STATE OF NORTH CAROLINA

WAYNE COMMUNITY COLLEGE

GOLDSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

WAYNE COMMUNITY COLLEGE

GOLDSBORO, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, Wayne Community College

We have completed a financial statement audit of Wayne Community College for the year ended June 30, 2008, 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 deficiency that is detailed in the Audit Findings and Responses 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Wayne Community College
Goldsboro, North Carolina

We have audited the accompanying financial statements of Wayne Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Wayne Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Foundation of Wayne Community College, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Foundation of Wayne Community College, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Wayne Community College and its discretely presented component unit as of June 30, 2008, 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.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2009, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

August 7, 2009

This section of Wayne Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2008, and June 30, 2007. Since this discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Overview of Financial Statements

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

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

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

Financial Statement Presentation

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 similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities that are supported mainly by State, local, federal and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public.

Statement of Net Assets

The following condensed statement of net assets compares the current year information with the prior year and indicates the monetary and percentage increase or decrease between years.

Condensed Statement of Net Assets

	2008	2007	Increase (Decrease)	Percent Change
Current Assets	$ 1,857,457.30	$ 1,574,398.78	$ 283,058.52	18%
Capital Assets	32,847,102.66	33,428,615.00	(581,512.34)	-2%
Other Assets	624,234.91	746,416.27	(122,181.36)	-16%
Total Assets	35,328,794.87	35,749,430.05	(420,635.18)	-1%
Current Liabilities	642,783.67	620,409.06	22,374.61	4%
Long-Term Liabilities	919,139.39	976,563.40	(57,424.01)	-6%
Total Liabilities	1,561,923.06	1,596,972.46	(35,049.40)	-2%
Net Assets				
Invested in Capital Assets	32,847,102.66	33,428,615.00	(581,512.34)	-2%
Restricted	661,395.18	594,666.90	66,728.28	11%
Unrestricted	258,373.97	129,175.69	129,198.28	100%
Total Net Assets	$ 33,766,871.81	$ 34,152,457.59	$ (385,585.78)	-1%

During the current fiscal year the College's net assets decreased by $385,586. This was due to several factors, most notably a decrease in capital assets of $581,512 and an increase in current assets of $283,059. The difference between equipment purchased and depreciation allowed accounts for the majority of the capital asset decline. Equipment totaling $384,389 was purchased but depreciation of $934,054 was booked on all capital assets, resulting in $549,665 of the decrease in capital assets.

The majority of the increase in current assets was due to an increase in cash and cash equivalents. Unrestricted cash was affected by the increase in overhead receipts and bookstore net income. Restricted cash increased due to a $100,400 grant received from Achieving the Dream for the 2008-2009 year, and the new assessment of technology fees due from all students upon registration starting in the Fall of 2007.

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative statement for fiscal years ending 2008 and 2007 reflects the monetary and percentage increase or decrease in reported revenues and expenses between years.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	$ 1,890,625.85	$ 1,642,203.00	$ 248,422.85	15%
Federal Grants and Contracts	4,352,661.60	4,140,034.33	212,627.27	5%
State and Local Grants and Contracts	820,915.64	551,428.17	269,487.47	49%
Other Operating Revenues	494,189.32	490,030.68	4,158.64	1%
Total Operating Revenues	7,558,392.41	6,823,696.18	734,696.23	11%
Operating Expenses:				
Personal Services	19,020,950.19	17,881,766.92	1,139,183.27	6%
Supplies and Materials	2,078,568.87	2,224,669.93	(146,101.06)	-7%
Services	2,057,900.24	1,972,084.11	85,816.13	4%
Scholarships and Fellowships	3,087,479.25	2,674,665.00	412,814.25	15%
Other Operating Expenses	1,605,482.73	1,518,533.89	86,948.84	6%
Total Operating Expenses	27,850,381.28	26,271,719.85	1,578,661.43	6%
Operating Loss	(20,291,988.87)	(19,448,023.67)	(843,965.20)	4%
Nonoperating Revenues:				
State Aid	14,564,237.39	13,970,012.69	594,224.70	4%
County Appropriations	2,783,366.00	2,454,356.00	329,010.00	13%
Other Nonoperating Revenues	1,201,055.57	1,020,695.87	180,359.70	18%
Other Revenues:				
State Capital Aid	968,040.89	3,542,266.00	(2,574,225.11)	-73%
County Capital Aid	306,524.73	147,947.00	158,577.73	107%
Capital Grants	83,178.51	1,767.00	81,411.51	4607%
Total Nonoperating and Other Revenues	19,906,403.09	21,137,044.56	(1,230,641.47)	-6%
Change in Net Assets	(385,585.78)	1,689,020.89	(2,074,606.67)	-123%
Net Assets - Beginning of Year	34,152,457.59	32,463,436.70	1,689,020.89	5%
Net Assets - End of Year	$ 33,766,871.81	$ 34,152,457.59	$ (385,585.78)	-1%

