



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ROBESON COMMUNITY COLLEGE

LUMBERTON, 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

ROBESON COMMUNITY COLLEGE

LUMBERTON, 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, Robeson Community College

This report presents the results of our financial statement audit of Robeson 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 Robeson 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 Robeson 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 Robeson 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.

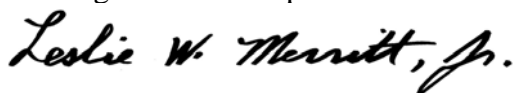
Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

Findings

1. Inadequate Management Review
2. Weak Internal Controls Over Cash
3. Weak Internal Controls Over Machinery and Equipment
4. Management Override of Internal Controls

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.

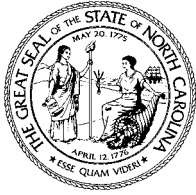
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Robeson Community College
Lumberton, North Carolina

We have audited the accompanying basic financial statements of Robeson 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 Robeson 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 May 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

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., CPA, CFP
State Auditor

May 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Purpose

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information. For more information, please contact the Division of Finance at (910) 618-5680, extension 157.

Overview of the Financial Statements

The College has elected to report as a special purpose government engaged in business type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. 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*.

Institutional Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables and inventories. Noncurrent assets include cash and cash equivalents, receivables due from the State for construction projects, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment).

Current Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Cash and Cash Equivalents	\$ 639,972.90	\$ 440,270.71
Receivables, Net	593,487.10	562,855.43
Inventories	44,767.86	47,010.20
Total Current Assets	<u>\$ 1,278,227.86</u>	<u>\$ 1,050,136.34</u>

Noncurrent Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Cash and Cash Equivalents	\$ 15,762.78	\$ 68,564.43
Restricted Due from Primary Government	5,703,963.44	1,090,903.11
Capital Assets, Net	12,225,807.76	8,700,794.95
Total Noncurrent Assets	<u>\$ 17,945,533.98</u>	<u>\$ 9,860,262.49</u>
Total Assets	<u><u>\$ 19,223,761.84</u></u>	<u><u>\$ 10,910,398.83</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchase price is more than \$5,000 at the date of purchase and the asset has a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure is depreciated over a 15 to 24 year period, buildings are depreciated over a 40-year period, and equipment is depreciated in five to 15 years, depending on the expected useful life of the infrastructure, equipment, or building.

Institutional Liabilities

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond one year. Long-term liabilities include capital leases and the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the Institution's leave policies.

Total liabilities at June 30, 2004, includes a large contract payable and a new capital lease payable acquired during the audit period, which collectively account for the significant increase in the account balance compared to June 30, 2003.

Liabilities

	<u>6/30/04</u>	<u>6/30/03</u>
Current	\$ 1,388,515.32	\$ 615,805.36
Long-Term	<u>1,124,334.24</u>	<u>595,107.99</u>
Total Liabilities	<u><u>\$ 2,512,849.56</u></u>	<u><u>\$ 1,210,913.35</u></u>

Net Assets

Net Assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. The College's net assets increased by \$7,011,426.80 for the fiscal year to \$16,710,912.28. Invested in capital assets, net of related debt, increased significantly as a result of increases to construction in progress. Restricted net assets increased significantly as a result of receivables due from the State for construction projects in progress.

Net Assets

	<u>6/30/04</u>	<u>6/30/03</u>
Invested in Capital Assets, Net of Related Debt	\$ 11,809,503.24	\$ 8,700,794.95
Restricted	4,937,330.86	854,736.80
Unrestricted	<u>(35,921.82)</u>	<u>143,953.73</u>
Total Net Assets	<u><u>\$ 16,710,912.28</u></u>	<u><u>\$ 9,699,485.48</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues include student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of the revenue received from vending and the student government association. Student tuition, though identified as revenue, is remitted back to the State Treasurer and is not netted against the College's State aid identified as nonoperating revenue. The largest operating revenue in the amount of \$4,499,826.16 accrues from the College's participation in Federal Title IV financial aid programs, including Pell grants of \$3,710,726.11.

