



STATE OF NORTH CAROLINA

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

EDGECOMBE COMMUNITY COLLEGE

TARBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Edgecombe Community College for the year ended June 30, 2007, 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 a certain deficiency and/or instance of noncompliance that is detailed in the Audit Finding and Response 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

March 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Edgecombe Community College
Tarboro, North Carolina

We have audited the accompanying financial statements of Edgecombe 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, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Edgecombe 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 Edgecombe Community College Foundation, Inc., 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 opinions, insofar as they relate to the amounts included for those entities, are 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 Edgecombe 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 Edgecombe Community College and its discretely presented component unit as of June 30, 2007, 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 March 4, 2008, on our consideration of the College's internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

March 4, 2008

EDGECOMBE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis is to provide an overview of the financial position and activities of Edgecombe Community College for the year ended June 30, 2007. The Management Discussion and Analysis section will:

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

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

Financial Highlights

The College, considered as Phase 2B site, has successfully completed the implementation of the Colleague Computer Information System (CIS) for the College financial, human resource and student modules. On October 15, 2007, the College successfully migrated to Release 18. This migration included the implementation to the new Datatel Release System modified to support the North Carolina Community College System's processes used to maintain the CIS Template. Plans are under way to implement WebAdvisor.

WebAdvisor is the Datatel product that provides Web access to information stored in the Colleague database for students, faculty and other users. This implementation is tentatively scheduled to be completed in 2009.

Using the Annual Financial Report

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

The financial statements prescribed by GASB Statement No. 35 presents financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned and

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

expenses and liabilities are recognized when an obligation has been incurred, regardless of when cash is exchanged.

Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

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

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

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

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

Financial Analysis

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College and presents the fiscal information in a summary format. Assets are grouped into either current assets or noncurrent assets.

Current assets include cash and cash equivalents, receivables, inventories, and prepaid items. Current assets at June 30, 2007, were \$1,343,975.58. Current assets increased by 3.41% during fiscal year 2006-2007.

Noncurrent assets are comprised primarily of restricted cash and cash equivalents, restricted receivables from primary government and capital assets - nondepreciable and depreciable. Noncurrent assets at June 30, 2007, were \$1,686,756.45, and represented a \$1,041,116.27 or 161.25% increase from the previous year. This large increase is due to the new construction project for the Cosmetology building on the Tarboro campus. A total of \$800,000 was a receivable for this project at June 30, 2007. Also, a \$250,000 receivable was for repair and renovations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital assets (land, construction in progress, buildings, general infrastructure and equipment) are stated at historical cost less depreciation. Capital assets were \$17,619,719.80 at June 30, 2007. This is an increase of .64% since June 30, 2006.

Current liabilities are comprised of accounts payable, accrued liabilities, due to primary government, deferred revenue, funds held for others and current portions of long-term liabilities. Total current liabilities at year end were \$500,215.58 and represented a \$14,526.09 or 2.99% increase from the previous year.

Noncurrent liabilities consist of long-term liabilities totaling \$969,213.86. This represents an increase of 13.06% from the previous year. Long-term liabilities are the accrued vacation and bonus leave. The increase is due to the 5% salary increase plus an increase in the number of hours accumulated for accrued leave.

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

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

Restricted net assets - expendable consist of resources in which the College is legally or contractually obligated to spend in accordance with restrictions by external parties. The increase in fiscal year 2006-2007 is due to receiving an \$800,000 state grant and a \$200,000 county appropriation for the cosmetology building.

Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. The decrease in fiscal year 2006-2007 is due to the increase in liability for accrued vacation and bonus leave.

