STATE OF NORTH CAROLINA

WAYNE COMMUNITY COLLEGE

GOLDSBORO, 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

WAYNE COMMUNITY COLLEGE

GOLDSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement and compliance audit of Wayne 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 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

May 29, 2007

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wayne Community College
Goldsboro, North Carolina

We have audited the accompanying financial statements of Wayne 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 Wayne 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 The Foundation of Wayne Community College, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, 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 The Foundation of Wayne Community College, 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 Wayne 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 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.

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

April 26, 2007

WAYNE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Wayne Community College's financial performance, providing an overview of the activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the College's financial statements, which follow this section.

Overview of Financial Statements

This discussion and analysis is an introduction to Wayne Community College's basic financial statements, which are made up of two components: 1) financial statements and 2) notes to the financial statements. The components are described below.

Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets are the two financial statements that report information about the College and about its activities that should help answer a question like: Is the College better off or worse off as a result of this year's activities? These statements include assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Statement of Net Assets presents all of the College's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets measure whether the College's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the net assets changed during the fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. unearned revenue and earned but unused vacation leave).

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the statements. Notes to these financial statements may be found at the end of this report.

Financial Analysis

Statement of Net Assets

The following chart compares the College’s assets data for the last two fiscal years.

Net Assets for the Years Ended June 30, (in thousands)

	2006	2005	Increase (Decrease)
Current and Other Noncurrent Assets	$ 1,841.74	$ 4,286.03	$ (2,444.29)
Capital Assets, Net	28,803.35	26,428.66	2,374.69
Total Assets	30,645.09	30,714.69	(69.60)
Long-Term Liabilities	1,210.01	1,122.23	87.78
Other Liabilities	883.25	802.15	81.10
Total Liabilities	2,093.26	1,924.38	168.88
Net Assets:			
Invested in Capital Assets	28,803.35	26,428.66	2,374.69
Restricted	424.80	2,144.71	(1,719.91)
Unrestricted	(676.32)	216.94	(893.26)
Total Net Assets	$ 28,551.83	$ 28,790.31	$ (238.48)

The largest assets of the College’s net assets are reflected in invested in capital assets (land, buildings, machinery and equipment, general infrastructure, and other capital assets). The College’s capital assets increased by $2.37 million during this fiscal year. The $2.37 million increase in capital assets was mostly due to the completion of a New Continuing Education Building and the expenditures in construction in progress for a New Technology Building.

The decrease in the current and other noncurrent assets as well as restricted net assets is a result of the College’s decrease of receivables for bond funds established by the State. The difference between last year’s receivable and the current receivable is approximately $2.38 million.

