



STATE OF NORTH CAROLINA

RICHMOND COMMUNITY COLLEGE

HAMLET, 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

RICHMOND COMMUNITY COLLEGE

HAMLET, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Richmond 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 certain deficiencies that are detailed in the Audit Findings and Responses 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, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Richmond Community College
Hamlet, North Carolina

We have audited the accompanying financial statements of Richmond 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 the Richmond 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 Richmond 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 this entity, 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 Richmond 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 the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Richmond Community College and its discretely presented component unit as of June 30, 2007, and the respective changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated, May 22, 2008, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Leslie W. Merritt, Jr.

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

May 22, 2008

RICHMOND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Richmond Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007, with comparative data for the fiscal year ending June 30, 2006. This management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, and should be read in conjunction with the College's basic financial statements and the notes.

Overview of the Financial Statements

The College's financial statements consist of three primary statements. The Statement of Net Assets, when compared with the prior year, indicates how effective the College has managed its overall assets in comparison to its liabilities, with the difference in the two being the College's net assets. Changes in current assets may measure, among other things, cash management, collections of accounts receivable, or fluctuations in inventories. Changes in noncurrent assets indicate improvements in buildings, equipment inventory, and depreciation, while the College's liabilities are primarily comprised of accrued employee vacation. The Statement of Revenues, Expenses, and Changes in Net Assets helps the reader understand the financial resources available to the College, how those resources were used, and how those expenses affected the net assets. The Statement of Cash Flows reflects to the reader the College's position in cash, overall liquidity, and financial stability and continuity. The notes included in the statements should be referenced in order to provide detailed explanation of particular elements and activities. Through a summarized comparison of the fiscal year 2005-06 financial statements and those from the fiscal year 2006-07, the reader may gain a contextual understanding of the College's overall financial position.

Using the Annual Financial Report

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be a snapshot of the financial condition at a point in time. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. The financial statements summarize and simplify the user's analysis of the cost of various College services to students and the public.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summarized Comparative Financial Analysis

Condensed Statement of Net Assets Fiscal Years Ended June 30, 2007, and June 30, 2006

	FY 2006-07	FY 2005-06 (As Restated)	Increase (Decrease)
Current Assets	\$ 1,162,354.08	\$ 850,188.80	\$ 312,165.28
Noncurrent Assets	13,493.99	101,010.44	(87,516.45)
Capital Assets, Net	<u>18,093,555.41</u>	<u>18,337,490.87</u>	<u>(243,935.46)</u>
Total Assets	<u>19,269,403.48</u>	<u>19,288,690.11</u>	<u>(19,286.63)</u>
Current Liabilities	653,433.85	805,255.46	(151,821.61)
Noncurrent Liabilities	<u>731,488.77</u>	<u>390,040.00</u>	<u>341,448.77</u>
Total Liabilities	<u>1,384,922.62</u>	<u>1,195,295.46</u>	<u>189,627.16</u>
Net Assets:			
Invested in Capital Assets	18,093,555.41	18,324,326.13	(230,770.72)
Restricted	83,766.20	602.50	83,163.70
Unrestricted	<u>(292,840.75)</u>	<u>(231,533.98)</u>	<u>(61,306.77)</u>
Total Net Assets	<u>\$ 17,884,480.86</u>	<u>\$ 18,093,394.65</u>	<u>\$ (208,913.79)</u>

Analysis of Assets, Liabilities, and Net Assets

The increase in current assets is largely due to \$189,788.89 in intergovernmental receivables for earned Federal Pell grant revenues not received by fiscal year end. The College's prior year restatement of \$1,707,532.58 increased both the net capital assets and invested in capital assets prior year amounts. The restatement was to correct errors in establishing useful lives of capital assets, when implementing the new reporting model under GASB Statements No. 34 and 35. The increase in noncurrent liabilities is mainly due to an increase in the values of employee annual leave balances. There were no significant acquisitions or dispositions of capital assets, and the College did not acquire any debt in 2006-07.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets Fiscal Years Ended June 30, 2007, and June 30, 2006