Net assets is the difference between total assets and total liabilities. This figure is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year. Total net assets at June 30, 2007, were \$19,181,022.39. The College's net assets increased \$1,071,219.61 or 5.92% during the year. The following chart shows the difference between the Statement of Net Assets for fiscal years 2007 and 2006:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Difference</u>	<u>% Difference</u>
Assets				
Current Assets	\$ 1,343,975.58	\$ 1,299,713.58	\$ 44,262.00	3.41 %
Noncurrent Assets	1,686,756.45	645,640.18	1,041,116.27	161.25 %
Capital Assets, Net	<u>17,619,719.80</u>	<u>17,507,383.91</u>	<u>112,335.89</u>	0.64 %
Total Assets	<u>20,650,451.83</u>	<u>19,452,737.67</u>	<u>1,197,714.16</u>	0.06 %
Liabilities				
Current Liabilities	500,215.58	485,689.49	14,526.09	2.99 %
Noncurrent Liabilities	<u>969,213.86</u>	<u>857,245.40</u>	<u>111,968.46</u>	0.13 %
Total Liabilities	<u>1,469,429.44</u>	<u>1,342,934.89</u>	<u>126,494.55</u>	0.09 %
Net Assets				
Invested in Capital Assets	17,619,719.80	17,507,383.91	112,335.89	0.64 %
Restricted for - Expendable	1,847,089.22	581,750.27	1,265,338.95	217.51 %
Unrestricted	<u>(285,786.63)</u>	<u>20,668.60</u>	<u>(306,455.23)</u>	(1482.71) %
Total Net Assets	<u>\$ 19,181,022.39</u>	<u>\$ 18,109,802.78</u>	<u>\$ 1,071,219.61</u>	5.92 %

Statement of Revenues, Expenses, and Changes in Net Assets

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

Operating revenues include student tuition and fees, federal, State and local operating grants, revenue obtained from sales and services, and other operating revenues. There was a decline in tuition and fees and federal grants due to lower enrollment. There was an overall decrease of 15.12% in total operating revenues. This was caused by a decrease in Pell grant of \$260,935 and a decrease in the WIA grant funds.

Operating Revenues

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues				
Tuition and Fees, Net	\$ 1,222,997.56	\$ 1,430,237.91	\$ (207,240.35)	(14.49) %
Federal Grants and Contracts	4,443,564.24	5,324,871.70	(881,307.46)	(16.55) %
State and Local Grants and Contracts	124,151.50	166,347.79	(42,196.29)	(25.37) %
Sales and Services, Net	461,787.33	434,999.50	26,787.83	6.16 %
Other Operating Revenues	<u>9,591.61</u>	<u>21,466.49</u>	<u>(11,874.88)</u>	(55.32) %
Total Operating Revenues	<u>\$ 6,262,092.24</u>	<u>\$ 7,377,923.39</u>	<u>\$ (1,115,831.15)</u>	(15.12) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues are revenues received for which goods and services are not provided. They include appropriations from State and local governments. The nonoperating revenues increased by 6.12%. The largest portion of nonoperating revenue \$11,075,537.95 is State aid, which consists of funds allotted from the North Carolina Board of Community Colleges for operations of the College. Revenues received from State and local governments to support operations both increased 7.47% and 12.41% respectively. Noncapital grants decreased by 20.85%. This decrease is due largely to grant funds that existed in the prior fiscal year, but were not active in fiscal year ended June 30, 2007. A decline of 11.46% occurred for noncapital gifts due to not having Golden Leaf scholarships present in 2007.

Nonoperating Revenues

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Differences</u>	<u>% Difference</u>
Nonoperating Revenues				
State Aid	\$ 11,075,537.95	\$ 10,305,696.50	\$ 769,841.45	7.47 %
County Appropriations	1,037,000.04	922,479.96	114,520.08	12.41 %
Noncapital Grants	606,572.49	766,372.21	(159,799.72)	(20.85) %
Noncapital Gifts	46,550.00	52,576.47	(6,026.47)	(11.46) %
Investment Income	<u>34,447.87</u>	<u>14,862.43</u>	<u>19,585.44</u>	131.78 %
Nonoperating Revenues	<u>\$ 12,800,108.35</u>	<u>\$ 12,061,987.57</u>	<u>\$ 738,120.78</u>	6.12 %

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities. These revenues are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Assets. Edgecombe Community College received \$1,678,919.05 for State capital aid and \$300,000.00 for County Capital appropriations in fiscal year 2006-2007. The increase in county capital appropriations is because this type of funding was not present in the previous fiscal year. The county awarded capital funds in the fiscal year ended June 30, 2007 only. No capital grants were received in 2007, thus a 100% decrease. In turn, a capital gift of \$125,000 was received, causing a 92.61% increase in this category. This gift was designated to be used for the ACT project to add dressing rooms to the auditorium.