Operating Revenues

	<u>6/30/04</u>	<u>6/30/03</u>
Student Tuition and Fees, Net	\$ 844,129.83	\$ 685,807.69
Federal Grants and Contracts	4,499,826.16	4,191,533.83
State and Local Grants and Contracts	466,232.34	283,947.21
Sales and Services	288,041.33	131,870.20
Other Operating Revenues	<u>37,078.84</u>	<u>37,880.31</u>
Net Operating Revenues	<u>\$ 6,135,308.50</u>	<u>\$ 5,331,039.24</u>

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements, as well as funds appropriated from the Robeson County Board of Commissioners. Noncapital gifts include contributions from the Robeson Community College Foundation, Inc.

Nonoperating Revenues (Expenses)

	<u>6/30/04</u>	<u>6/30/03</u>
State Aid	\$ 10,109,841.30	\$ 9,327,649.68
County Appropriations	1,200,000.00	1,196,954.00
Noncapital Grants	869,048.67	825,292.58
Noncapital Gifts	218,210.61	20,550.00
Investment Income	14,687.92	18,511.13
Interest and Fees on Debt	<u>(12,584.85)</u>	<u>(6,377.04)</u>
Total Nonoperating Revenues	<u>\$ 12,399,203.65</u>	<u>\$ 11,382,580.35</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits.

Operating Expenses

	<u>6/30/04</u>	<u>6/30/03</u>
Salaries and Benefits	\$ 11,643,192.57	\$ 10,941,810.09
Supplies and Materials	1,503,869.61	1,226,384.31
Services	1,946,171.68	1,430,076.26
Scholarships and Fellowships	3,765,915.72	2,852,428.36
Utilities	442,753.84	352,318.09
Depreciation	645,428.09	621,190.77
Total Operating Expenses	<u>\$ 19,947,331.51</u>	<u>\$ 17,424,207.88</u>

Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provided construction funds as part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations and repairs. State capital aid increased significantly during the audit period as a result of bond revenues received from the State for construction projects in progress. Robeson County provides capital contributions for maintenance equipment and small construction items.

Capital Contributions

	<u>6/30/04</u>	<u>6/30/03</u>
State Capital Aid	\$ 8,309,246.16	\$ 358,872.22
County Capital Appropriations	115,000.00	45,858.00
Capital Grants		1,161,477.00
Total Capital Contributions	<u>\$ 8,424,246.16</u>	<u>\$ 1,566,207.22</u>

Significant Capital Asset Activity

The College received \$13,805,122.00 from the 2000 North Carolina Higher Education Bond Referendum, which provides \$1,151,996.00 for the renovation and repair of facilities and \$12,653,126.00 for new construction. Funds are allocated according to a cash flow schedule established by the North Carolina State Board of Community Colleges with final distribution of funds ending June 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Significant Effects on Financial Position

As a result of actions taken by the North Carolina General Assembly, tuition for curriculum students was increased to \$38.00 a credit hour with a maximum of \$608.00 for 16 or more hours. The College's enrollment decreased from 2,461 for the fall semester 2003 to 2,383 for the fall semester 2004. This represents a decrease of 3.2%. Enrollment for the spring semester 2003 was 2,183 compared to enrollment of 2,161 for the spring semester 2004. This represents a decrease of 1.0%.

Economic Factors Impacting Future Periods

Management believes that the College is well positioned to continue its strong financial condition and level of excellence in service to students and the community.

A crucial element to the College's future will continue to be our relationship with the State of North Carolina and the North Carolina General Assembly as we work to maintain revenue sufficient to provide an outstanding College education for our students. There is a direct relationship between the growth of State support and the College's ability to provide services.

The College continues to execute its long-range plan to modernize and expand its complement of facilities with a balance of new construction. This strategy addresses the College's growth and the continuing effects of technology on teaching methodologies. Continued funding from the 2000 North Carolina Higher Education Bond Referendum would ensure facilities growth.

While it is not possible to predict the ultimate results, management believes that the College's financial condition is strong enough to weather any economic uncertainties.