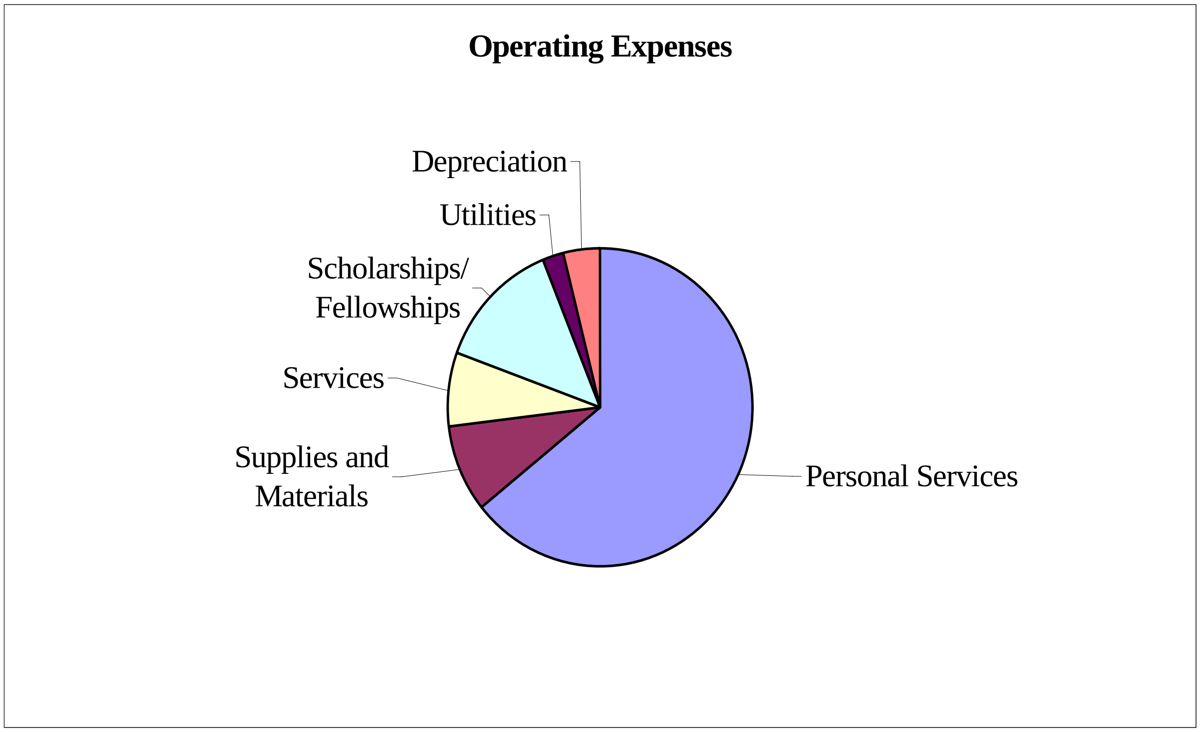
Expenditures

The following chart represents expenses of the College by activity for the fiscal year.

Operating Expenses
For the Years Ended June 30,
(in thousands)

	2006	2005	Increase (Decrease)
Operating Expense			
Personal Services	$ 16,780.72	$ 15,878.73	$ 901.99
Supplies and Materials	2,338.01	1,997.07	340.94
Services	1,913.64	1,789.59	124.05
Scholarships/Fellowships	3,522.77	3,981.83	(459.06)
Utilities	563.18	497.99	65.19
Depreciation	1,010.61	928.27	82.34
Total	$ 26,128.93	$ 25,073.48	$ 1,055.45

The following is a graphic illustration of total operating expenses for year ended June 30, 2006:



Total operating expenses increased approximately 4 percent during the current year. The most significant change was an increase in personal services resulting from a 2 percent wage increase and additional annual bonus leave awarded by the North Carolina General Assembly. Supplies and materials also increased due to expenditures for the Wayne Learning Center and Dogwood building repairs and renovations.