Capital Revenues and Net Assets

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Differences</u>	<u>% Difference</u>
State Capital Aid	\$ 1,678,919.05	\$ 1,143,573.24	\$ 535,345.81	46.81 %
County Capital Appropriations	300,000.00	0.00	300,000.00	100.00 %
Capital Grants	0.00	3,914.06	(3,914.06)	(100.00) %
Capital Gifts	<u>144,460.00</u>	<u>75,000.00</u>	<u>69,460.00</u>	92.61 %
Total Capital Revenues	<u>\$ 2,123,379.05</u>	<u>\$ 1,222,487.30</u>	<u>\$ 900,891.75</u>	73.69 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses are expenses used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. The operating expenses decreased by 3.51%.

Operating expenses for fiscal year 2006-2007 totaled \$20,114,360.03 and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

Personal Service expenses are salary and benefits for the faculty and staff of the College. Salaries and benefit expenditures increased 3.77% or \$472,635.45 in fiscal year 2006-07.

Supplies and Material expenditures consisted mainly of instructional supplies used in the classrooms, office supplies, and maintenance supplies. Supplies and materials decreased 6.56% or \$152,961.11 from the previous fiscal year.

Services expenditures include expenditures for repair and maintenance services, contracted services, travel expenses, printing costs, and telecommunications cost. This decreased by 27.81% or \$616,575.80 from fiscal year 2005-2006. This decrease is due to a reduction in the WIA grant.

Scholarships and Fellowships expenditures include expenses associated with student loans and scholarships awarded to students. Total expenditures in this category for fiscal year 2007 decreased, showing a 11.02% change. This was caused by a decrease in Pell grants and other financial aid due to lower enrollment.

Utility expenditures decreased 2.88% or \$11,805.89 in fiscal year 2007.

Depreciation expense decreased 20.52% or \$121,565.25 in fiscal year 2007.

Operating Expenses

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Differences</u>	<u>% Difference</u>
Personal Services	\$ 13,023,648.16	\$ 12,551,012.71	\$ 472,635.45	3.77 %
Supplies and Materials	2,179,806.55	2,332,767.66	(152,961.11)	(6.56) %
Services	1,600,733.61	2,217,309.41	(616,575.80)	(27.81) %
Scholarships and Fellowships	2,440,496.41	2,742,681.91	(302,185.50)	(11.02) %
Utilities	398,687.21	410,493.10	(11,805.89)	(2.88) %
Depreciation	470,988.09	592,553.34	(121,565.25)	(20.52) %
Total Operating Expenses	<u>\$ 20,114,360.03</u>	<u>\$ 20,846,818.13</u>	<u>\$ (732,458.10)</u>	(3.51) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Cash Flows

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

Condensed Statement of Cash Flows

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Differences</u>	<u>% Difference</u>
Cash Provided (Used) by:				
Operating Activities	\$ (13,189,172.54)	\$ (13,802,476.66)	\$ 613,304.12	(4.44) %
Noncapital Financing Activities	12,857,534.95	12,078,415.83	779,119.12	6.45 %
Capital and Related Financing Activities	643,597.34	965,207.90	(321,610.56)	(33.32) %
Investing Activities	<u>34,447.87</u>	<u>14,862.43</u>	<u>19,585.44</u>	131.78 %
Net Change in Cash	346,407.62	(743,990.50)	1,090,398.12	(146.56) %
Cash, Beginning of the Year	<u>558,434.79</u>	<u>1,302,425.29</u>	<u>(743,990.50)</u>	(57.12) %
Cash, End of Year	<u>\$ 904,842.41</u>	<u>\$ 558,434.79</u>	<u>\$ 346,407.62</u>	62.03 %

Economic Forecast

The economic future of Edgecombe Community College is bright. Ranked for the last five years as a Superior Performing Institution by the N.C. State Community College System, the College continues to offer quality programs that are developed with an eye toward the needs of the local workforce.

