



STATE OF NORTH CAROLINA

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

RANDOLPH COMMUNITY COLLEGE

ASHEBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
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, 2006, 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 grants disclosed a certain deficiency and/or instance of noncompliance that is detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the 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

April 23, 2007

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position.	12
B-2 Statement of Activities	13
Notes to the Financial Statements	15
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
AUDIT FINDINGS AND RECOMMENDATIONS	33
ORDERING INFORMATION	35



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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Randolph Community 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 they relate 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, 2006, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, 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., CPA, CFP
State Auditor

February 28, 2007

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, 2006, and provides comparisons with June 30, 2005. 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, and the Statement of Revenues, Expenses, and Changes in Net Assets. 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.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

- The assets of Randolph Community College exceeded its liabilities at June 30, 2006, by \$18,346,506.18 (net assets). Net Assets decreased by \$256,385.79 over the prior year.
- Operating revenues at June 30, 2006, increased from June 30, 2005, by \$368,518.74.
- Operating expenses increased at June 30, 2006, by \$1,125,062.26 over the same period in fiscal year 2005.
- Capital Assets of Randolph Community College increased \$1,487,496.73 before accumulated depreciation increases of \$595,520.48.
- 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 the accrual basis of accounting.

	Net Assets As of June 30	
	2005	2006
Current Assets	\$ 1,462,555.66	\$ 2,013,425.36
Noncurrent Assets		
Capital Assets, Net of Depreciation	14,786,746.73	15,678,722.98
Other	3,621,862.00	2,734,465.83
Total Assets	19,871,164.39	20,426,614.17
Current Liabilities	594,989.33	1,274,320.88
Noncurrent Liabilities	673,283.09	805,787.11
Total Liabilities	1,268,272.42	2,080,107.99
Net Assets		
Invested in Capital Assets	14,786,746.73	15,678,722.98
Restricted	4,152,500.34	2,833,101.76
Unrestricted	(336,355.10)	(165,318.56)
Total Net Assets	\$ 18,602,891.97	\$ 18,346,506.18

Total Net Assets at June 30, 2006, decreased \$256,385.79 over the prior fiscal year 2005. The largest component of the decrease was the recording of payables for a refund to the Department of Education. Capital Assets increased due in large part to the completion of the Archdale Campus expansion.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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,		
	2005	2006
Operating Revenue		
Tuition and Fees	\$ 1,435,976.75	\$ 1,784,142.73
Other	3,566,516.06	3,586,868.82
Total Operating Revenues	5,002,492.81	5,371,011.55
Total Operating Expenses	17,282,904.80	18,407,967.06
Operating Loss	(12,280,411.99)	(13,036,955.51)
Nonoperating Revenues (Expenses)		
State/Local Grants and Contracts	11,202,608.23	11,876,144.88
Investment Income	66,576.04	105,285.51
Refund to Grantors		(621,813.00)
Other Nonoperating Revenues (Expenses)	42,600.00	(165,226.00)
Net Nonoperating Revenues	11,311,784.27	11,194,391.39
Loss Before Other Revenues	(968,627.72)	(1,842,564.12)
Other Revenues	1,782,149.19	1,586,178.33
Increase (Decrease) in Net Assets	813,521.47	(256,385.79)
Net Assets, Beginning of Year	17,789,370.50	18,602,891.97
Net Assets, End of Year	\$ 18,602,891.97	\$ 18,346,506.18

Operating revenue increased overall by \$368,518.74. The largest component of the change was a \$348,165.98 increase in student tuition and fees.

Operating expenses for fiscal year 2006 increased by \$1,125,062.26 over fiscal year 2005. Personal Services increased \$1,271,006.81 due to the effects of contractual increases for faculty and staff salaries, as well as increased employer costs for fringe benefits. Expenses in the areas of supplies and materials and utilities increased \$230,596.24. Expenses for fellowships and scholarships decreased \$163,262.86 due to lower financial aid awards during the fiscal year. There was also a decrease of \$205,331.33 in services due to fewer contracted services during the period.