An increase in student enrollment is a major factor in causing operating revenues to go up by $734,696. With more students attending both curriculum and occupational programs, there was also an increase in federal financial aid as more Pell grants were awarded. Students also benefited by an increase the North Carolina Community College grant totaling $237,663.

Total operating expenses increased by $1,578,661. Salaries increased in the current year due to a 3% raise for professional staff and a 2.75% raise for non-professional staff, respectively. Our part-time faculty costs also increased over the prior year. Scholarships and fellowships expenses were up by $412,814 due to an increase in the federal Pell program of $153,994 and an increase in the State grants of $362,663. Supplies and materials decreased by 7% due to the completion of construction and renovation projects. Equipment was purchased during the prior year to furnish these projects.

Although state aid had a slight increase from last year to the current year, state capital aid had the most significant decrease of approximately 73%. The cause of the decline is a result of the completion of several construction projects last year. Last year, Wayne Community College received $1.5 million dollars for the completion of the Multi-purpose building and approximately $429,000 for the renovation of the Wayne Learning Center and Dogwood buildings. In addition, revenue of $512,000 was recognized for the Auto Body Shop addition. By the end of the 2008 fiscal year the majority of the 2000 State bond money for renovations and new construction had been recognized in previous years. State capital aid was made up primarily of state equipment funding. On the other hand, county capital aid increased due to an increase in county equipment funding of $137,478 for the current year. Capital grants increased as well due to a grant of $80,988 that the college received. The major part of the increase in other nonoperating revenues is due to the increases in noncapital grants and noncapital gifts. There was additional funding received from Achieving the Dream Grant and a new noncapital gift from the NC Department of Public Instruction for the new high school program started on the College's campus.

Capital Assets

The following schedule compares capital assets for the fiscal years 2008 and 2007, net of accumulated depreciation.

	2008	2007	Increase (Decrease)	Percent Change
Land	$ 1,876,665.63	$ 1,876,665.63	$ 0.00	0%
Construction in Progress	33,482.61	27,612.50	5,870.11	21%
Buildings	27,621,876.87	28,365,725.07	(743,848.20)	-3%
Machinery and Equipment	2,342,500.12	2,216,955.19	125,544.93	6%
General Infrastructure	972,577.43	941,656.61	30,920.82	3%
Totals	$ 32,847,102.66	$ 33,428,615.00	$ (581,512.34)	-2%

At June 30, 2008, net capital assets of $32,847,103 represents $44,143,580 invested in capital assets less $11,296,477 in accumulated depreciation. The $5,870 increase in construction during the year represents start up costs for an addition to the auto repair building, while the total decrease in net capital assets was attributed mainly to the depreciation recognition at June 30, 2008.

College Liabilities and Commitments

The College reported long-term liabilities of $1,073,670 as of June 30, 2008. This balance consists of compensated absences of $765,345 of which $103,704 is reported as current. The remaining balance consists of a note payable to BB&T for an Energy Savings Contract of $308,325. The current portion of the note payable as of June 30, 2008 was $50,826. The payment on the contract will be finished in November of 2013.