The unemployment rate in Edgecombe County has improved slightly in recent years. In August 2006, unemployment stood at 8.2%, down from 9% in August 2004. Despite this progress, unemployment in Edgecombe County remains high compared to statewide unemployment, which measured 4.8% in August 2006. Training the unemployed and underemployed and retraining displaced workers will remain a focus of the College's programs and offerings for the foreseeable future.

While the unemployment rate has improved slightly, the county's population growth is in a slow downward trajectory. According to the N.C. Rural Economic Development Center, in 1990 the population of Edgecombe was 56,558. By 2000, the population had declined to 55,606, and by 2006, 53,964. To offset some of the challenge of finding new students in an area that is losing population, the College has expanded its distance education and online offerings. In 2005, the College offered 43 online courses, and 518 students took online classes. In 2006, these figures had increased to 79 online courses with 705 students enrolled in them.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Since the arrival in 2004 of the College's current president, Dr. Deborah L. Lamm, curriculum programs have been greatly strengthened. Eight new programs have been added – associate in fine arts, associate in general education, associate in science/pre-engineering, biotechnology, cardiac/vascular interventional technology, lateral entry teaching, medical office administration, skin esthetics technology – bringing the number of curriculum programs to 43. Degree, diploma, and certificate offerings within these programs have expanded to 79, compared to 51 in fall 2004.

Relevant and progressive curriculum programs are just one of the ways in which the College seeks to fulfill the educational, cultural, and training needs of adults and of business, industry, and public service agencies in the service area of the College. Edgecombe Community College's dynamic business and industry initiatives continue to spur business development by helping new and expanding industries through teaching employees new skills. The College is Edgecombe County's major provider of workforce training and retraining.

The College's physical plant also is expanding. A new cosmetology building will open on the Tarboro campus in April 2008. Plans are under way to construct a \$12 million community health education center on the Rocky Mount campus. The four-story center will house five of the College's ten allied health programs as well as a primary care clinic, a mental health and rehab unit, a simulated hospital, and possibly a dental clinic. A planning grant of \$300,000 has been received from the State and we have also received a \$1,000,000 grant from Golden Leaf Foundation.

A major campus landscape project is currently in progress on the Tarboro campus, including new signage at the front entrance that was completed in October 2007. An existing parking lot will be converted to a greenway that will connect the Fleming Building with the main campus. The greenway is scheduled to be completed by May 31, 2008.

Edgecombe Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 286,005.30
Restricted Cash and Cash Equivalents	381,974.79
Receivables, Net (Note 3)	331,297.36
Inventories	306,759.96
Prepaid Items	37,938.17
	<hr/>
Total Current Assets	1,343,975.58

Noncurrent Assets:

Restricted Cash and Cash Equivalents	236,862.32
Restricted Due from Primary Government	1,449,894.13
Capital Assets - Nondepreciable (Note 4)	1,118,241.99
Capital Assets - Depreciable, Net (Note 4)	16,501,477.81
	<hr/>
Total Noncurrent Assets	19,306,476.25

Total Assets	<hr/> <hr/> 20,650,451.83
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	266,920.00
Due to Primary Government	2,417.50
Unearned Revenue	36,105.81
Funds Held for Others	70,777.05
Long-Term Liabilities - Current Portion (Note 6)	123,995.22
	<hr/>
Total Current Liabilities	500,215.58

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	969,213.86
	<hr/>

Total Liabilities	<hr/> <hr/> 1,469,429.44
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NET ASSETS