Student Tuition and Fees, Net	\$ 727,077.98	\$ 199,787.27	\$ 527,290.71
Federal Grants and Contracts	2,787,037.40	2,419,334.86	367,702.54
Other Operating Revenues	346,130.50	301,798.00	44,332.50
Total Operating Revenues	3,860,245.88	2,920,920.13	939,325.75
Nonoperating Revenues:			
State Aid	9,156,787.39	8,579,232.73	577,554.66
County Appropriations	1,384,610.00	1,325,937.00	58,673.00
Noncapital Grants	428,914.74	416,725.46	12,189.28
Other Nonoperating Revenues	421,055.35	221,300.22	199,755.13
Total Nonoperating Revenues	11,391,367.48	10,543,195.41	848,172.07
Capital Contributions:			
State Capital Aid	552,586.79	589,484.58	(36,897.79)
Capital Gifts	318,450.54	1,548,779.46	(1,230,328.92)
Total Capital Contributions	871,037.33	2,138,264.04	(1,267,226.71)
Total Revenues	16,122,650.69	15,602,379.58	520,271.11
Total Operating Expenses	16,331,564.48	14,780,747.24	1,550,817.24
Change in Net Assets	\$ (208,913.79)	\$ 821,632.34	\$ (1,030,546.13)

Analysis of Statement of Revenues, Expenses, and Changes in Net Assets

Breaking a two year decline in curriculum enrollment, 2006-07 FTE increased by 6.5% due to private industry plant closings and increased recruitment efforts by College personnel which also reflected in an increase in tuition and fees. State aid increased 6.7% due largely to a positive change in the State formula and increased legislative funding. The College received two major private grants to support the growing health science programs, accounting for an increase in noncapital gifts, which is included in Other Nonoperating Revenues.

The decrease of \$1,267,226.71 or 5.9% in capital contributions is due to the conclusion of the Grimsley Health Science Building's construction and its supporting projects, completed in the Spring of 2006.

Expectations for Richmond Community College's Financial Position in 2007-08

The economic forecast for North Carolina as a whole is projected to improve in 2008 from the slight slowdown of 2007. Real wages are expected to continue to grow at 1.5%, while employment grows slightly and retail sales move closer to the 3.2% growth seen in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The Southeast Economic Development Region, which includes Richmond and Scotland Counties, is expected to have employment gains of 2%-2.5% in 2007-08. However Richmond and Scotland Counties are still expected to have higher than average unemployment rates.

Enrollment projections for 2007-08 indicate increases of 7%-8%, based on high unemployment in the area, increased enrollment from high school students and graduates, and the initiation of the two Early College High Schools on the main campus. The State will raise tuition by 6.3%, to \$42.00 per credit hour, but this is not expected to effect enrollment.

An activity underway, that will impact the College's fixed assets and future operations, is the partnership between RCC and the City of Laurinburg to build a new facility for the College. Fundraising for the \$3.7 million building is expected to be complete by the end of 2007, with construction being performed by the city in 2008.

There are no outstanding legal issues or potential lawsuits facing the College. The current president, Dr. Diane Honeycutt, is retiring in January 2008 and the search for her replacement is underway, with an announcement expected in November 2007.

Richmond Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 698,110.11
Restricted Cash and Cash Equivalents	70,272.21
Receivables, Net (Note 3)	354,260.36
Inventories	39,711.40

Total Current Assets	1,162,354.08
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	13,493.99
Capital Assets - Nondepreciable (Note 4)	172,019.00
Capital Assets - Depreciable, Net (Note 4)	17,921,536.41

Total Noncurrent Assets	18,107,049.40
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Total Assets	19,269,403.48
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	540,877.47
Unearned Revenue	31,588.34
Funds Held for Others	36,079.00
Long-Term Liabilities - Current Portion (Note 6)	44,889.04

Total Current Liabilities	653,433.85
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	731,488.77
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Total Liabilities	1,384,922.62
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NET ASSETS

Invested in Capital Assets	18,093,555.41
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Expendable:

Scholarships and Fellowships	5,553.50
Restricted for Specific Programs	78,212.70

Unrestricted	(292,840.75)
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Total Net Assets	\$ 17,884,480.86
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The accompanying notes to the financial statements are an integral part of this statement.