Revenues

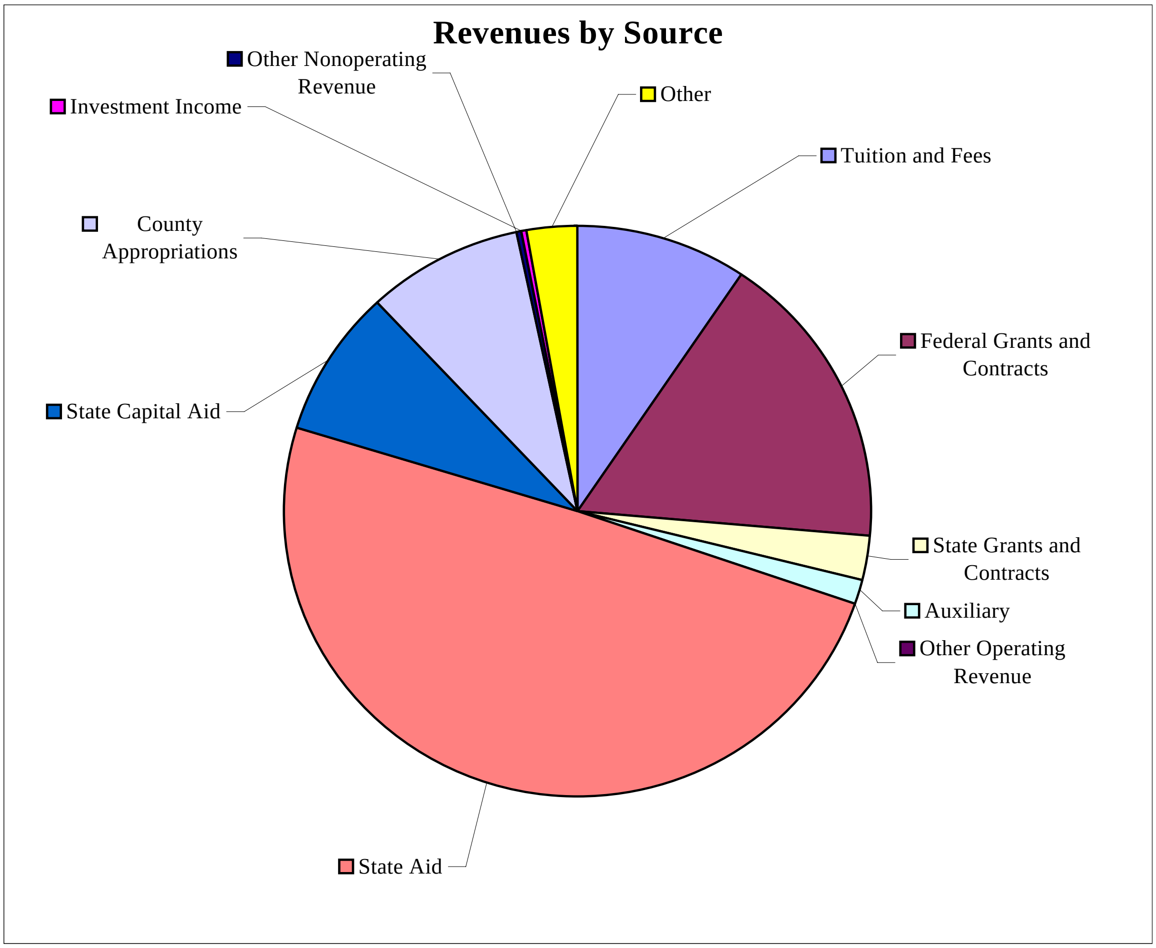
The following chart depicts revenues of the College's activities for the fiscal year.

Operating Results for the Years Ended
June 30,
(in thousands)

	2006	2005	Increase (Decrease)
Operating Revenue:			
Tuition and Fees	$ 2,442.57	$ 2,973.95	$ (531.38)
Federal Grants and Contracts	4,398.60	4,359.14	39.46
State Grants and Contracts	613.67	569.56	44.11
Auxiliary	397.57	298.90	98.67
Other	14.11	17.79	(3.68)
Total	7,866.52	8,219.34	(352.82)
Less Operating Expenses	26,128.93	25,073.48	1,055.45
Net Operating Loss	(18,262.41)	(16,854.14)	(1,408.27)
Nonoperating and Other Revenue:			
State Aid	12,776.08	12,146.43	629.65
State Capital Aid	2,165.51	3,284.82	(1,119.31)
County Appropriations	2,227.61	2,023.11	204.50
County Capital Appropriations	88.57	229.47	(140.90)
Investment Income	45.20	32.03	13.17
Other	720.96	945.99	(225.03)
Total	18,023.93	18,661.85	(637.92)
Increase (Decrease) in Net Assets	(238.48)	1,807.71	(2,046.19)
Net Assets, Beginning of Year	28,790.31	27,027.00	1,763.31
Restatements		(44.40)	44.40
Net Assets, End of Year	$ 28,551.83	$ 28,790.31	$ (238.48)
Total Revenues	$ 25,890.45	$ 26,881.19	$ (990.74)

The decrease in tuition and fees is due mainly to the decrease in out-of-state tuition collected. State Capital revenue decreased due to the significant receivable decrease set forth by the North Carolina Community College System as of June 30th.