Robeson Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 588,227.26
Restricted Cash and Cash Equivalents	51,745.64
Receivables, Net (Note 3)	593,487.10
Inventories	<u>44,767.86</u>
Total Current Assets	<u>1,278,227.86</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	15,762.78
Restricted Due from Primary Government	5,703,963.44
Capital Assets - Nondepreciable (Note 4)	4,607,590.84
Capital Assets - Depreciable, Net (Note 4)	<u>7,618,216.92</u>
Total Noncurrent Assets	<u>17,945,533.98</u>
Total Assets	<u>19,223,761.84</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,079,746.64
Due to Primary Government	4,938.53
Deferred Revenue	98,940.60
Funds Held for Others	69,254.22
Long-Term Liabilities - Current Portion (Note 6)	<u>135,635.33</u>
Total Current Liabilities	1,388,515.32

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,124,334.24</u>
Total Liabilities	<u>2,512,849.56</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	11,809,503.24
Restricted for Expendable:	
Capital Projects	4,937,330.86
Unrestricted	<u>(35,921.82)</u>
Total Net Assets	<u>\$ 16,710,912.28</u>

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

***Robeson 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)	\$ 844,129.83
Federal Grants and Contracts	4,499,826.16
State and Local Grants and Contracts	466,232.34
Sales and Services	288,041.33
Other Operating Revenues	<u>37,078.84</u>
Net Operating Revenues	<u>6,135,308.50</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	11,643,192.57
Supplies and Materials	1,503,869.61
Services	1,946,171.68
Scholarships and Fellowships	3,765,915.72
Utilities	442,753.84
Depreciation	<u>645,428.09</u>
Total Operating Expenses	<u>19,947,331.51</u>

Operating Loss (13,812,023.01)

NONOPERATING REVENUES (EXPENSES)

State Aid	10,109,841.30
County Appropriations	1,200,000.00
Noncapital Grants	869,048.67
Noncapital Gifts	218,210.61
Investment Income	14,687.92
Interest and Fees on Debt	<u>(12,584.85)</u>
Total Nonoperating Revenues	<u>12,399,203.65</u>

Loss Before Other Revenues (1,412,819.36)

State Capital Aid	8,309,246.16
County Capital Appropriations	<u>115,000.00</u>
Increase in Net Assets	7,011,426.80

NET ASSETS

Net Assets, July 1, 2003, as Restated (Note 16)	<u>9,699,485.48</u>
Net Assets, June 30, 2004	<u><u>\$ 16,710,912.28</u></u>

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

Robeson 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	\$ 6,261,181.93
Payments to Employees and Fringe Benefits	(11,202,245.57)
Payments to Vendors and Suppliers	(3,862,138.24)
Payments for Scholarships and Fellowships	(3,885,569.99)
Other Payments	(50,091.73)
	<u>(50,091.73)</u>
Net Cash Used by Operating Activities	<u>(12,738,863.60)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,109,841.30
County Appropriations	1,200,000.00
Noncapital Grants Received	869,048.67
Noncapital Gifts Received	218,210.61
	<u>218,210.61</u>
Cash Provided by Noncapital Financing Activities	<u>12,397,100.58</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	3,696,185.83
County Capital Appropriations	115,000.00
Acquisition and Construction of Capital Assets	(3,270,527.70)
Principal Paid on Capital Debt and Leases	(54,097.64)
Interest Paid on Capital Debt and Leases	(12,584.85)
	<u>(12,584.85)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>473,975.64</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>14,687.92</u>
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Net Increase in Cash and Cash Equivalents	146,900.54
Cash and Cash Equivalents, July 1, 2003	<u>508,835.14</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 655,735.68</u>

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

Operating Loss	\$ (13,812,023.01)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	645,428.09
Changes in Assets and Liabilities:	
Receivables, Net	(30,631.67)
Inventories	2,242.34
Accounts Payable and Accrued Liabilities	201,660.19
Due to Primary Government	4,938.53
Due to State of North Carolina Component Units	(4,649.13)
Deferred Revenue	36,850.83
Funds Held for Others	(50,091.73)
Compensated Absences	267,411.96
	<u>267,411.96</u>
Net Cash Used by Operating Activities	<u>\$ (12,738,863.60)</u>

***Robeson 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	\$ 588,227.26
Restricted Cash and Cash Equivalents	51,745.64

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>15,762.78</u>
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Total Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 655,735.68</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 899,913.20
Increase in Receivables Related to Nonoperating Income	4,613,060.33
Capital Asset Write-Offs	112,685.38

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

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ROBESON 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. Robeson 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, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio 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 charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at the lower of cost or market using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 24 years for general infrastructure, 40 years for buildings, and five 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 capital lease obligations and 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 June 30th 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 bonus awarded by the College to all full-time permanent employees 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, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those 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 are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and fees 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$550.00. The carrying amount of cash on deposit was \$655,185.68 and the bank balance was \$915,481.32.