***Richmond 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 9)	\$ 727,077.98
Federal Grants and Contracts	2,787,037.40
State and Local Grants and Contracts	91,210.00
Sales and Services	201,624.18
Other Operating Revenues	53,296.32
	<hr/>
Total Operating Revenues	3,860,245.88
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	10,969,867.25
Supplies and Materials	1,225,038.63
Services	1,183,704.09
Scholarships and Fellowships	2,010,827.52
Utilities	372,374.43
Depreciation	569,752.56
	<hr/>
Total Operating Expenses	16,331,564.48
	<hr/>
Operating Loss	(12,471,318.60)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	9,156,787.39
County Appropriations	1,384,610.00
Noncapital Grants	428,914.74
Noncapital Gifts	467,949.20
Investment Income	29,666.72
Other Nonoperating Expenses	(76,560.57)
	<hr/>
Net Nonoperating Revenues	11,391,367.48
	<hr/>
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,079,951.12)
	<hr/>
State Capital Aid	552,586.79
Capital Gifts	318,450.54
	<hr/>
Decrease in Net Assets	(208,913.79)
	<hr/>

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	18,093,394.65
	<hr/>
Net Assets, June 30, 2007	\$ 17,884,480.86
	<hr/> <hr/>

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

Richmond 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	\$ 3,599,181.19
Payments to Employees and Fringe Benefits	(10,726,693.59)
Payments to Vendors and Suppliers	(2,699,101.01)
Payments for Scholarships and Fellowships	(2,010,827.52)
Other Payments	(9,952.53)
	<hr/>
Net Cash Used by Operating Activities	(11,847,393.46)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,156,787.39
County Appropriations	1,384,610.00
Noncapital Grants Received	428,914.74
Noncapital Gifts	467,949.20
	<hr/>
Cash Provided by Noncapital Financing Activities	11,438,261.33

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	641,145.06
Capital Gifts Received	318,450.54
Acquisition and Construction of Capital Assets	(496,220.13)
Principal Paid on Capital Debt	(13,164.74)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	450,210.73

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	29,666.72
	<hr/>
Cash Provided by Investing Activities	29,666.72

Net Increase in Cash and Cash Equivalents	70,745.32
Cash and Cash Equivalents, July 1, 2006	711,130.99
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 781,876.31

Richmond 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	\$ (12,471,318.60)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	569,752.56
Miscellaneous Nonoperating Income	(76,560.57)
Changes in Assets and Liabilities:	
Receivables, Net	(263,706.72)
Inventories	21,244.94
Accounts Payable and Accrued Liabilities	143,474.83
Unearned Revenue	31,588.34
Funds Held for Others	36,079.00
Compensated Absences	162,052.76
Net Cash Used by Operating Activities	<u>\$ (11,847,393.46)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 698,110.11
Restricted Cash and Cash Equivalents	70,272.21
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>13,493.99</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 781,876.31</u>

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

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

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 425,955
Investments	962,140
Accounts Receivable:	
Net Unconditional Promises to Give	125,206
Other	2,392

Total Current Assets	1,515,693
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Endowment Investments	1,192,771
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Property and Equipment, Net	1,054
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Other Assets:

Long-Term Net Unconditional Promises to Give	697,657
Cash Value of Life Insurance	35,479

Total Other Assets	733,136
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Total Assets	\$ 3,442,654
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable and Accrued Liabilities	\$ 18,497
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NET ASSETS

Unrestricted	69,214
Temporarily Restricted	2,162,172
Permanently Restricted	1,192,771

Total Net Assets	3,424,157
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Total Liabilities and Net Assets	\$ 3,442,654
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit B-2

UNRESTRICTED NET ASSETS

Support and Revenue:	
Contributions	\$ 31,650
Special Event	21,387
Interest Income	2,099
Miscellaneous	1,326
	<hr/>
Total Support and Revenue	56,462
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payments	805,374
	<hr/>
Total Support, Revenue, and Reclassifications	861,836
	<hr/>
Expenses:	
Program Services	812,417
Supporting Services	30,108
	<hr/>
Total Expenses	842,525
	<hr/>
Transfers	1,027
	<hr/>
Change in Net Assets	20,338
Net Assets, Beginning of Year	48,876
	<hr/>
Net Assets, End of Year	<u>\$ 69,214</u>