As of June 30, 2008, the College had commitments of $750,527 on contracts to replace the roof on the Dogwood Building and for alterations to the Auto Body Shop.

Economic Factors

Wayne Community College has experienced steady enrollment over the past year. The North Carolina Community College System's enrollment averaging funding formula provides protection against drastic funding changes and this has provided stable State revenue for fiscal year 2007-2008. The 2008-2009 economic position of the College is closely tied to that of the State of North Carolina and Wayne County. The specific impact of the local and national economy on the appropriations for the College is uncertain. However, what is certain is that Wayne Community College will continue to respond to the community to provide services and education to the population of Wayne County to the extent resources will allow.

Wayne Community College
Statement of Net Assets
June 30, 2008 ***Exhibit A-1***

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,085,331.83
Restricted Cash and Cash Equivalents	392,997.83
Receivables, Net (Note 4)	263,720.36
Inventories	115,407.28
Total Current Assets	1,857,457.30
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	108,877.38
Restricted Due from Primary Government	515,357.53
Capital Assets - Nondepreciable (Note 5)	1,910,148.24
Capital Assets - Depreciable, Net (Note 5)	30,936,954.42
Total Noncurrent Assets	33,471,337.57
Total Assets	35,328,794.87
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	327,068.75
Unearned Revenue	127,673.44
Funds Held for Others	33,511.17
Long-Term Liabilities - Current Portion (Note 7)	154,530.31
Total Current Liabilities	642,783.67
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	919,139.39
Total Liabilities	1,561,923.06
NET ASSETS	
Invested in Capital Assets	32,847,102.66
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	76,036.90
Other	16,000.00
Expendable:	
Scholarships and Fellowships	78,234.85
Loans	4,308.16
Capital Projects	223,872.83
Other	262,942.44
Unrestricted	258,373.97
Total Net Assets	$ 33,766,871.81

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

Wayne Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	1,890,625.85
Federal Grants and Contracts		4,352,661.60
State and Local Grants and Contracts		820,915.64
Sales and Services, Net (Note 10)		462,761.76
Other Operating Revenues		31,427.56
Total Operating Revenues		7,558,392.41
EXPENSES		
Operating Expenses:		
Personal Services		19,020,950.19
Supplies and Materials		2,078,568.87
Services		2,057,900.24
Scholarships and Fellowships		3,087,479.25
Utilities		671,428.75
Depreciation		934,053.98
Total Operating Expenses		27,850,381.28
Operating Loss		(20,291,988.87)
NONOPERATING REVENUES (EXPENSES)		
State Aid		14,564,237.39
County Appropriations		2,783,366.00
Noncapital Grants		514,623.02
Noncapital Gifts		560,991.20
Investment Income		86,539.02
Interest and Fees on Debt		(14,506.18)
Other Nonoperating Revenues		53,408.51
Net Nonoperating Revenues		18,548,658.96
Loss Before Other Revenues		(1,743,329.91)
State Capital Aid		968,040.89
County Capital Aid		306,524.73
Capital Grants		83,178.51
Decrease in Net Assets		(385,585.78)
NET ASSETS		
Net Assets, July 1, 2007		34,152,457.59
Net Assets, June 30, 2008	$	33,766,871.81

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

Wayne Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,556,292.75
Payments to Employees and Fringe Benefits	(19,035,636.33)
Payments to Vendors and Suppliers	(4,753,809.45)
Payments for Scholarships and Fellowships	(3,087,479.25)
Other Receipts	128,267.01
Net Cash Used by Operating Activities	(19,192,365.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	14,564,237.39
County Appropriations	2,783,366.00
Noncapital Grants Received	514,623.02
Noncapital Gifts Received	560,991.20
Cash Provided by Noncapital Financing Activities	18,423,217.61
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,081,103.54
County Capital Aid	306,524.73
Capital Grants Received	83,178.51
Proceeds from Sale of Capital Assets	5,338.19
Acquisition and Construction of Capital Assets	(472,352.09)
Principal Paid on Capital Debt and Leases	(48,707.74)
Interest Paid on Capital Debt and Leases	(14,506.18)
Net Cash Provided by Capital and Related Financing Activities	940,578.96
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	86,539.02
Cash Provided by Investing Activities	86,539.02
Net Increase in Cash and Cash Equivalents	257,970.32
Cash and Cash Equivalents, July 1, 2007	1,329,236.72
Cash and Cash Equivalents, June 30, 2008	$ 1,587,207.04