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.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 361,343.28	\$ 361,343.27
Cash on Deposit with Private Financial Institutions	<u>293,842.40</u>	<u>554,138.05</u>
	<u>\$ 655,185.68</u>	<u>\$ 915,481.32</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool 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.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2004, \$100,200.22 of the bank balance was covered by federal depository insurance and \$453,937.83 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 142,064.53	\$ 14,206.45	\$ 127,858.08
Intergovernmental	465,629.02		465,629.02
Total Current Receivables	\$ 607,693.55	\$ 14,206.45	\$ 593,487.10

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	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 358,972.63	\$ 0.00	\$ 0.00	\$ 0.00	\$ 358,972.63
Construction in Progress	816,566.07	(211,340.68)	3,643,392.82		4,248,618.21
Total Capital Assets, Nondepreciable	1,175,538.70	(211,340.68)	3,643,392.82		4,607,590.84
Capital Assets, Depreciable:					
Buildings	11,038,565.39	167,622.38			11,206,187.77
Machinery and Equipment	2,411,362.40		530,408.18	112,685.38	2,829,085.20
General Infrastructure	1,047,286.33	43,718.30			1,091,004.63
Total Capital Assets, Depreciable	14,497,214.12	211,340.68	530,408.18	112,685.38	15,126,277.60
Less Accumulated Depreciation:					
Buildings	5,003,962.44		275,964.24		5,279,926.68
Machinery and Equipment	1,581,167.87		342,223.91	109,325.28	1,814,066.50
General Infrastructure	386,827.56		27,239.94		414,067.50
Total Accumulated Depreciation	6,971,957.87		645,428.09	109,325.28	7,508,060.68
Total Capital Assets, Depreciable, Net	7,525,256.25	211,340.68	(115,019.91)	3,360.10	7,618,216.92
Capital Assets, Net	\$ 8,700,794.95	\$ 0.00	\$ 3,528,372.91	\$ 3,360.10	\$ 12,225,807.76

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 801,151.23
Accrued Payroll	178,779.15
Contract Retainage	99,816.26
Total Accounts Payable and Accrued Liabilities	\$ 1,079,746.64

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
Capital Leases Payable	\$ 133,871.16	\$ 336,531.00	\$ 54,097.64	\$ 416,304.52	\$ 85,382.96
Compensated Absences	576,253.09	1,077,836.29	810,424.33	843,665.05	50,252.37
Total Long-Term Liabilities	\$ 710,124.25	\$ 1,414,367.29	\$ 864,521.97	\$ 1,259,969.57	\$ 135,635.33

Additional information regarding capital lease obligations is included in Note 7.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to a lighting system and generator are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 110,129.80
2006	110,129.80
2007	110,129.80
2008	86,349.24
2009	49,642.64
Total Minimum Lease Payments	466,381.28
Amount Representing Interest (5.854% Rate of Interest)	50,076.76
Present Value of Future Lease Payments	\$ 416,304.52

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Machinery and equipment acquired under capital lease amounted to \$336,531.00 at June 30, 2004.

NOTE 8 - REVENUES

Student tuition and fees net of scholarship discounts is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,755,309.89	\$ 911,180.06	\$ 844,129.83

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	\$ 7,250,770.71	\$ 193,742.84	\$ 949,211.46	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,393,725.01
Academic Support	1,192,401.76	109,310.07	124,499.16				1,426,210.99
Student Services	973,079.80	33,658.70	134,079.53				1,140,818.03
Institutional Support	1,650,291.30	106,709.46	523,387.50	1,075.53			2,281,463.79
Operations and Maintenance of Plant	554,551.13	1,060,448.54	184,224.64		442,753.84		2,241,978.15
Student Financial Aid	22,097.87		23,549.38	3,764,840.19			3,810,487.44
Auxiliary Enterprises			7,220.01				7,220.01
Depreciation						645,428.09	645,428.09
Total Operating Expenses	\$ 11,643,192.57	\$ 1,503,869.61	\$ 1,946,171.68	\$ 3,765,915.72	\$ 442,753.84	\$ 645,428.09	\$ 19,947,331.51

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2004, the College had a total payroll of \$10,053,265.71, of which \$7,675,546.09 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$460,532.77 and \$16,886.20, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$16,886.20, \$0.00, and \$151,118.89, respectively.

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

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$193,448.93 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 \$54,790.00 for the year ended June 30, 2004.

