 30, 2005.

B. Pending Litigation and Claims – The College is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

C. 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 $691,150.00 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.

D. Federal Grants - The College has determined that errors were made in the awarding of Federal Pell Grants for the years 2001-2005. Based on their calculation, the College has a potential liability to the Department of Education in the amount of $665,311. The College is waiting for final determination of the amount that will be assessed by the federal funding agency.

NOTE 14 CHANGE 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.

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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, 2005, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 17, 2006. 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 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. 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. 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 discretely presented component unit.

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

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. 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. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Finding

1. Cash Journal Entries
2. Audit Trail/Journal Entries
3. Drawdown of Federal Funds
4. Return of Title IV Funds
5. Financial Statements

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, and 5 to be material weaknesses.

<u>Compliance and Other Matters</u>

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*.

Finding

4. Return of Title IV Funds

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)

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

May 17, 2006

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AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings 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 numbers 1 and 2 were also reported in the prior year.

1. CASH JOURNAL ENTRIES

Our review of the June 30, 2005, bank statement and reconciling items revealed journal entries affecting cash, which were posted to the fiscal year ended June 30, 2005, general ledger in September 2005. Two journal entries in the amounts of $150,969.86 and $110,947.68 were recorded to increase cash. These amounts were for federal program expenditures made prior to June 30. We recorded an audit adjustment for June 30, 2005, to reclassify these amounts from cash to receivables.

Recommendation: Journal entries should not be made to increase cash. Year-end entries should properly disclose the nature of the account.

College's Response: The College agrees with the finding and the recommendation. Resources and procedures are in place to prevent future occurrences.

2. AUDIT TRAIL/JOURNAL ENTRIES

The audit trail for many accounts reviewed by auditors was unclear and difficult to follow. Journal entries lacked appropriate supporting documentation.

Auditors reviewed a randomly selected statistical sample of 39 journal entries and also reviewed nine journal entries dated between May 1, 2005, and June 30, 2005. Of these 48 entries, we noted six that had no purpose stated on the entry, 36 that did not indicate who had prepared the entry, and 12 that did not indicate who had approved the entry. Eleven of the entries did not have proper documentation attached or referenced.

We also analyzed in detail entries made to the Pell account and the Edpayment account, which is a clearing account for Federal funds. We found these entries to be difficult to follow. Entries lacked supporting documentation and were often made after the fact and backdated. When entries were backdated, steps were eliminated that documented the Pell transactions. The audit trail was difficult because like transactions were not recorded in a consistent manner. College personnel had to research the purpose for and reconstruct the documentation for these entries.

Recommendation: A clear audit trail should exist for all items included in the general ledger. Journal entries should include a stated purpose for the entry, signatures of the preparer and person approving the journal entry, and supporting documentation. Entries should be made timely and like entries should be made in a consistent manner. Standard entries should be established to record routine transactions within the Pell account.

College's Response: The College agrees that a clear audit trail should exist for all items included in the general ledger. Resources and procedures are in place to ensure an adequate audit trail.

3. DRAWDOWN OF FEDERAL FUNDS

Federal funds are not being drawn from the Department of Education in a timely manner. The $110,947.68 amount that auditors reclassified from cash to receivables at June 30, 2005, was not drawn from the Federal government until September 2005. The College had Pell expenses in excess of drawdowns in the amount of $273,709.59 at June 30, 2005. The Pell authorization was finalized September 28, 2005, with $88,306.74 remaining to be drawndown. This amount was not drawn down from the Department of Education until April 4, 2006.

Recommendation: We recommend that drawdowns of federal funds be made timely to provide better management of institutional cash resources.

College's Response: The College agrees with the finding and the recommendation. Resources and procedures are in place to prevent future occurrences.

4. RETURN OF TITLE IV FUNDS

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs.

We reviewed a sample of 39 students who withdrew from all classes during the fiscal year ended June 30, 2005. Of these 39 students, 11 received federal student aid. Auditors reviewed the return to Title IV calculations for these 11 students and found six that had been miscalculated. The total amount that had been returned to Title IV for those students was $253.96 and the amount that should have been returned was $3,369.92.

Recommendation: We recommend that the College return these funds to the Department of Education and review all withdrawals of students who received federal student aid to determine if return to Title IV calculations are correct and whether any additional corrections are required to be made and remitted to the federal government.

College's Response: The College agrees with the finding and the recommendation. Resources and procedures are in place to prevent future occurrences.

The College reviewed the withdrawals of students who received federal financial aid and checked the return to Title IV calculations. The errors were found to be isolated errors made in one semester only, the Spring 2005 semester. When all calculations were rechecked, the amount owed to the Department of Education totaled $5,503.01. The College will make arrangements for the return of these funds to the Department of Education.

5. FINANCIAL STATEMENTS

During the audit process, the auditors found various financial statement errors. The beginning Net Assets balance on the College's financial statements did not agree to the prior year audited balance. The College either did not post or posted incorrectly prior year audit adjustments. To correct the beginning Net Assets, two adjustments were necessary. One increased Net Assets $280,448.84 and the other decreased Net Assets $114,042.30 for a net effect of $166,406.54. The College failed to accrue a payable for construction in the amount of $125,961.17. Completed Construction in Progress of $45,254.79 was not reclassified to Buildings and the related depreciation expense in the amount of $565.68 was not recorded.

There were also seven additional audit reclassifications which represented offsetting shifts between categories of assets, liabilities, net assets, or revenues.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material error and misstatements in a timely manner.

Recommendation: We recommend that management implement a plan to review the general ledger and subsidiary files to assure transactions are properly classified. We also recommend that the appropriate level of management review the year-end financial statements to ensure that they are accurately presented prior to submission to the Office of the State Controller.

College's Response: The College agrees with the finding and the recommendation. Resources and procedures are in place to prevent this error from recurring.

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