Wayne Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2008 — *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (20,291,988.87)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	934,053.98
Miscellaneous Nonoperating Income	132,043.27
Changes in Assets and Liabilities:	
Receivables, Net	(18,144.57)
Inventories	2,175.08
Accounts Payable and Accrued Liabilities	49,808.42
Unearned Revenue	7,906.79
Funds Held for Others	4,361.86
Compensated Absences	(12,581.23)
Net Cash Used by Operating Activities	$ (19,192,365.27)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 1,085,331.83
Restricted Cash and Cash Equivalents	392,997.83
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	108,877.38
Total Cash and Cash Equivalents - June 30, 2008	$ 1,587,207.04

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	$ 113,601.00

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

The Foundation of Wayne Community College, Inc.
Statement of Financial Position
June 30, 2008 ***Exhibit B-1***

ASSETS		
Cash and Cash Equivalents	$	1,061,989
Investments		1,186,976
Real Estate Held for Resale		110,000
Pledges Receivable (Net)		3,898
Total Assets		2,362,863
LIABILITIES		
Total Liabilities		
NET ASSETS		
Unrestricted		37,718
Temporarily Restricted		171,799
Permanently Restricted		2,153,346
Total Net Assets	$	2,362,863

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

The Foundation of Wayne Community College, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008 — *Exhibit B-2*

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Fund Drives	$	22,783
Golf Tournament		60,543
Memorial and Honorary Gifts		1,800
Interest and Investment Income		1,681
Donated Services and Facilities		124,855
Unrealized Losses on Investments		(1,651)
Total Unrestricted Revenues and Gains		210,011
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		262,975
Total Unrestricted Revenues, Gains, and Other Support		472,986
Expenses and Losses:		
Awards, Gifts and Scholarships		248,678
Fund Raising Expenses		150,304
Administrative		55,365
Total Expenses		454,347
Increase in Unrestricted Net Assets		18,639
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Fund Drives		106,683
Golf Tournament		41,500
Special Gifts		19,465
Memorial and Honorary Gifts		1,079
Interest and Investment Income		49,127
Other Income		4,433
Unrealized Losses on Investments		(51,068)
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(262,975)
Decrease in Temporarily Restricted Net Assets		(91,756)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Fund Drives		141,809
Memorials and Honorary Gifts		3,510
Interest and Investment Income		88
Contributions		115,926
Donated Buildings		65,000
Unrealized Losses on Investments		(33,024)
Increase in Permanently Restricted Net Assets		293,309
Increase in Net Assets		220,192
Net Assets at Beginning of Year		2,142,671
Net Assets at End of Year	$	2,362,863

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component units' financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit – The Foundation of Wayne Community College, Inc. (Foundation) is a legally separate not-for-profit tax-exempt 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 25 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 of Wayne Community College, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from

Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2008, the Foundation distributed $196,545.33 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Executive Director of The Foundation of Wayne Community College, Inc., 3000 Wayne Memorial Drive, Goldsboro, NC 27534.

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

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

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

C. Basis of Accounting - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. Cash and Cash Equivalents - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost 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 and/or units of output method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 50 years for buildings, and 5 to 40 years for equipment.

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

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

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

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.

K. **Net Assets** - The College's net assets are classified as follows:

Invested in Capital Assets - This represents the College's total investment in capital assets.

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

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

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

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

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

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

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

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

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

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 $1,328.00, and deposits in private financial institutions with a carrying value of $293,144.08 and a bank balance of $328,373.92.

