



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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STATE OF NORTH CAROLINA
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Roanoke-Chowan Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Roanoke-Chowan Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Roanoke-Chowan Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to Roanoke-Chowan Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

Findings

1. Proper Reconciliation of Bank Accounts
2. Controls Related to Expense Payments

These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

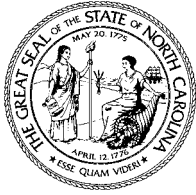
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Roanoke-Chowan Community College
Ahoskie, North Carolina

We have audited the accompanying basic financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roanoke-Chowan Community College as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2005, 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 this 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Leslie W. Merritt, Jr.

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

June 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

Roanoke-Chowan Community College would like to present financial statements for the year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) will include comparison between current year and prior fiscal year's information.

There are three financial statements presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents assets, liabilities and net assets of the College at a point in time for the fiscal year ended June 30, 2004.

From the data presented, readers of the Statement of Net Assets (SNA) are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, the SNA provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the Institution's equity in property, plant and equipment owned by the Institution. The next asset category is restricted net assets, expendable. Expendable restricted net assets are available for expenditures by the College but must be spent for purposes specified by an external entity that has placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the Institution. The noncurrent assets – noncapital classification increase, as well as the increase in restricted net assets, is due to an increase in the restricted receivable due from the North Carolina Community College System (NCCCS) for ongoing capital projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>June 30,2004</u>	<u>June 30, 2003</u>
Current Assets	\$ 688,316.48	\$ 825,418.40
Noncurrent Assets - Noncapital	577,009.21	250.00
Noncurrent Assets - Capital	<u>8,093,690.61</u>	<u>8,227,909.14</u>
 Total Assets	 9,359,016.30	 9,053,577.54
 Current Liabilities	 190,976.42	 417,287.72
Noncurrent Long-Term Liabilities	<u>202,039.33</u>	<u>182,615.06</u>
 Total Liabilities	 393,015.75	 599,902.78
 Invested in Capital Assets	 8,093,690.61	 8,227,909.14
Net Assets - Restricted	540,972.07	15,280.00
Net Assets - Unrestricted	<u>331,337.87</u>	<u>210,485.62</u>
 Total Net Assets	 <u>\$ 8,966,000.55</u>	 <u>\$ 8,453,674.76</u>

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the SNA are based on activity offered in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues of the College, including operating and nonoperating and expenses, both operating and nonoperating.

Generally, operating revenues are received for providing goods and services to various constituents of the College, while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the College for which we receive operating revenue. Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations are considered nonoperating because they are provided by the Legislature without the Legislature directly receiving goods and services for those revenues.

An increase in the bond allotment from NCCCS for FY2004 accounts for the increase in capital contributions. Overall, revenues remained consistent with the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Federal Contracts and Grants	\$ 2,681,629.41	\$ 2,352,472.00
Other Operating Revenues	<u>530,935.51</u>	<u>924,414.16</u>
Total Operating Revenues	3,212,564.92	3,276,886.16
State Aid	3,876,879.66	3,755,965.50
Other Nonoperating Revenues	<u>928,186.28</u>	<u>916,406.07</u>
Total Nonoperating Revenues	4,805,065.94	4,672,371.57
Capital Contributions	<u>866,985.16</u>	<u>256,771.54</u>
Total Revenues	8,884,616.02	8,206,029.27
Operating Expenses	<u>(8,372,290.23)</u>	<u>(7,958,097.59)</u>
Increase in Net Assets	512,325.79	247,931.68
Net Assets, July 1	<u>8,453,674.76</u>	<u>8,205,743.08</u>
Net Assets, June 30	<u>\$ 8,966,000.55</u>	<u>\$ 8,453,674.76</u>

Capital Asset and Debt Administration

The College has incurred no significant changes in regards to capital assets, long-term debt, changes in credit rating or debt limitations for the FY 2004.

Economic Outlook

The State of North Carolina continues to experience down revenues and over realized receipts during this time of a sagging economy resulting in enrollment growth at most community colleges. The statewide cash shortage resulted in a reduction in State aid for operating expenses. Balancing these issues has heavily weighed on the College. Otherwise we are not aware of any significant effects on the financial position of the College. We are anticipating the upcoming year will be very comparable to the last and will make every effort that the College continues to meet its goals and objectives.