The following is a graphic illustration of total revenues for the College's activities as of June 30, 2006:



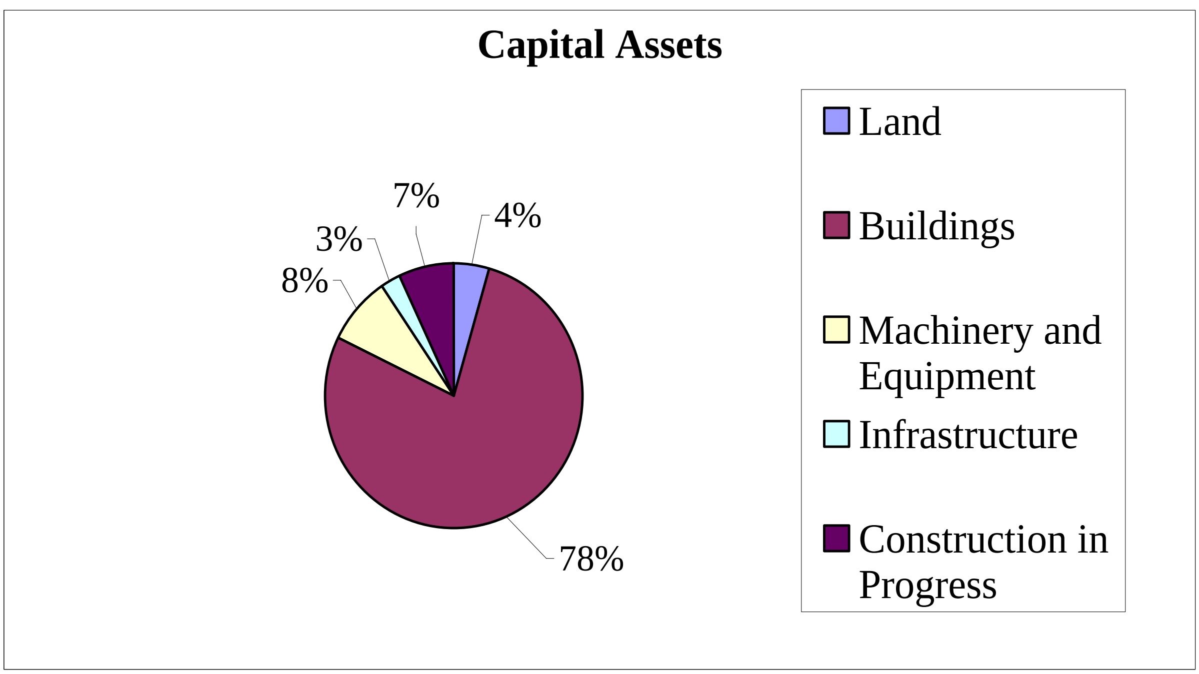
Capital Assets

At the end of the fiscal year 2006, the Statement of Net Assets reflected $28.80 million, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled $1.01 million.

Capital Assets, Net
June 30,
(in thousands)

	2006	2005	Increase (Decrease)
Capital Assets			
Land	$ 1,876.67	$ 1,876.67	$ 0.00
Buildings	32,940.71	28,626.89	4,313.82
Machinery and Equipment	3,506.07	3,589.15	(83.08)
Infrastructure	1,073.96	1,073.96	
Construction in Progress	2,929.04	3,927.73	(998.69)
Total	42,326.45	39,094.40	3,232.05
Less: Accumulated Depreciation	13,523.10	12,665.74	857.36
Net Capital Assets	$ 28,803.35	$ 26,428.66	$ 2,374.69

The following is a graphic illustration of capital assets for the year ended June 30, 2006:



The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million of general obligation bonds of the State. Of this amount, Wayne Community College has been authorized and received $12.99 million. These funds have allowed the College to continue construction and repairs and renovations activities. The completion of the New Continuing Education building and the construction in progress of the Technology Building is the main source of increase to capital assets for the current year. Overall, the College has purchased land, completed two construction projects and one building addition, finished various repairs and renovation projects and started the construction of the Technology building with these bond funds.