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, 2008, 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, 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,292,734.96 which represents the College's equity position in the State Treasurer's Short-Term Investment

Fund. At June 30, 2008, the amount shown on the Statement of Financial Position of The Foundation of Wayne Community College, Inc., the College's discretely presented component unit, as cash and cash equivalents includes $1,061,989.00, which represents the Foundation'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 2.9 years as of June 30, 2008. 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.

Investments of the College's component unit, The Foundation of Wayne Community College, 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.

At June 30, 2008, The Foundation held investments with North Carolina Community Foundation. The investments were held at the quoted market value. As of June 30, 2008, the cost of the investments was $1,220,000; the gross unrealized loss was $33,024.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2008, interest earnings of $5,480.20 were available to be spent from endowment funds.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 148,238.25	$ 25,369.49	$ 122,868.76
Accounts	67,024.98	1,315.00	65,709.98
Intergovernmental	75,141.62		75,141.62
Total Current Receivables	$ 290,404.85	$ 26,684.49	$ 263,720.36

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 1,876,665.63	$ 0.00	$ 0.00	$ 1,876,665.63
Construction in Progress	27,612.50	5,870.11		33,482.61
Total Capital Assets, Nondepreciable	1,904,278.13	5,870.11		1,910,148.24
Capital Assets, Depreciable:				
Buildings	37,192,408.75			37,192,408.75
Machinery and Equipment	3,708,209.05	384,388.71	171,788.38	3,920,809.38
General Infrastructure	1,073,958.04	46,255.77		1,120,213.81
Total Capital Assets, Depreciable	41,974,575.84	430,644.48	171,788.38	42,233,431.94
Less Accumulated Depreciation:				
Buildings	8,826,683.68	743,848.20		9,570,531.88
Machinery and Equipment	1,491,253.86	174,870.83	87,815.43	1,578,309.26
General Infrastructure	132,301.43	15,334.95		147,636.38
Total Accumulated Depreciation	10,450,238.97	934,053.98	87,815.43	11,296,477.52
Total Capital Assets, Depreciable, Net	31,524,336.87	(503,409.50)	83,972.95	30,936,954.42
Capital Assets, Net	$ 33,428,615.00	$ (497,539.39)	$ 83,972.95	$ 32,847,102.66

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 107,717.08
Accrued Payroll	219,351.67
Total Accounts Payable and Accrued Liabilities	$ 327,068.75

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Notes Payable	$ 357,032.92	$ 0.00	$ 48,707.74	$ 308,325.18	$ 50,826.13
Compensated Absences	777,925.75	512,089.76	524,670.99	765,344.52	103,704.18
Total Long-Term Liabilities	$ 1,134,958.67	$ 512,089.76	$ 573,378.73	$ 1,073,669.70	$ 154,530.31

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2008	Principal Outstanding 06/30/2008
Energy Savings Contract	BB&T	4.28	11/20/2013	$ 512,069.61	$ 203,744.43	$ 308,325.18

The annual requirements to pay principal and interest on the notes payable at June 30, 2008, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2009	$ 50,826.13	$ 12,387.79
2010	53,036.66	10,177.26
2011	55,343.31	7,870.61
2012	57,750.30	5,463.62
2013	60,261.95	2,951.97
2014-2018	31,106.83	500.13
Total Requirements	$ 308,325.18	$ 39,351.38

NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 221,075.52
2010	221,075.52
2011	221,075.52
2012	91,104.80
Total Minimum Lease Payments	$ 754,331.36

Rental expense for all operating leases during the year was $211,997.26.

NOTE 9 - OPERATING LEASE REVENUES

Future minimum lease revenues under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 17,262.00
2010	17,262.00
2011	17,262.00
2012	17,262.00
2013-2016	69,048.00
2017-2021	86,310.00
2022-2026	86,310.00
2027-2031	86,310.00
2032-2036	86,310.00
Total Minimum Lease Payments	$ 483,336.00

Rental revenue for all operating leases during the year was $15,823.50.