Nonoperating revenue decreased by \$117,392.88 in fiscal year 2006 over fiscal year 2005. This largest component of the decrease was the recording of a Refund to Grantors to the Department of Education for repayment of prior year federal awards. State and local appropriations increased \$673,536.65 caused by increased allotments of State aid and county appropriations due to increases for faculty and staff salaries and benefits.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other revenue decreased by \$195,970.86 in fiscal year 2006 due to decrease in funding from the 2000 State Bond referendum.

Randolph Community College's total revenue increased \$55,155.00 from \$18,096,426.27 in 2005 to \$18,151,581.27 in 2006. The increase is related to the changes in operating, nonoperating and other revenue as stated previously.

Capital Assets: Randolph Community College's investment in capital assets as of June 30, 2006, was \$15,678,722.98 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 \$891,976.25 due to a correction in land values and the completion of the Archdale addition project.

Capital Assets, Net As of June 30,

	2005	2006
Capital Assets		
Land	\$ 375,809.78	\$ 485,998.78
Construction in progress	541,440.36	48,528.44
Buildings	18,673,535.89	20,328,380.32
Infrastructure	698,326.47	698,326.47
Equipment	2,344,877.33	2,560,252.55
Total	22,633,989.83	24,121,486.56
Less Accumulated Depreciation	7,847,243.10	8,442,763.58
Net Capital Assets	\$ 14,786,746.73	\$ 15,678,722.98

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 appropriations for higher education comprises 51.9% percent of total revenues and is the largest source of funding. 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. 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;
- Additional funding needs for equipment purchases;
- Additional funding for new buildings.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,127,370.81
Restricted Cash and Cash Equivalents	225,797.86
Receivables, Net (Note 3)	269,257.55
Inventories	390,999.14

Total Current Assets	2,013,425.36
----------------------	--------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,623,430.12
Restricted Due from Primary Government	111,035.71
Capital Assets - Nondepreciable (Note 4)	534,527.22
Capital Assets - Depreciable, Net (Note 4)	15,144,195.76

Total Noncurrent Assets	18,413,188.81
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Total Assets	20,426,614.17
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	408,537.60
Unearned Revenue	90,620.90
Funds Held for Others	21,629.67
Long-Term Liabilities - Current Portion (Note 6)	753,532.71

Total Current Liabilities	1,274,320.88
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	805,787.11
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Total Liabilities	2,080,107.99
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NET ASSETS

Invested in Capital Assets	15,678,722.98
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Restricted for:

Expendable:

Scholarships and Fellowships	3,308.40
Loans	1,298.96
Capital Projects	2,645,231.82
Other	183,262.58

Unrestricted	(165,318.56)
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Total Net Assets	\$ 18,346,506.18
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The accompanying notes to the financial statements are an integral part of this statement.

***Randolph Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,784,142.73
Federal Grants and Contracts	2,303,610.60
State and Local Grants and Contracts	100,513.98
Sales and Services, Net (Note 8)	1,076,332.87
Other Operating Revenues	106,411.37

Total Operating Revenues	<u>5,371,011.55</u>
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EXPENSES

Operating Expenses:

Personal Services	12,429,539.37
Supplies and Materials	2,139,133.35
Services	1,462,379.55
Scholarships and Fellowships	1,222,893.16
Utilities	467,654.49
Depreciation	686,367.14

Total Operating Expenses	<u>18,407,967.06</u>
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Operating Loss	<u>(13,036,955.51)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	9,420,952.17
County Appropriations	2,013,280.76
Noncapital Grants	441,240.60
Noncapital Gifts	671.35
Investment Income, Net	105,285.51
Refund to Grantors	(621,813.00)
Other Nonoperating Expenses	(165,226.00)

Net Nonoperating Revenues	<u>11,194,391.39</u>
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Income Before Other Revenues	(1,842,564.12)
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State Capital Aid	686,278.61
County Capital Appropriations	754,451.24
Capital Grants	145,448.48

Decrease in Net Assets	(256,385.79)
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NET ASSETS