Economic Outlook

The College is expecting to increase enrollment by 4.3 percent this year. The Fall 2006 semester has already rendered an enrollment increase of 2 percent and the College's projection is for an additional 2 percent to 3 percent increase for Spring and Summer classes. The actual and anticipated increase is attributed mainly to military deployments stabilizing and to a step-up in recruiting by the College.

The College has been reaffirmed by the Southern Association of College and Schools (SACS). SACS has validated the financial operations of the College stating, "The institution has a sound financial base and demonstrated financial stability, and adequate physical resources to support the mission of the institution and the scope of its programs and services". SACS reaffirmation affords the College continued credibility with the community and availability of financial resources from significant funding agencies.

Wayne Community College
Statement of Net Assets
June 30, 2006 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 796,230.13
Restricted Cash and Cash Equivalents	362,898.72
Receivables, Net (Note 4)	242,368.74
Inventories	117,918.95
Total Current Assets	1,519,416.54
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	110,765.87
Restricted Due from Primary Government	211,561.41
Capital Assets - Nondepreciable (Note 5)	4,805,705.68
Capital Assets - Depreciable, Net (Note 5)	23,997,643.76
Total Noncurrent Assets	29,125,676.72
Total Assets	30,645,093.26
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	756,747.70
Unearned Revenue	106,609.29
Funds Held for Others	19,895.62
Long-Term Liabilities - Current Portion (Note 7)	131,096.89
Total Current Liabilities	1,014,349.50
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	1,078,910.33
Total Liabilities	2,093,259.83
NET ASSETS	
Invested in Capital Assets	28,803,349.44
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	75,557.68
Other	16,000.00
Expendable:	
Scholarships and Fellowships	10,763.55
Loans	1,968.79
Other	320,516.04
Unrestricted	(676,322.07)
Total Net Assets	$ 28,551,833.43

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

Wayne 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 9)	$	2,442,567.99
Federal Grants and Contracts		4,398,594.70
State and Local Grants and Contracts		613,672.96
Sales and Services, Net (Note 9)		397,573.75
Other Operating Revenues		14,110.75
Total Operating Revenues		7,866,520.15
EXPENSES		
Operating Expenses:		
Personal Services		16,780,725.24
Supplies and Materials		2,338,009.96
Services		1,913,639.96
Scholarships and Fellowships		3,522,767.44
Utilities		563,178.07
Depreciation		1,010,609.93
Total Operating Expenses		26,128,930.60
Operating Loss		(18,262,410.45)
NONOPERATING REVENUES (EXPENSES)		
State Aid		12,776,075.68
County Appropriations		2,227,607.00
Noncapital Grants		473,390.76
Noncapital Gifts		208,814.87
Investment Income		45,200.82
Interest and Fees on Debt		(18,481.77)
Other Nonoperating Revenues		51,228.47
Net Nonoperating Revenues		15,763,835.83
Loss Before Other Revenues		(2,498,574.62)
State Capital Aid		2,165,514.29
County Capital Appropriations		88,568.10
Capital Grants		6,009.55
Decrease in Net Assets		(238,482.68)
NET ASSETS		
Net Assets, July 1, 2005 as Restated (Note 15)		28,790,316.11
Net Assets, June 30, 2006	$	28,551,833.43

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

Wayne 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	$ 7,934,410.02
Payments to Employees and Fringe Benefits	(16,683,810.36)
Payments to Vendors and Suppliers	(4,855,529.92)
Payments for Scholarships and Fellowships	(3,522,767.44)
Other Receipts	90,777.70
Net Cash Used by Operating Activities	(17,036,920.00)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,776,075.68
County Appropriations	2,227,607.00
Noncapital Grants Received	473,390.76
Noncapital Gifts and Endowments Received	208,814.87
Cash Provided by Noncapital Financing Activities	15,685,888.31
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	4,449,579.01
County Capital Appropriations	88,568.10
Capital Grants Received	6,009.55
Proceeds from Sale of Capital Assets	1,472.50
Acquisition and Construction of Capital Assets	(3,240,777.47)
Principal Paid on Capital Debt and Leases	(44,732.15)
Interest Paid on Capital Debt and Leases	(18,481.77)
Net Cash Provided by Capital and Related Financing Activities	1,241,637.77
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	45,200.82
Cash Provided by Investing Activities	45,200.82
Net Decrease in Cash and Cash Equivalents	(64,193.10)
Cash and Cash Equivalents, July 1, 2005	1,334,087.82
Cash and Cash Equivalents, June 30, 2006	$ 1,269,894.72