Invested in Capital Assets	17,619,719.80
Restricted for:	
Expendable:	
Scholarships and Fellowships	231,109.82
Capital Projects	1,615,979.40
Unrestricted	(285,786.63)
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 19,181,022.39

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

***Edgecombe Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,222,997.56
Federal Grants and Contracts	4,443,564.24
State and Local Grants and Contracts	124,151.50
Sales and Services, Net (Note 8)	461,787.33
Other Operating Revenues	9,591.61
	<hr/>
Total Operating Revenues	6,262,092.24
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	13,023,648.16
Supplies and Materials	2,179,806.55
Services	1,600,733.61
Scholarships and Fellowships	2,440,496.41
Utilities	398,687.21
Depreciation	470,988.09
	<hr/>
Total Operating Expenses	20,114,360.03
	<hr/>
Operating Loss	(13,852,267.79)
	<hr/>

NONOPERATING REVENUES

State Aid	11,075,537.95
County Appropriations	1,037,000.04
Noncapital Grants	606,572.49
Noncapital Gifts	46,550.00
Investment Income	34,447.87
	<hr/>
Nonoperating Revenues	12,800,108.35
	<hr/>
Loss Before Other Revenues	(1,052,159.44)
	<hr/>
State Capital Aid	1,678,919.05
County Capital Aid	300,000.00
Capital Gifts	144,460.00
	<hr/>
Increase in Net Assets	1,071,219.61

NET ASSETS

Net Assets, July 1, 2006, as Restated (Note 14)	<hr/> 18,109,802.78
Net Assets, June 30, 2007	<hr/> <hr/> \$ 19,181,022.39

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

***Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 6,346,763.68
Payments to Employees and Fringe Benefits	(12,955,617.49)
Payments to Vendors and Suppliers	(4,122,412.21)
Payments for Scholarships and Fellowships	(2,440,496.41)
Other Payments	(17,410.11)
	<u>(13,189,172.54)</u>
Net Cash Used by Operating Activities	<u>(13,189,172.54)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	11,075,537.95
County Appropriations	1,037,000.04
Noncapital Grants Received	698,446.96
Noncapital Gifts	46,550.00
	<u>12,857,534.95</u>
Cash Provided by Noncapital Financing Activities	<u>12,857,534.95</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	786,485.94
County Capital Aid	300,000.00
Capital Gifts Received	144,460.00
Acquisition and Construction of Capital Assets	(583,323.98)
Interest Paid on Leases	(4,024.62)
	<u>643,597.34</u>
Net Cash Provided by Capital and Related Financing Activities	<u>643,597.34</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>34,447.87</u>
Cash Provided by Investing Activities	<u>34,447.87</u>

Net Increase in Cash and Cash Equivalents	346,407.62
Cash and Cash Equivalents, July 1, 2006	<u>558,434.79</u>
Cash and Cash Equivalents, June 30, 2007	<u>\$ 904,842.41</u>

Edgecombe Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3
Page 2

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

Operating Loss	\$ (13,852,267.79)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	470,988.09
Changes in Assets and Liabilities:	
Receivables, Net	73,924.24
Inventories	3,505.70
Prepaid Items	(15,841.95)
Accounts Payable and Accrued Liabilities	72,155.23
Due to Primary Government	(150.34)
Unearned Revenue	10,747.20
Funds Held for Others	(17,410.11)
Compensated Absences	65,177.19
	<u>65,177.19</u>
Net Cash Used by Operating Activities	<u><u>\$ (13,189,172.54)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 286,005.30
Restricted Cash and Cash Equivalents	381,974.79
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>236,862.32</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 904,842.41</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	892,433.11
Capital Asset Write-Offs	18,900.00

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

Edgecombe Community College Foundation, Inc.
Statement of Financial Position
June 30, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	6,803
Investments		<u>1,213,853</u>
Total Assets		<u>1,220,656</u>

NET ASSETS

Unrestricted		287,124
Temporarily Restricted		31,960
Permanently Restricted		<u>901,572</u>
Total Net Assets	\$	<u><u>1,220,656</u></u>