Roanoke-Chowan Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 194,264.48
Restricted Cash and Cash Equivalents	69,220.82
Receivables (Note 3)	257,502.31
Inventories	166,260.85
Notes Receivable, Net (Note 3)	<u>1,068.02</u>
Total Current Assets	<u>688,316.48</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	125.00
Restricted - Due from Primary Government	576,884.21
Capital Assets - Nondepreciable (Note 4)	434,347.84
Capital Assets - Depreciable, Net (Note 4)	<u>7,659,342.77</u>
Total Noncurrent Assets	<u>8,670,699.82</u>
Total Assets	<u>9,359,016.30</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	104,263.14
Funds Held for Others	125.00
Long-Term Liabilities - Current Portion (Note 6)	<u>86,588.28</u>
Total Current Liabilities	<u>190,976.42</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>202,039.33</u>
Total Liabilities	<u>393,015.75</u>

NET ASSETS

Invested in Capital Assets	8,093,690.61
Restricted for:	
Expendable:	
Scholarships and Fellowships	50,647.96
Loans	12,857.19
Capital Projects	528,114.88
Unrestricted	<u>280,689.91</u>
Total Net Assets	<u>\$ 8,966,000.55</u>

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

***Roanoke-Chowan Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 385,069.89
Federal Grants and Contracts	2,681,629.41
State and Local Grants and Contracts	11,392.46
Sales and Services, Net (Note 8)	128,328.13
Other Operating Revenues	6,145.03

Total Operating Revenues	3,212,564.92
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EXPENSES

Operating Expenses:

Personal Services	5,008,200.98
Supplies and Materials	975,451.68
Services	496,801.96
Scholarships and Fellowships	1,537,621.75
Utilities	156,397.34
Depreciation	197,816.52

Total Operating Expenses	8,372,290.23
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Operating Loss	(5,159,725.31)
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NONOPERATING REVENUES

State Aid	3,876,879.66
County Appropriations	645,939.35
Noncapital Grants	276,258.87
Noncapital Gifts	5,096.74
Investment Income	891.32

Total Nonoperating Revenues	4,805,065.94
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Loss Before Other Revenues	(354,659.37)
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State Capital Aid	859,174.16
County Capital Appropriations	7,811.00

Increase in Net Assets	512,325.79
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NET ASSETS

Net Assets, July 1, 2003	8,453,674.76
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Net Assets, June 30, 2004	\$ 8,966,000.55
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The accompanying notes to the financial statements are an integral part of this statement.

Roanoke-Chowan Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,201,293.56
Payments to Employees and Fringe Benefits	(4,943,964.30)
Payments to Vendors and Suppliers	(1,765,710.30)
Payments for Scholarships and Fellowships	(1,537,621.75)
Loans Issued to Students	1,358.43
Other Receipts	69,702.94

Net Cash Used by Operating Activities (4,974,941.42)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	3,876,879.66
County Appropriations	645,939.35
Noncapital Grants Received	276,258.87
Noncapital Gifts Received	5,096.74

Net Cash Provided by Noncapital Financing Activities 4,804,174.62

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	512,512.35
County Capital Appropriations	7,811.00
Acquisition and Construction of Capital Assets	(225,355.59)

Net Cash Provided by Capital and Related Financing Activities 294,967.76

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>891.32</u>
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Net Cash Provided by Investing Activities 891.32

Net Increase in Cash and Cash Equivalents 125,092.28

Cash and Cash Equivalents, July 1, 2003 138,518.02

Cash and Cash Equivalents, June 30, 2004 \$ 263,610.30

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

Operating Loss	\$ (5,159,725.31)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	197,816.52
Changes in Assets and Liabilities:	
Receivables	58,556.58
Inventories	(27,818.21)
Notes Receivable, Net	1,358.43
Accounts Payable and Accrued Liabilities	(93,732.72)
Dut to State of North Carolina Component Units	(11,630.49)
Funds Held for Others	(125.00)
Compensated Absences	60,358.78

Net Cash Used by Operating Activities \$ (4,974,941.42)

***Roanoke-Chowan Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

***Exhibit A-3
Page 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	194,264.48
Restricted Cash and Cash Equivalents		69,220.82
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>125.00</u>
Total Cash and Cash Equivalents - June 30, 2004	\$	<u><u>263,610.30</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$	346,661.81
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The accompanying notes to the financial statements are an integral part of this statement.