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (18,262,410.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,010,609.93
Miscellaneous Nonoperating Income	49,755.97
Changes in Assets and Liabilities:	
Receivables, Net	111,433.43
Inventories	(15,410.43)
Accounts Payable and Accrued Liabilities	(60,888.50)
Unearned Revenue	(3,760.53)
Funds Held for Others	1,238.70
Compensated Absences	132,511.88
Net Cash Used by Operating Activities	$ (17,036,920.00)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 796,230.13
Restricted Cash and Cash Equivalents	362,898.72
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	110,765.87
Total Cash and Cash Equivalents - June 30, 2006	$ 1,269,894.72

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 144,524.07

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

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

Exhibit B-1

ASSETS		
Cash and Cash Equivalents	$	1,194,146
Investments		440,115
Real Estate Held for Resale		45,000
Pledges Receivable, Net		2,885
Total Assets		1,682,146
LIABILITIES		
Total Liabilities		
NET ASSETS		
Unrestricted		50,799
Temporarily Restricted		216,334
Permanently Restricted		1,415,013
Total Net Assets		1,682,146

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

The Foundation of Wayne Community College, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS	
Revenues and Gains:	
Fund Drives	$ 28,735
Golf Tournament	660
Memorial and Honorary Gifts	2,985
Interest and Investment Income	4,043
Other Income	4,026
Donated Services and Facilities	106,515
Total Unrestricted Revenues and Gains	146,964
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	207,328
Total Net Assets Released from Restrictions	207,328
Total Unrestricted Revenues, Gains, and Other Support	354,292
Expenses and Losses:	
Awards, Gifts and Scholarships	198,215
Fund Raising Expenses	95,560
Administrative	50,136
Total Expenses	343,911
Increase in Unrestricted Net Assets	10,381
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS	
Fund Drives	82,875
Golf tournament	53,016
Interest and Investment Income	50,410
Other Income	6,473
Unrealized Gains	23,740
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(207,328)
Increase in Temporarily Restricted Net Assets	9,186
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS	
Fund Drives	72,008
Memorial and Honorary Gifts	10,530
Interest and Investment Income	59
Donated Land	45,000
Increase in Permanently Restricted Net Assets	127,597
Increase in Net Assets	147,164
Net Assets at Beginning of Year	1,534,982
Net Assets at End of Year	$ 1,682,146

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

[This Page Left Blank Intentionally]

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. Wayne 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 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 – The Foundation of Wayne Community College, 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 Foundation of Wayne Community College, Inc. 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 24 members. 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 on the next page.

The Foundation of Wayne Community College, 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 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 $194,570.82 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of The Foundation of Wayne Community College, Inc., 3000 Wayne Memorial Drive, Goldsboro, NC 27534.

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 undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. 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 that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories –** Inventories, consisting of expendable supplies, are valued at the lower of cost or market using the first-in, first-out 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 25 years for general infrastructure, 15 to 40 years for buildings, and 3 to 10 years for equipment.

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

I. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities include notes payable and 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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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 – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

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

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

N. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. The primary institutional auxiliary operation includes the College's central store. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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 appropriations do not revert and are available for future use by the College. However, unexpended county capital appropriations would revert back to the county at June 30th unless approval was given by the County Finance Office to carry these funds forward.

NOTE 2 - 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 $1,378.00, and deposits in private financial institutions with a carrying value of $20,206.09 and a bank balance of $150,286.28.