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'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% 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 \$245,617.47. 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$10,000,000 self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

Malpractice coverage for campus programs requiring coverage is provided by contracts with private insurance companies.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 13 - COMMITMENTS 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 \$1,125,393.08 at June 30, 2004.
- B. Pending Litigation and Claims** - The College is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$4,255,320.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - ROBESON COMMUNITY COLLEGE FOUNDATION, INC.

The Robeson 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 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 \$62,963.42 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.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2003, net assets as previously reported was restated as follows:

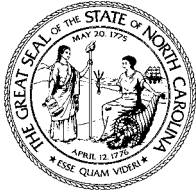
	<u>Amount</u>
July 1, 2003, Net Assets as Previously Reported	\$ 9,687,064.08
Restatements - Capital Assets Overstated	<u>12,421.40</u>
July 1, 2003, Net Assets as Restated	<u><u>\$ 9,699,485.48</u></u>

***Robeson 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>									
#1225 Land Purchase COMTech	Feb 2002	Feb 2002	\$ 80,000.00	\$ 0.00	\$ 80,000.00	\$ 76,073.00	100.00%	Feb 2002	Feb 2002
#1109 Continuing Education Building - COMTech	May 2001	Dec 2002	2,590,239.00		2,590,239.00	2,044,300.01	78.92%	Jun 2004	Sep 2004
#1206 Continuing Education/Allied Health Buildings	Jan 2002	Jun 2003	7,416,318.00		7,416,318.00	515,393.85	6.95%	Jul 2006	Jan 2006
#1214 Emergency Training Facility Additions	Feb 2002	Jul 2002	61,160.00		61,160.00	43,718.30	100.00%	Jul 2003	Jul 2003
#1329 Renovations/Site Work	Jan 2003	Jun 2003	3,482,405.00		3,482,405.00	1,688,924.35	48.50%	Oct 2003	Jan 2005
#1108 Repairs to Buildings 2, 3, 4, 5, 6, 7, 9, 10 and 15	Feb 2001	Mar 2001	175,000.00	7,701.00	182,701.00	167,722.38	100.00%	Apr 2003	Apr 2004
Total All Projects			\$ 13,805,122.00	\$ 7,701.00	\$ 13,812,823.00	\$ 4,536,131.89			

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.



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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
Robeson Community College
Lumberton, North Carolina

We have audited the financial statements of Robeson 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 May 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 opinion 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.

**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 (CONTINUED)**

Findings

1. Inadequate Management Review
2. Weak Internal Controls Over Cash
3. Weak Internal Controls Over Machinery and Equipment

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described above to be 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance and one other matter that are required to be reported under *Government Auditing Standards*.

Findings

2. Weak Internal Controls Over Cash
4. Management Override of Internal Controls

**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)**

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State Auditor

May 23, 2005

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AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. INADEQUATE MANAGEMENT REVIEW

Overstatements and understatements in the June 30, 2004, financial statements were not detected and corrected by the College prior to submitting their year-end financial package to the Office of the State Controller. The most significant issues include:

- Substantial misclassifications were found in the revenue and expense accounts;
- The College miscalculated student tuition and fees and the associated discounts;
- The College did not correctly record revenue adjustments as directed by the North Carolina Community College System.

During our audit we noted that management did not always understand, review and approve journal entries before they were posted to the financial statements. Supporting documentation for some of the journal entries was not readily available. During the audit year, there were no signatures or initials to indicate management review of payroll transmittals. Bank reconciliations were not reviewed. Additionally, we noted that employee job performance is not evaluated through formal written performance reviews.

Sound internal controls require management to review and approve assigned work to reduce errors and ensure the proper processing and recording of transactions and events. Robeson Community College's policies and procedures require a formal written review of employee job performance biennially. Performance reviews enable management to identify and correct errors, misunderstandings, and substandard job performance.

Recommendation: We recommend that the College implement controls to ensure that financial statements, supporting journal entries and work performed by College staff are reviewed, approved and agree with accounting records so that errors are detected and corrected prior to the submission of the statements to the Office of the State Controller. In addition, management should perform adequate review and approval of employees' job responsibilities, including the preparation of formal performance reviews.

College's Response: The College concurs with the finding.

- a. To address the issue of expense and revenue misclassifications, management will initially review internal control policies with the finance staff and provide additional training opportunities on an ongoing basis during the 2005-06 fiscal year. Specific training

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

opportunities will be identified in the 2005-06 fiscal year as they are announced by the NCCCS.