Net Assets, July 1, 2005	<u>18,602,891.97</u>
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Net Assets, June 30, 2006	<u><u>\$ 18,346,506.18</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Randolph Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,466,124.58
Payments to Employees and Fringe Benefits	(12,109,684.03)
Payments to Vendors and Suppliers	(4,212,660.82)
Payments for Scholarships and Fellowships	(1,222,893.16)
Other Payments	(171,848.93)
	<u>(12,250,962.36)</u>
Net Cash Used by Operating Activities	<u>(12,250,962.36)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,420,952.17
County Appropriations	2,013,280.76
Noncapital Grants Received	441,240.60
Noncapital Gifts and Endowments Received	671.35
	<u>11,876,144.88</u>
Cash Provided by Noncapital Financing Activities	<u>11,876,144.88</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,065,819.69
County Capital Appropriations	754,451.24
Capital Grants Received	145,448.48
Proceeds from Sale of Capital Assets	38,374.79
Acquisition and Construction of Capital Assets	(1,616,718.18)
	<u>1,387,376.02</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,387,376.02</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>105,285.51</u>
Net Increase in Cash and Cash Equivalents	1,117,844.05
Cash and Cash Equivalents, July 1, 2005	<u>2,858,754.74</u>
Cash and Cash Equivalents, June 30, 2006	<u>\$ 3,976,598.79</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (13,036,955.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	686,367.14
Miscellaneous Nonoperating Income	(165,226.00)
Changes in Assets and Liabilities:	
Receivables, Net	128,124.55
Inventories	(53,295.11)
Accounts Payable and Accrued Liabilities	110,921.73
Unearned Revenue	(33,011.52)
Funds Held for Others	(6,622.93)
Compensated Absences	118,735.29
	<u>(12,250,962.36)</u>
Net Cash Used by Operating Activities	<u>\$ (12,250,962.36)</u>

***Randolph Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,127,370.81
Restricted Cash and Cash Equivalents	225,797.86
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>2,623,430.12</u>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 3,976,598.79</u></u>

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

Randolph Community College Foundation, Inc.
Statement of Financial Position
June 30, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	145,912
Investments		7,917,653
Accounts Receivables		902
Pledges Receivable		20,402
Coin Collection		300
		<hr/>
Total Assets	\$	<u><u>8,085,169</u></u>

LIABILITIES

Accounts Payable	\$	<u>2,104</u>
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NET ASSETS

Unrestricted		1,014,197
Temporarily Restricted		3,754,716
Permanently Restricted		<u>3,314,152</u>
		<hr/>
Total Net Assets		<u>8,083,065</u>

Total Liabilities and Net Assets	\$	<u><u>8,085,169</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Randolph Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 666	\$ 49,030	\$ 57,679	\$ 107,375
Income Earned on Investments	29,840	217,083		246,923
Net Realized and Unrealized Gains on Investments	37,760	160,056		197,816
Other	901			901
Net Assets Released from Restrictions				
Satisfaction of Program Restrictions	134,360	(134,360)		
Satisfaction of Gift Requirements		(7,827)	7,827	
Total Revenues, Gains and Other Support	203,527	283,982	65,506	553,015
EXPENSES				
Contributions to Randolph Community College for				
Scholarships	59,884			59,884
Support of Various College Programs (Refunds)	20,100			20,100
Grants	3,623			3,623
Special Projects	16,287			16,287
Management and General	53,732			53,732
Total Expenses	153,626			153,626
Change in Net Assets	49,901	283,982	65,506	399,389
Net Assets at Beginning of Period	964,296	3,470,734	3,248,646	7,683,676
Net Assets at End of Period	\$ 1,014,197	\$ 3,754,716	\$ 3,314,152	\$ 8,083,065

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

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RANDOLPH COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 component units 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 – The 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 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 5 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2006, the Foundation distributed \$86,855.27 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Joyce Wolford, Executive Director at (336) 633-0295.

- 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 fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- 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. This is the first year of preparing inventory for merchandise for resale with the Courseworks/Booklog Point of Sale (POS) System. The inventory data for books and merchandise is maintained using an average cost method. Cost of goods is input into the system using the invoice for these goods. The software keeps a running total (average) for inventory valuing purposes.
- 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 and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding is transactional based within the departmental management system in place at the College.