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, 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, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,248,310.63 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.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2006, net appreciation of $3,712.54 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 134,415.95	$ 22,734.29	$ 111,681.66
Accounts	130,687.08		130,687.08
Total Current Receivables	$ 265,103.03	$ 22,734.29	$ 242,368.74
Notes Receivable:			
Notes Receivable - Current:			
Federal Loan Programs	$ 1,660.87	$ 1,660.87	$ 0.00

NOTE 5 - 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	$ 1,876,665.63	$ 0.00	$ 0.00	$ 1,876,665.63
Construction in Progress	3,927,728.59	3,315,119.47	4,313,808.01	2,929,040.05
Total Capital Assets, Nondepreciable	5,804,394.22	3,315,119.47	4,313,808.01	4,805,705.68
Capital Assets, Depreciable:				
Buildings	28,626,898.77	4,313,808.01		32,940,706.78
Machinery and Equipment	3,589,149.76	70,182.07	153,257.37	3,506,074.46
General Infrastructure	1,073,958.04			1,073,958.04
Total Capital Assets, Depreciable	33,290,006.57	4,383,990.08	153,257.37	37,520,739.28
Less Accumulated Depreciation:				
Buildings	9,470,682.08	801,242.58		10,271,924.66
Machinery and Equipment	2,834,361.90	142,115.63	153,257.37	2,823,220.16
General Infrastructure	360,698.98	67,251.72		427,950.70
Total Accumulated Depreciation	12,665,742.96	1,010,609.93	153,257.37	13,523,095.52
Total Capital Assets, Depreciable, Net	20,624,263.61	3,373,380.15		23,997,643.76
Capital Assets, Net	$ 26,428,657.83	$ 6,688,499.62	$ 4,313,808.01	$ 28,803,349.44

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 380,642.66
Accrued Payroll	210,349.02
Contract Retainage	165,756.02
Total Accounts Payable and Accrued Liabilities	$ 756,747.70

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in 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
Notes Payable	$ 448,442.70	$ 0.00	$ 44,732.15	$ 403,710.55	$ 46,677.63
Compensated Absences	673,784.79	561,254.71	428,742.83	806,296.67	84,419.26
Total Long-Term Liabilities	$ 1,122,227.49	$ 561,254.71	$ 473,474.98	$ 1,210,007.22	$ 131,096.89

B. Notes Payable – The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2006	Principal Outstanding 06/30/2006
Energy Savings Contract	BB&T	4.28	11/20/2013	$ 512,069.61	$ 108,359.06	$ 403,710.55

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements Notes Payable Principal	Annual Requirements Notes Payable Interest
2007	$ 46,677.63	$ 16,536.29
2008	48,707.74	14,506.18
2009	50,826.13	12,387.79
2010	53,036.66	10,177.26
2011	55,343.31	7,870.62
2012-2016	149,119.08	8,915.71
Total Requirements	$ 403,710.55	$ 70,393.85

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2007	$ 189,300.00
2008	189,300.00
2009	157,180.00
2010	146,742.00
2011	55,487.00
Total Minimum Lease Payments	$ 738,009.00

Rental expense for all operating leases during the year was $153,688.98.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectible	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 3,599,538.47	$ 0.00	$ 1,142,028.62	$ 14,941.86	$ 2,442,567.99
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Student Union Services	$ 43,613.55	$ 0.00	$ 0.00	$ 0.00	$ 43,613.55
Bookstore- Sales, Rent & Commissions	114,926.93			7,792.43	107,134.50
Preschool	180,407.26				180,407.26
Other	11,535.66	11,535.66			
Sales and Services of Education and Related Activities	29,780.35				29,780.35
Independent Operations	36,638.09				36,638.09
Total Sales and Services	$ 416,901.84	$ 11,535.66	$ 0.00	$ 7,792.43	$ 397,573.75