- b. Improvement in the quality of work will also be effected by restructuring the finance organization starting July 1, 2005. The reorganization will include redefining job responsibilities and reallocating job duties for the financial staff. In addition, management will implement appropriate review and approval of journal entries, reports, and financial statements as part of the reorganization.
- c. In regards to the lack of performance reviews, as of July 1, 2005, per Robeson Community College's policies and procedures, formal performance reviews will be conducted on a biennial basis for each employee.

2. WEAK INTERNAL CONTROLS OVER CASH

Internal controls over cash are insufficient to prevent errors and misappropriation of assets. During our audit we noted the following:

- Cash handling responsibilities are not properly segregated. One employee is responsible for all aspects of the daily deposit including receipting money, endorsing checks, closing out the registers, running cash reports, reconciling the cash to reports, preparing the deposit, and taking the deposit to the bank;
- Checks received through the mail are not restrictively endorsed upon receipt. Instead, checks are distributed to various personnel for processing before being returned to the cashier. The checks are not restrictively endorsed until the deposit is prepared the following business day. Also, the check log is not reconciled to the daily deposit to ensure that all checks received are actually deposited;
- Pre-numbered receipts are not used and accounted for by personnel who collect cash in outlying areas. Personnel from outlying areas do not receive receipts when they remit funds to the cashier. The cashier sends a copy of the receipt the following day when the deposit is prepared;
- Cash overages are not deposited when collected. Cash overages and shortages are not reviewed and approved by management timely;
- Mail receipts are not deposited within one business day in accordance with requirements of *North Carolina General Statute 115D-58.9*. We noted in our sample that 18 out of 25 checks received through the mail were not deposited timely.

Good internal controls require management to establish effective custodial accountability procedures and adequate segregation of duties. The Daily Deposit Act requires all agencies to deposit money within one business day.

Recommendation: We recommend that the College improve internal controls procedures over the cash receipting process including the proper segregation of duties. Management

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

should ensure that checks are restrictively endorsed upon receipt, personnel in outlying areas should use pre-numbered receipts and all receipts should be accounted for, cash overages and shortages should be reviewed by management daily, overages should be promptly deposited, and mail receipts should be deposited daily.

College's Response: The College agrees with the findings.

- a. To insure proper separation of duties, cash handling responsibilities will be segregated. The cashier will receipt the money, endorse checks, and close out the register. Then the finance clerk will run the cash reports and reconcile the cash to the reports. Once the reconciliation is complete, the monies and information will be returned to the cashier, who will prepare and make the daily deposit. A copy of the daily deposit slip will be provided to the VP of Business Services. This information will be compared to the check log and cash report to confirm proper processing of all monies.
- b. To ensure the proper handling of checks, all checks will be restrictively endorsed upon receipt and logged in the daily check log. A copy of the daily check log will be provided to the VP of Business Services for comparison with the daily deposit information. After proper logging, checks will be transferred to the cashier, who will make copies and distribute the copies to the appropriate finance personnel. The cashier will prepare the checks for deposit and provide a receipt to the controller in charge of receipting the checks. After making the daily deposit, the cashier will provide a copy of the deposit slip to the VP of Business Services for comparison to the cash deposits report and the daily check log.
- c. Pre-numbered receipt books will be issued to all personnel involved in collecting revenue on behalf of the College. These books will be closed and reconciled on a daily basis. This policy will be communicated to all staff involved in collecting cash on behalf of the College.
- d. Cash overages will be deposited the same business day. Any overages will be reviewed with and approved by management within 24 hours of deposit.
- e. All receipts will be deposited on the same business day they are received. All items received after the daily deposit at 10 a.m. will be logged, secured overnight, and deposited the next morning in compliance with North Carolina General Statute 115D-58.9.

3. WEAK INTERNAL CONTROLS OVER MACHINERY AND EQUIPMENT

Internal controls over machinery and equipment are insufficient to prevent errors and safeguard assets. During our audit we noted the following:

- Responsibilities for machinery and equipment are not properly segregated. One individual has responsibility for ordering machinery and equipment from vendors,

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

adding vendors to the accounting information system, providing oversight of the annual inventory process, investigating missing assets, disposing of assets, and removing assets from the accounting information system;

- College personnel do not properly document machinery and equipment location transfers. We selected 25 items from the machinery and equipment inventory and visited the assigned locations. Five out of 25 items were not located in their assigned location. Equipment forms were not completed to transfer or dispose of the equipment;
- Machinery and equipment are not adequately safeguarded. During our physical inspection, we noted that audiovisual equipment was left unsecured and unattended.