TEMPORARILY RESTRICTED NET ASSETS

Support and Revenue:	
Contributions	705,950
Interest Income	21,830
Investment Income	207,710
	<hr/>
Total Support and Revenue	935,490
Net Assets Released from Restrictions:	
Restrictions Satisfied by Payments	(805,374)
	<hr/>
Total Support, Revenue, and Reclassifications	130,116
	<hr/>
Transfers	(1,027)
	<hr/>
Change in Net Assets	129,089
Net Assets, Beginning of Year	2,033,083
	<hr/>
Net Assets, End of Year	<u>\$ 2,162,172</u>

PERMANENTLY RESTRICTED NET ASSETS

Support and Revenue:	
Contributions	\$ 124,510
	<hr/>
Net Assets, Beginning of Year	1,068,261
	<hr/>
Net Assets, End of Year	<u>\$ 1,192,771</u>

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

RICHMOND 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. Richmond 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 - Richmond 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 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 40 directors and is not controlled by College employees or trustees. The Executive Director and the College President serve as directors based on their positions. No College employee or trustee serves as an officer of the Foundation. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2007, the Foundation distributed \$812,417.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Richmond Community College, P.O. Box 1189, Hamlet, NC 28345.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes petty cash, and cash on deposit with private bank accounts and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment fund maintained by the State Treasurer has the general

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market value 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 50 to 75 years for general infrastructure, 40 to 50 years for buildings, and 5 to 45 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 compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 to all full-time permanent employees as of September 30, 2002, July 1, 2003, and July 1, 2005. The unused portion of this leave remains available until used, notwithstanding 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 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$525.00 and deposits in private financial institutions with a carrying value of \$411,853.46 and a bank balance of \$466,913.55.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$369,497.85, 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 1.60 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Investments of the College's component unit, Richmond Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

Investments are presented in the financial statements at their fair value. Investments are composed of the following:

	Temporarily Restricted	Permanently Restricted	Total
Investments Held by Wachovia Securities, Inc.	\$ 962,140	\$ 1,192,771	\$ 2,154,911

Wachovia Securities, Inc. holds funds for various nonprofit organizations. Specifically for Richmond Community College Foundation, Inc., as of June 30, 2007, most of the above were invested in government securities, growth stocks, and investors trust. These investments potentially subject Richmond Community College Foundation, Inc. to a concentration of market risk.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 104,943.10	\$ 30,000.00	\$ 74,943.10
Accounts	89,528.37		89,528.37
Intergovernmental	189,788.89		189,788.89
Total Current Receivables	\$ 384,260.36	\$ 30,000.00	\$ 354,260.36

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	\$ 163,519.00	\$ 0.00	\$ 0.00	\$ 163,519.00
Art, Literature, and Artifacts	8,500.00			8,500.00
Construction in Progress	189,085.47		189,085.47	
Total Capital Assets, Nondepreciable	361,104.47		189,085.47	172,019.00
Capital Assets, Depreciable:				
Buildings	21,128,019.42	189,085.47		21,317,104.89
Machinery and Equipment	1,393,023.13	325,817.10	15,484.83	1,703,355.40
General Infrastructure	402,741.53			402,741.53
Total Capital Assets, Depreciable	22,923,784.08	514,902.57	15,484.83	23,423,201.82
Less Accumulated Depreciation:				
Buildings	4,283,861.50	443,862.22		4,727,723.72
Machinery and Equipment	558,818.54	118,579.34	15,484.83	661,913.05
General Infrastructure	104,717.64	7,311.00		112,028.64
Total Accumulated Depreciation	4,947,397.68	569,752.56	15,484.83	5,501,665.41
Total Capital Assets, Depreciable, Net	17,976,386.40	(54,849.99)		17,921,536.41
Capital Assets, Net	\$ 18,337,490.87	\$ (54,849.99)	\$ 189,085.47	\$ 18,093,555.41

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 97,725.81
Accrued Payroll	443,151.66
Total Accounts Payable and Accrued Liabilities	\$ 540,877.47

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 13,164.74	\$ 0.00	\$ 13,164.74	\$ 0.00	\$ 0.00
Compensated Absences	614,325.05	460,757.41	298,704.65	776,377.81	44,889.04
Total Long-Term Liabilities	\$ 627,489.79	\$ 460,757.41	\$ 311,869.39	\$ 776,377.81	\$ 44,889.04

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2008	\$ 4,620.36

Rental expense for all operating leases during the year was \$13,861.08.