NOTE 10 - 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	$ 10,428,812.64	$ 975,234.22	$ 794,487.60	$ 559,129.00	$ 0.00	$ 0.00	$ 12,757,663.46
Public Service	71,531.55	2,815.74	13,381.60				87,728.89
Academic Support	1,509,105.45	146,730.46	76,658.42				1,732,494.33
Student Services	1,419,138.80	105,912.28	110,116.22	180,914.39			1,816,081.69
Institutional Support	2,296,524.45	200,380.83	634,215.57				3,131,120.85
Operations and Maintenance of Plant	1,055,581.83	898,209.24	255,495.02		563,178.07		2,772,464.16
Student Financial Aid			16,370.29	2,782,724.05			2,799,094.34
Auxiliary Enterprises	30.52	8,727.19	12,915.24				21,672.95
Depreciation						1,010,609.93	1,010,609.93
Total Operating Expenses	$ 16,780,725.24	$ 2,338,009.96	$ 1,913,639.96	$ 3,522,767.44	$ 563,178.07	$ 1,010,609.93	$ 26,128,930.60

NOTE 11 - 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 $13,844,912.17, of which $11,804,821.24 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $708,289.96 and $276,232.82, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $276,232.82, $240,142.50, and $22,812.90 respectively.

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

B. **Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $45,747.20 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 $241,140.00 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. The voluntary contributions by employees amounted to $42,918.00 for the year ended June 30, 2006.

NOTE 12 - 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 3.8% 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 $448,583.21. 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 $61,385.07. 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 13 - 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. Employees paid from county and institutional funds are covered with private insurance companies.

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.

The College purchases malpractice insurance for students in medical related fields. Coverage is provided at $1,000,000 per occurrence with a limit of $3,000,000.

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. 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 14 - 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 $1,670,539.88 and on other purchases were $7,896.92 at June 30, 2006.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2005, net assets as previously reported was restated as follows:

	Amount
July 1, 2005, Net Assets as Previously Reported	$ 28,834,712.94
Restatement - Capital Asset Decrease	(44,396.83)
July 1, 2005, Net Assets as Restated	$ 28,790,316.11

[This Page Left Blank Intentionally]

STATE OF NORTH CAROLINA
Office of the State Auditor

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

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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
Wayne Community College
Goldsboro, North Carolina

We have audited the financial statements of Wayne 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 April 26, 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 The Foundation of Wayne Community College, 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. 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.

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

Finding

1. Lack of Controls over Purchasing
2. Access Rights Inconsistent with Adequate Separation of Duties

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, we believe none of the reportable conditions described above is a material weakness.

<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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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.

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

April 26, 2007

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.

1. LACK OF CONTROLS OVER PURCHASING

The Equipment Coordinator currently serves as the E-Procurement administrator and purchasing agent. He has the ability to authorize users, setup who approves each user, and override E-Procurement approvals. He also is able to enter in requisitions and purchase orders in the E-Procurement system and in the College's financial records system. The Equipment Coordinator is also the receiving clerk. This type of access and lack of approval and review could lead to the misappropriation of assets.

Recommendation: To ensure proper controls over fixed assets, system access should be reassigned to prevent the Equipment Coordinator from having access to establish user access, set approval hierarchy, and enter in requisitions without further approval.

College's Response: Access rights to requisition print and requisition single print has been removed.

2. ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEPARATION OF DUTIES

The College has granted computer system access rights that are inconsistent with prudent internal control principles. As a result, there is an increased risk of unauthorized entries in the system and fraudulent activity.

- The employee responsible for accounts receivable has been granted access rights that would allow her the opportunity to perpetrate or conceal errors or fraud. She is solely responsible for preparing third party billings and serves as back-up cashier with capabilities of voiding transactions and closing her own cash drawer.

- The Chief Financial Officer and Senior Accountant are responsible for completing bank reconciliations; however they do not review each other's work and there is no other review of the bank reconcilation. Both have open system access rights that allow them to create and post journal entries. They also have access to blank check stock. Without management review of the completed bank reconciliations, system manipulation could go undetected.

Recommendation: The College should strengthen internal controls by removing cash collection access rights from the Accounts Receivable Accountant and by removing receipting and general ledger access from the employees responsible for performing bank reconcilations.

College's Response: The College concurs with this recommendation and the weakness has been corrected.

[This Page Left Blank Intentionally]

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile:919/807-7647