NOTE 10 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 3,340,380.53	$ 0.00	$ 1,432,697.49	$ 17,057.19	$ 1,890,625.85
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Student Union Services	$ 44,475.78	$ 0.00	$ 0.00	$ 480.00	$ 43,995.78
Bookstore	137,777.96			9,147.30	128,630.66
Preschool	249,607.47				249,607.47
Other	6,358.93	6,358.93			
Sales and Services of Education and Related Activities	40,527.85				40,527.85
Total Sales and Services	$ 478,747.99	$ 6,358.93	$ 0.00	$ 9,627.30	$ 462,761.76

NOTE 11 - 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	$ 11,673,641.92	$ 1,178,733.20	$ 770,581.57	$ 18,380.00	$ 0.00	$ 0.00	$ 13,641,336.69
Public Service	70,427.38	942.22	7,412.06				78,781.66
Academic Support	1,740,386.52	208,979.55	112,789.42				2,062,155.49
Student Services	1,875,499.60	127,579.90	161,218.97	53,690.60			2,217,989.07
Institutional Support	2,410,215.98	146,703.54	662,280.12				3,219,199.64
Operations and Maintenance of Plant	1,250,778.79	359,803.97	290,581.74		671,428.75		2,572,593.25
Student Financial Aid			19,692.80	3,015,408.65			3,035,101.45
Auxiliary Enterprises		55,826.49	33,343.56				89,170.05
Depreciation						934,053.98	934,053.98
Total Operating Expenses	$ 19,020,950.19	$ 2,078,568.87	$ 2,057,900.24	$ 3,087,479.25	$ 671,428.75	$ 934,053.98	$ 27,850,381.28

NOTE 12 - 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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $15,734,255.78, of which $13,183,326.84 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $402,091.47 and $791,000.19, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $402,091.47, $338,411.38, and $276,232.82, 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.ncosc.net/ 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 $53,440.20 for the year ended June 30, 2008.

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 $260,483.00 for the year ended June 30, 2008.

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 $35,770.00 for the year ended June 30, 2008.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $540,516.40, $483,444.83, and $448,583.21, respectively. 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*. 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. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $68,553.30, $66,155.61, and $61,385.07, respectively. 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 14 - 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 $1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible and a 10% participation in each loss above the deductible. Losses caused by employees paid from county and institutional funds are covered with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The

Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTE 15 - 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 $750,527.00. There were no commitments on other purchases.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental*

Employers, with modifications to reflect differences between pension benefits and OPEB.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

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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
Wayne Community College
Goldsboro, North Carolina

We have audited the financial statements of Wayne Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated August 7, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 and 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 weaknesses. However, as discussed below, we identified a 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 Findings and Responses 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 believe that the significant deficiency described above is not 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 Findings and Responses 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
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

August 7, 2009

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AUDIT FINDINGS AND RESPONSES

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. This finding was also reported in the prior audit.

ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEPARATION OF DUTIES

The College has granted computer system access rights that do not provide for adequate segregation of duties. Adequate segregation of duties involves assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or fraud.

Both the chief financial officer and the controller have system access rights that allow them to create and post journal entries. They can also create purchase orders, record receipts, enter invoices, add vendors, and print checks with no further management review.

Additionally, the controller completes the bank reconciliations for all cash accounts and serves as the backup for the accounts receivable clerk and the person who prepares the daily deposit. Finally, the accounts payable clerk has system access rights that allow her to add vendors, enter invoices, and print checks.

These deficiencies make it possible for an employee to create invalid or erroneous transactions without detection by another employee.

Recommendation: The College should evaluate and reassign system access rights as necessary to better segregate duties and enhance internal control. If there are situations where segregation of duties is not feasible, the College should implement effective compensating controls.

College Response: The College has adequate segregation of duties among job functions and has implemented compensating controls where, due to limited back up personnel, optimal segregation of duties is not possible. The College has created additional security classes to restrict employee access to only those screens necessary for their assigned job duties. Management will continue to monitor these access rights to ensure proper separation exists.

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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