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ROANOKE-CHOWAN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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. Roanoke-Chowan 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, and cash on deposit with private bank accounts.
- E. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from State and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Current receivables are recorded at book value with no provision for doubtful accounts considered necessary. Notes receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are stated 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 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and three to 15 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st 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 30th equals the leave carried forward at the previous July 1st plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$950.00. The carrying amount of cash on deposit was \$262,660.30 and the bank balance was \$646,985.99. All of the cash was on deposit with private financial institutions.

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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 218,470.94	\$ 0.00	\$ 218,470.94
Accounts	39,031.37		39,031.37
Total Current Receivables	\$ 257,502.31	\$ 0.00	\$ 257,502.31
Notes Receivable - Current:	\$ 15,321.53	\$ 14,253.51	\$ 1,068.02

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 34,805.00
Construction in Progress	5,193,841.84	(4,794,299.00)		399,542.84
Total Capital Assets, Nondepreciable	5,228,646.84	(4,794,299.00)		434,347.84
Capital Assets, Depreciable:				
Buildings	6,050,772.78	4,794,299.00		10,845,071.78
Machinery and Equipment	703,901.06		63,597.99	767,499.05
General Infrastructure	13,786.31			13,786.31
Total Capital Assets, Depreciable	6,768,460.15	4,794,299.00	63,597.99	11,626,357.14
Less Accumulated Depreciation:				
Buildings	3,302,751.71		147,976.68	3,450,728.39
Machinery and Equipment	466,446.14		49,839.84	516,285.98
Total Accumulated Depreciation	3,769,197.85		197,816.52	3,967,014.37
Total Capital Assets, Depreciable, Net	2,999,262.30	4,794,299.00	(134,218.53)	7,659,342.77
Capital Assets, Net	\$ 8,227,909.14	\$ 0.00	\$ (134,218.53)	\$ 8,093,690.61

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 62,665.15
Accrued Payroll	36,480.94
Other	5,117.05
Total Accounts Payable and Accrued Liabilities	\$ 104,263.14

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 228,268.83	\$ 146,758.78	\$ 86,400.00	\$ 288,627.61	\$ 86,588.28

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 23,171.40
2006	19,800.00
2007	19,800.00
2008	19,800.00
Total Minimum Lease Payments	<u>\$ 82,571.40</u>

Rental expense for all operating leases during the year was \$58,843.52.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 866,861.16</u>	<u>\$ 481,791.27</u>	<u>\$ 385,069.89</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Residential Life	\$ 392,714.83	\$ 332,400.37	\$ 60,314.46
Other	<u>68,013.67</u>	<u>68,013.67</u>	<u>68,013.67</u>
Total Sales and Services	<u>\$ 460,728.50</u>	<u>\$ 332,400.37</u>	<u>\$ 128,328.13</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 2,551,109.38	\$ 291,314.78	\$ 61,304.64	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,903,728.80
Public Service	8,659.24	2,277.39	10,660.62				21,597.25
Academic Support	418,263.44	14,478.77	41,042.24				473,784.45
Student Services	704,564.22	18,749.96	43,540.67				766,854.85
Institutional Support	985,821.50	184,440.85	238,663.14		156,397.34		1,565,322.83
Operations and Maintenance of Plant	299,648.03	47,360.58	91,984.81				438,993.42
Student Financial Aid				1,537,621.75			1,537,621.75
Auxiliary Enterprises	40,135.17	416,829.35	9,605.84				466,570.36
Depreciation						197,816.52	197,816.52
Total Operating Expenses	<u>\$ 5,008,200.98</u>	<u>\$ 975,451.68</u>	<u>\$ 496,801.96</u>	<u>\$ 1,537,621.75</u>	<u>\$ 156,397.34</u>	<u>\$ 197,816.52</u>	<u>\$ 8,372,290.23</u>

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$4,183,657.70, of which \$3,555,720.19 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$213,343.21 and \$7,822.58, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$7,822.58, \$0.00, and \$225,434.42, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income

Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$12,170.00 for the year ended June 30, 2004.

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 \$15,795.00 for the year ended June 30, 2004.

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 \$13,289.68 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs, which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$113,783.05. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by 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.

Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

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

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. There were no employer contributions required 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 (CONTINUED)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$340,331.28 at June 30, 2004.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College has no remaining authorization.