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central stores, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

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 \$3,164,580.46 and a bank balance of \$3,322,219.55.

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, 2006, 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;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$809,368.33 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 1.18 years as of June 30, 2006. 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.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 2,650.00
Carrying Amount of Deposits with Private Financial Institutions	3,164,580.46
Investments in the Short-Term Investment Fund	<u>809,368.33</u>
Total Deposits and Investments	<u><u>\$ 3,976,598.79</u></u>
Current:	
Cash and Cash Equivalents	\$ 1,127,370.81
Restricted Cash and Cash Equivalents	225,797.86
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>2,623,430.12</u>
Total	<u><u>\$ 3,976,598.79</u></u>

Component Units - Investments of the College's discretely presented component unit, the Randolph Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

following analysis of investments by type discloses the fair value of the investments held by the fiscal agent at June 30, 2006.

	Cost	Fair Value	Carrying Value
Cash and Cash Equivalents	\$ 52,113.00	\$ 52,113.00	\$ 52,113.00
Equity Mutual Funds	2,631,284.00	3,510,967.00	3,510,967.00
Fixed Income Funds	4,319,981.00	4,183,493.00	4,183,493.00
Common Equity Securities	51,700.00	171,080.00	171,080.00
Total Investments	<u>\$ 7,055,078.00</u>	<u>\$ 7,917,653.00</u>	<u>\$ 7,917,653.00</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 261,672.63	\$ 41,170.69	\$ 220,501.94
Accounts	48,755.61		48,755.61
Total Current Receivables	<u>\$ 310,428.24</u>	<u>\$ 41,170.69</u>	<u>\$ 269,257.55</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, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 375,809.78	\$ 110,189.00	\$ 0.00	\$ 485,998.78
Construction in Progress	541,440.36	1,161,932.51	1,654,844.43	48,528.44
Total Capital Assets, Nondepreciable	<u>917,250.14</u>	<u>1,272,121.51</u>	<u>1,654,844.43</u>	<u>534,527.22</u>
Capital Assets, Depreciable:				
Buildings	18,673,535.89	1,654,844.43		20,328,380.32
Machinery and Equipment	2,344,877.33	344,596.67	129,221.45	2,560,252.55
General Infrastructure	698,326.47			698,326.47
Total Capital Assets, Depreciable	<u>21,716,739.69</u>	<u>1,999,441.10</u>	<u>129,221.45</u>	<u>23,586,959.34</u>
Less Accumulated Depreciation:				
Buildings	6,053,234.30	465,398.04		6,518,632.34
Machinery and Equipment	1,357,185.60	186,538.51	90,846.66	1,452,877.45
General Infrastructure	436,823.20	34,430.59		471,253.79
Total Accumulated Depreciation	<u>7,847,243.10</u>	<u>686,367.14</u>	<u>90,846.66</u>	<u>8,442,763.58</u>
Total Capital Assets, Depreciable, Net	<u>13,869,496.59</u>	<u>1,313,073.96</u>	<u>38,374.79</u>	<u>15,144,195.76</u>
Capital Assets, Net	<u><u>\$ 14,786,746.73</u></u>	<u><u>\$ 2,585,195.47</u></u>	<u><u>\$ 1,693,219.22</u></u>	<u><u>\$ 15,678,722.98</u></u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 198,308.51
Accrued Payroll	<u>210,229.09</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 408,537.60</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Due to Federal Government	\$ 0.00	\$ 621,813.00	\$ 0.00	\$ 621,813.00	\$ 621,813.00 (A)
Compensated Absences	818,771.53	757,829.88	639,094.59	937,506.82	131,719.71
Total Long-Term Liabilities	<u>\$ 818,771.53</u>	<u>\$ 1,379,642.88</u>	<u>\$ 639,094.59</u>	<u>\$ 1,559,319.82</u>	<u>\$ 753,532.71</u>

(A) Based on a determination from a Federal audit, the College has a liability to the Department of Education. This is the result of errors made in awarding Federal Financial Aid for the years 2001-2005.

NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	\$ 31,593.31
2008	24,742.28
2009	15,917.95
Total Minimum Lease Payments	<u>\$ 72,253.54</u>

Rental expense for all operating leases during the year was \$47,404.60.

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	<u>\$ 2,319,946.55</u>	<u>\$ 0.00</u>	<u>\$ 535,803.82</u>	<u>\$ 1,784,142.73</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 190,180.28	\$ 3,714.75	\$ 0.00	\$ 186,465.53
Recreation Services	9,966.03			9,966.03
Bookstore	1,160,187.34		287,403.10	872,784.24
Sales and Services of Education and Related Activities	<u>7,117.07</u>			<u>7,117.07</u>
Total Sales and Services	<u>\$ 1,367,450.72</u>	<u>\$ 3,714.75</u>	<u>\$ 287,403.10</u>	<u>\$ 1,076,332.87</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	\$ 7,500,531.33	\$ 898,716.93	\$ 318,925.64	\$ 5,196.19	\$ 0.00	\$ 0.00	\$ 8,723,370.09
Public Service	31,016.69	2,998.60	(1,565.14)				32,450.15
Academic Support	1,234,182.16	54,006.94	41,685.25				1,329,874.35
Student Services	769,641.24	6,245.11	152,285.77	28,465.00			956,637.12
Institutional Support	1,789,367.55	167,963.88	433,522.34				2,390,853.77
Operations and Maintenance of Plant	765,016.82	6,344.44	492,344.09		467,654.49		1,731,359.84
Student Financial Aid				1,189,231.97			1,189,231.97
Auxiliary Enterprises	339,783.58	1,002,857.45	25,181.60				1,367,822.63
Depreciation						686,367.14	686,367.14
Total Operating Expenses	<u>\$ 12,429,539.37</u>	<u>\$ 2,139,133.35</u>	<u>\$ 1,462,379.55</u>	<u>\$ 1,222,893.16</u>	<u>\$ 467,654.49</u>	<u>\$ 686,367.14</u>	<u>\$ 18,407,967.06</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$10,195,296.26, of which \$7,466,215.29 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$447,972.92 and \$174,709.44, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$174,709.44, \$149,749.56, and \$14,245.40, 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.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, 2006.

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 \$156,283.92 for the year ended June 30, 2006.

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, 2006.

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 post employment 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$283,716.18. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability –** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$38,824.32. 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 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. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$37,544.38 at June 30, 2006.
- B. **Pending Litigation and Claims** – The College is a party to 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.

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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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 28, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Randolph Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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, 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

Salaries Charged to Vocational Education (CFDA84.048) Are Not Supported by Time Records

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, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.



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

February 28, 2007

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding was identified during the current audit and describes conditions that represent significant noncompliance with laws, regulations, contracts, grant agreements or other matters.

SALARIES CHARGED TO VOCATIONAL EDUCATION (CFDA84.048) ARE NOT SUPPORTED BY TIME RECORDS

Time records do not support the percentage of the Student Services Counselor/Coordinator of Students with Disabilities employee's salary charged to the Vocational Education Program.

OMB Circular A-87 requires that employees working on multiple activities maintain records to track direct and indirect cost activity, as well as activities unallowable for program purposes. Questioned costs for undocumented charges to the 2005-2006 Vocational Education award number are \$21,766.72. The Award Numbers associated with this questioned cost are V048A030033, V048A040033, and V048A050033.

Recommendation: The College should establish and communicate to employees guidelines for documenting salaries charged to the Vocational Education Program that are in compliance with Federal regulations.

College's Response: The College agrees with this finding. The following corrective action was completed January 24, 2007. The Student Services Counselor's contacts with students in specific curricula will be documented daily by a student contact record that includes date, name of student, curriculum of student, and time devoted to student activity. At the end of each month the counselor will complete a summary of time-effort to verify that she devoted at least the appropriate percentage of effort to students in vocational educational curricula. The dean will sign each summary of time-effort and forward it to the Full Time Payroll Specialist in the Business Office.

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