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease payments under noncancelable operating leases related to wireless broadband services consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 11,774.04
2009	11,774.04
2010	11,774.04
2011	11,774.04
2012 -2016	58,870.20
Total Minimum Lease Revenues	\$ 105,966.36

Rental revenue for all operating leases during the year was \$12,820.21.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 1,483,715.00	\$ 726,637.02	\$ 30,000.00	\$ 727,077.98

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	\$ 6,762,569.27	\$ 582,795.99	\$ 299,645.53	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,645,010.79
Academic Support	895,786.22	48,436.82	49,952.79				994,175.83
Student Services	725,904.70	36,992.18	83,661.49				846,558.37
Institutional Support	1,842,211.23	173,063.00	406,847.92				2,422,122.15
Operations and Maintenance of Plant	728,295.71	375,839.66	162,976.95		372,374.43		1,639,486.75
Student Financial Aid				2,010,827.52			2,010,827.52
Auxiliary Enterprises	15,100.12	7,910.98	180,619.41				203,630.51
Depreciation						569,752.56	569,752.56
Total Operating Expenses	\$ 10,969,867.25	\$ 1,225,038.63	\$ 1,183,704.09	\$ 2,010,827.52	\$ 372,374.43	\$ 569,752.56	\$ 16,331,564.48

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2007, the College had a total payroll of \$8,973,159.66, of which \$7,876,110.19 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$472,569.88 and \$209,504.53, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$209,504.53, \$168,278.36, and \$153,936.34, 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 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. The voluntary contributions by employees amounted to \$269,261.00 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 \$10,440.00 for the year ended June 30, 2007.

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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$296,888.16. 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 \$40,626.80. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contract with private insurance.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - NET ASSETS RESTATEMENT

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

	<u>Amount</u>
July 1, 2006 Net Assets as Previously Reported	\$ 16,386,862.07
Restatement:	
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	<u>1,706,532.58</u>
July 1, 2006 Net Assets as Restated	<u><u>\$ 18,093,394.65</u></u>



STATE OF NORTH CAROLINA
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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
Richmond Community College
Hamlet, North Carolina

We have audited the financial statements of Richmond 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 May 22, 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 opinions 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 weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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 deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies 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, of the significant deficiencies described above, we consider Finding 1 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 responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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

May 22, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control.

1. FINANCIAL STATEMENTS PRESENTATION ERRORS

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to the readers. Our audit revealed the following misstatements:

- Errors were made by the College when reclassifying cash because of interfund borrowing. This caused current unrestricted cash and current restricted cash to be understated by \$184,373.84 and \$53,607.17, respectively, and noncurrent restricted cash to be overstated by \$237,981.01.
- A receivable had not been recorded for Federal Pell grant revenue that had been earned but not received at year-end. Therefore, receivables and federal grants and contracts revenues were understated by \$189,788.89.
- An error in estimating the current portion of compensated absences caused the current portion of long-term liabilities to be overstated by \$132,301.85 while the noncurrent portion of long-term liabilities was understated by the same amount.
- The College did not reclassify restricted net assets for funds with restricted purposes. As a result, restricted net assets were understated by \$59,853.85 and unrestricted net assets were overstated by the same amount.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy and completeness of the financial statements.

College's Response: The Executive Vice President and the Controller are implementing the necessary steps to prevent the identified errors from reoccurring in the future presentation of the financial statements.

2. INADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over machinery and equipment. The purchasing agent was responsible for ordering, receiving, tagging, distributing and taking inventory of all equipment.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Inadequate segregation of duties increases the risk of errors and irregularities as well as the risk of such acts going undetected. State policy requires that the capital asset responsibilities be distributed among several positions and that physical inventory be taken by someone who does not have custody of the assets, nor responsibility for receiving, checking in, tagging and recording the assets.

Recommendation: College management should evaluate and reassign job duties and properly segregate duties in order to strengthen internal controls.

College's Response: The necessary changes are being implemented in job descriptions and duty assignments to segregate duties for capital asset purchasing and inventory. The purchasing agent will no longer be responsible for conducting the inventory of fixed assets. Those duties will be assigned to another employee reporting directly to the Controller.

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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