NOTE 14 - ROANOKE-CHOWAN COMMUNITY COLLEGE FOUNDATION, INC.

The Roanoke-Chowan Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$2,350.00 for the year ended June 30, 2004.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

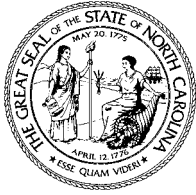
For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

Roanoke-Chowan Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Repair/Improve Campus Structural Environment #1271	Jul 2001	Jul 2002	\$ 255,395.00	\$ 0.00	\$ 255,395.00	\$ 255,395.00	100.00%	Aug 2003	Aug 2003
Improve Campus Compliance/Safety Environment #1323	Aug 2002	Aug 2003	215,600.00		215,600.00	43,832.16	20.33%	Sep 2005	Sep 2005
Improve Campus Learning/Working Environment #1324	Feb 2003	Sep 2003	385,268.00		385,268.00	28,484.00	7.39%	Sep 2005	Sep 2005
Total All Projects			<u>\$ 856,263.00</u>	<u>\$ 0.00</u>	<u>\$ 856,263.00</u>	<u>\$ 327,711.16</u>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



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

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

Board of Trustees
Roanoke-Chowan Community College
Ahoskie, North Carolina

We have audited the financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated June 23, 2005.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

Findings

1. Proper Reconciliation of Bank Accounts
2. Controls Related to Expense Payments

**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)**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable conditions described above are material weaknesses.

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*. This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities 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

June 23, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting Objectives

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

1. PROPER RECONCILIATION OF BANK ACCOUNTS

The College's Special Fund bank reconciliation was not properly prepared during the 2004 fiscal year. Unknown reconciling items were carried forward on the reconciliations that were not investigated in a timely way. This resulted in an unknown reconciling balance of \$48,301.00 at June 30, 2004. Subsequent investigation of this balance by the College determined that the balance represented reconciling items such as outstanding checks, bank fees and unrecorded interest. At the date of our report, the unreconciled balance had been reduced to \$837.59 through the efforts of the College.

Failure to implement internal controls that ensure that bank accounts are reconciled accurately and timely compromises management's ability to monitor cash balances and identify potential misstatements or irregularities.

Recommendation: We recommend that College management implement internal controls that ensure that bank reconciliations are completed on a monthly basis, with all reconciling items investigated for resolution.

College's Response: With regard to audit finding #1, the proper reconciliation of bank accounts, the College's management team will take immediate steps to implement internal controls that ensure that bank reconciliations are completed on a monthly basis, with all reconciling items investigated for resolution.

2. CONTROLS RELATED TO EXPENSE PAYMENTS

A sample of voucher packets that support check payments by the College were determined to contain insufficient supporting documentation, invoices that were not canceled and no evidence of approval for payment. We identified instances in which we could not determine if goods were actually received, as well as instances in which the dates of the transactions were not documented. Invoices were examined that had not been effectively canceled, a process which eliminates the risk of paying invoices more than once. We also identified one instance in which finance charges of \$820.00 were incurred due to paying an invoice over two months late.

These significant weaknesses in internal controls over the processing of expense payments creates an environment in which unapproved transactions may be processed, payments may be made for goods that have not been received, invoices may be paid more

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

than once, and payables may not be identified for proper accrual at year-end. The College also is subject to the loss of available discounts for timely payment of invoices, as well as the additional expense of finance charges and fees for late payments.

Recommendation: We recommend that College management implement internal controls that require complete supporting documentation for all expense payments. We further recommend that all paid invoices be effectively canceled and all expense payments be properly authorized for payment. Expense payments should be timed to ensure that all offered discounts are taken and charges resulting from late payments are avoided.

College's Response: With regard to audit finding #2, controls related to expense payments, the College's management team will take immediate steps to implement internal controls that require complete supporting documentation for all expense payments; that all paid invoices be effectively cancelled and all expense payments be properly authorized for payment; and that all expense payments be made in a timely manner as to ensure that all offered discounts are taken and charges resulting from late payments are avoided.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
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Mr. Ralph Reynolds

Dr. Claude M. Odom

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Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System
Interim President, Roanoke-Chowan Community College
Interim Manager of Finance and Administration
Roanoke-Chowan Community College
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Director, Fiscal Research Division

August 23, 2005

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