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

Edgecombe Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2007

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:

Contributions	\$ 43,602
Interest Income	5,100
ACT Fund	12,910
Fund Raising Projects	<u>189,645</u>

Total Unrestricted Revenues and Gains	<u>251,257</u>
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Expenses:

Grants/Scholarships	4,000
Other Program Expenses - ACT Dressing Rooms	125,000
Other Program Expenses	14,414
General and Administrative	6,838
Fund Raising	<u>30,510</u>

Total Expenses	<u>180,762</u>
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Increase in Unrestricted Net Assets	<u>70,495</u>
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CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Interest Income	<u>47,944</u>
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Increase in Temporarily Restricted Net Assets	<u>47,944</u>
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CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	<u>9,498</u>
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Increase in Permanently Restricted Net Assets	<u>9,498</u>
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Increase in Net Assets	127,937
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Net Assets at Beginning of Year	<u>1,092,719</u>
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Net Assets at End of Year	<u><u>\$ 1,220,656</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

EDGECOMBE COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds 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. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit – Edgecombe 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 Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of up to 30 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 below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, the Foundation distributed \$4,000 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from The Foundation Office, Edgecombe Community College, 2009 West Wilson Street, Tarboro, NC 27886.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** – All investments belong to Edgecombe Community College Foundation, Inc. and consist of certificates of deposit and money market funds. Certificates of deposit and money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. 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.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are valued at the lower of cost or market value using last invoice cost.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- I. 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.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 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.

L. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Assets – This represents the College’s total investment in capital assets.

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

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

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

M. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- N. 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.

- O. County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A.** 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 \$485.00, and deposits in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

private financial institutions with a carrying value of \$9,197.33 and a bank balance of \$87,032.60.

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, 2007, the College's bank balance was covered by federal depository insurance.

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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$895,160.08 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. 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.

B. Investments of Component Unit – Investments of the College's discretely presented component unit, the Edgecombe Community College Foundation, Inc., are subject to and restricted by 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 following is an analysis of investments by type:

Investment Type	Fair Value
Certificates of Deposit	\$ 945,494.00
Money Market Funds	268,359.00
Total Investments	\$ 1,213,853.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 60,086.25	\$ 321.75	\$ 59,764.50
Accounts	78,739.28	2,780.00	75,959.28
Intergovernmental	195,573.58		195,573.58
Total Current Receivables	\$ 334,399.11	\$ 3,101.75	\$ 331,297.36

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 883,463.71	\$ 0.00	\$ 0.00	\$ 883,463.71
Construction in Progress		234,778.28		234,778.28
Total Capital Assets, Nondepreciable	883,463.71	234,778.28		1,118,241.99
Capital Assets, Depreciable:				
Buildings	18,601,039.72	94,200.00		18,695,239.72
Machinery and Equipment	1,682,374.51	254,345.70	18,900.00	1,917,820.21
General Infrastructure	329,308.91			329,308.91
Total Capital Assets, Depreciable	20,612,723.14	348,545.70	18,900.00	20,942,368.84
Less Accumulated Depreciation:				
Buildings	2,989,978.35	372,020.76		3,361,999.11
Machinery and Equipment	828,918.07	92,381.13	18,900.00	902,399.20
General Infrastructure	169,906.52	6,586.20		176,492.72
Total Accumulated Depreciation	3,988,802.94	470,988.09	18,900.00	4,440,891.03
Total Capital Assets, Depreciable, Net	16,623,920.20	(122,442.39)		16,501,477.81
Capital Assets, Net	\$ 17,507,383.91	\$ 112,335.89	\$ 0.00	\$ 17,619,719.80

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 198,680.92
Accrued Payroll	56,423.76
Other	11,815.32
Total Accounts Payable and Accrued Liabilities	\$ 266,920.00