Good internal controls require management to establish and maintain effective custodial accountability procedures, adequate security over assets, and adequate segregation of duties. Robeson Community College's policies and procedures require asset custodians to complete an equipment form if equipment is to be removed from its assigned area for any reason.

Recommendation: We recommend that the College strengthen internal control including the proper segregation of duties, enhance management oversight and implement policies and procedures to enhance accountability, ensure accurate reporting and the safeguarding of assets.

College's Response: The College agrees with the findings.

- a. The duties of the purchasing manager will be redefined and segregated to ensure proper handling of the schools machinery and equipment. The purchasing manager will have responsibility for ordering assets, adding vendors to the accounting information system (AIS), removing assets from the AIS, and disposing of assets. The purchasing manager may delete vendors from the AIS with written approval from the VP of Business Services.

The equipment manager, a new part-time position established to allow further segregation of equipment management duties, will be responsible for receiving equipment, logging assets into the AIS, investigating missing assets, and providing oversight of the annual inventory process.

- b. The College will establish an equipment management process that segregates the responsibility for equipment and the confirmation of the location of equipment. Currently, the same individual has responsibility for the equipment and reports the status of equipment. The new process will provide written and signed confirmation that college employees received equipment and understand their responsibility in this process. On an annual basis, teams of three individuals will confirm the location, availability, and condition of college assets.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

- c. To improve the safety of college equipment and machinery, all staff members were informed to confirm that all offices and classrooms are locked when not in use. Campus security officers were instructed to be more aware of any unusual activity involving equipment and report any incidents to the vice-president in charge of security.

Matter Not Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and describes conditions that represent significant deficiencies in the management control processes for matters not directly related to financial reporting or federal compliance objectives.

4. MANAGEMENT OVERRIDE OF INTERNAL CONTROLS

Management hired employees without following its personnel policies and procedures. In addition, management did not require payroll documentation supporting time worked for all contracted personal services.

- We noted during our audit an employee whose application date was the same as the first day of employment. The employee's references were dated 12 to 20 days after the first day of employment and the College personnel office did not receive the application until 28 days after the first day of employment. The position was advertised in July 2004 and interviews were held in August 2004. The current employee was not one of the original applicants and none of the original applicants were hired. The position was not re-advertised and the College personnel office did not receive additional applications. The current employee, however, filled the position in February 2005.
- We also noted an employee hired with no application, references, or credentials on file. The position was not posted or advertised, no applications were received, and no interviews were arranged through the College personnel office.
- Although management requires completed and signed time sheets for all contracted temporary employees hired through an employment services agency, we noted that one employee does not complete a timesheet or provide any other documentation of work performed. The employment services agency responsible for the employee bills the College for a 40-hour workweek with no reduction in hours for sick days, vacation, or holidays. No other documentation is available to verify that the work hours are accurate as billed.

Robeson Community College employment procedures say that the College's policy is "designed to ensure the fair and equitable offering of job vacancies and the employment of competent and qualified personnel." The procedures require all applications, resumes, and supporting documentation for an advertised position to be submitted to the Office of Personnel Services on or before the established closing date. Failure to adequately document and verify applicant credentials and references before hiring applicants may

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

result in the employment of unqualified or lesser-qualified personnel. Sound internal control procedures require management to ensure that employee time and attendance data are accurate and properly documented. Failure to adequately document time and attendance data may result in payments for services that the College did not receive.

Recommendation: We recommend that the College implement controls to ensure that personnel are hired using proper hiring procedures that comply with written Robeson Community College employment procedures. Employment applications, credentials, and references should be received, documented, and reviewed prior to hiring new employees. Personnel files should be adequately maintained on each employee. In addition, time worked for all contracted temporary employees should be adequately documented.

College's Response: The College agrees with the findings.

- a. All employees will be hired per the written Robeson Community College employment procedures. All employment applications, credentials, and references will be received and placed on file prior to hiring.
- b. Effective immediately, all contracted employees will be required to complete timesheets.
- c. The College will review its Employment and Personnel Policy in FY 2005-06 and revise as necessary.

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June 30, 2005

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