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 1,028,031.89	\$ 841,266.95	\$ 776,089.76	\$ 1,093,209.08	\$ 123,995.22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 64,941.67
2009	64,200.12
2010	36,198.90
2011	<u>4,781.98</u>
Total Minimum Lease Payments	<u>\$ 170,122.67</u>

Rental expense for all operating leases during the year was \$67,782.72.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 2,337,422.20</u>	<u>\$ 1,114,424.64</u>	<u>\$ 1,222,997.56</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 979,370.33	\$ 634,092.28	\$ 345,278.05
Other	82,930.53		82,930.53
Sales and Services of Education and Related Activities	<u>33,578.75</u>		<u>33,578.75</u>
Total Sales and Services	<u>\$ 1,095,879.61</u>	<u>\$ 634,092.28</u>	<u>\$ 461,787.33</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	\$ 7,699,855.69	\$ 787,465.87	\$ 344,250.95	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,831,572.51
Public Service			490.72				490.72
Academic Support	1,563,247.92	33,739.62	79,935.20				1,676,922.74
Student Services	1,535,559.32	33,011.49	200,602.18	45,537.50			1,814,710.49
Institutional Support	1,800,165.85	189,126.50	440,246.88				2,429,539.23
Operations and Maintenance of Plant	371,440.12	251,097.18	278,485.40		398,687.21		1,299,709.91
Student Financial Aid			240,522.80	2,394,958.91			2,635,481.71
Auxiliary Enterprises	53,379.26	885,365.89	16,199.48				954,944.63
Depreciation						470,988.09	470,988.09
Total Operating Expenses	<u>\$ 13,023,648.16</u>	<u>\$ 2,179,806.55</u>	<u>\$ 1,600,733.61</u>	<u>\$ 2,440,496.41</u>	<u>\$ 398,687.21</u>	<u>\$ 470,988.09</u>	<u>\$ 20,114,360.03</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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$10,977,262.49, of which \$9,750,907.63 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$585,054.46 and \$259,374.14, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$259,374.14, \$208,710.71, and \$183,298.18, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$9,000.00 for the year ended June 30, 2007.

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 \$177,071.00 for the year ended June 30, 2007.

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 \$66,890.00 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees** – The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$370,534.49. 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. Disability Income** – 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, 2007, the College's total contribution to the DIPNC was \$50,704.72. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$75,000 deductible. The College has a blanket honesty bond for all College employees with coverage of \$10,000 per occurrence.

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

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

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

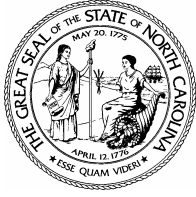
NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$81,700.00 and on other purchases were \$5,125.59 at June 30, 2007.

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 16,775,786.77
Restatement (Error in Establishing Useful Lives of Capital Assets)	<u>1,334,016.01</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 18,109,802.78</u></u>



STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Trustees
Edgecombe Community College
Tarboro, North Carolina

We have audited the financial statements of Edgecombe Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 4, 2008. 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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONTINUED)**

weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the finding in the Audit Finding and Response section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

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

The College's response to the finding identified in our audit is described in the Audit Finding and Response section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

March 4, 2008

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AUDIT FINDING AND RESPONSE

Matters Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

ESTIMATED USEFUL LIFE OF CAPITAL ASSETS NEEDS TO BE RE-EVALUATED

The College has not periodically evaluated the appropriateness of the estimated useful lives of its capital assets. After we requested that the College perform such an evaluation, staff identified an overstatement of accumulated depreciation of approximately \$1.3 million.

When the College implemented GASB Statement No. 34/35, it used the suggested Office of the State Controller useful lives of assets but has not adjusted those suggested guidelines based on actual experience. A periodic review of useful lives is necessary to ensure that costs are allocated based on actual use of the assets.

Recommendation: The College should establish and implement procedures to ensure that the useful lives of capital asset classes are periodically re-evaluated.

College's Response: The College has completed a review of the appropriateness of the estimated useful lives of its capital assets and adjustments have been made. Procedures have been implemented to evaluate annually the appropriateness of the estimated useful lives.

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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:

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