STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ROBESON COMMUNITY COLLEGE

LUMBERTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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STATE OF NORTH CAROLINA
Office of the State Auditor

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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

We have completed a financial statement audit of Robeson Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following the first finding.

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

Leslie W. Merritt, Jr.

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

May 15, 2006

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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, 2005, 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 the 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, 2005, 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. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

March 24, 2006

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, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

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). The decrease in receivables is due to federal funds on hand, which resulted in an intergovernmental payable at June 30, 2005. The increase in capital assets is due to increases in construction in progress at June 30, 2005.

Current Assets

	6/30/05	6/30/04
Cash and Cash Equivalents	$ 1,096,395.34	$ 639,972.90
Receivables, Net	186,837.43	563,013.47
Inventories	22,924.12	44,767.86
Total Current Assets	$ 1,306,156.89	$ 1,247,754.23

Noncurrent Assets

	6/30/05	6/30/04
Cash and Cash Equivalents	$ 11,586.27	$ 15,762.78
Restricted Due from Primary Government	4,620,175.59	5,703,963.44
Capital Assets, Net	17,440,640.43	12,225,807.76
Total Noncurrent Assets	$ 22,072,402.29	$ 17,945,533.98

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 $5,000.00 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, building, or equipment.

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.

Accounts payable and accrued liabilities, the College's largest current liability at June 30, 2005, includes amounts due to vendors, contracts payable on construction projects, accrued payroll, and an intergovernmental payable. The intergovernmental payable accounts for the majority of the increase in the account balance when compared to June 30, 2004.

Liabilities

	6/30/05	6/30/04
Current	$ 1,708,206.93	$ 1,380,931.22
Noncurrent	859,306.33	1,124,334.24
Total Liabilities	$ 2,567,513.26	$ 2,505,265.46

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 $4,123,023.17 for the fiscal year to $20,811,045.92. Invested in Capital Assets, Net of Related Debt, increased significantly as a result of increases to construction in progress. Restricted Net Assets decreased significantly as a result of a reduction in receivables due from the State for construction projects in progress.

Net Assets

	6/30/05	6/30/04
Invested in Capital Assets, Net of Related Debt	$ 17,109,718.87	$ 11,809,503.24
Restricted	3,916,282.01	4,944,914.96
Unrestricted	(214,954.96)	(66,395.45)
Total Net Assets	$ 20,811,045.92	$ 16,688,022.75

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 $4,986,053.58 accrues from the College's participation in Federal Title IV financial aid programs, including Pell grants in the amount of $4,270,052.00.

Operating Revenues

	6/30/05	6/30/04
Student Tuition and Fees, Net	$ 990,833.60	$ 844,129.83
Federal Grants and Contracts	4,986,053.58	4,499,826.16
State and Local Grants and Contracts	441,228.19	466,232.34
Sales and Services	235,459.68	288,041.33
Other Operating Revenues	80,739.45	37,078.84
Net Operating Revenues	$ 6,734,314.50	$ 6,135,308.50

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)

	6/30/05	6/30/04
State Aid	$ 11,921,981.71	$ 10,109,841.30
County Appropriations	1,355,000.00	1,200,000.00
Noncapital Grants	731,135.43	869,048.67
Noncapital Gifts	240,737.80	218,210.61
Investment Income	26,689.63	14,687.92
Interest and Fees on Debt	(17,152.74)	(12,584.85)
Total Nonoperating Revenues	$ 14,258,391.83	$ 12,399,203.65

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. Support cost, scholarships, and depreciation make up the balance of direct cost.

Operating Expenses

	6/30/05	6/30/04
Salaries and Benefits	$ 13,315,063.32	$ 11,643,192.57
Supplies and Materials	1,855,891.80	1,503,869.61
Services	2,070,099.79	1,946,171.68
Scholarships and Fellowships	3,878,600.14	3,765,915.72
Utilities	351,443.90	442,753.84
Depreciation	561,552.20	645,428.09
Total Operating Expenses	$ 22,032,651.15	$ 19,947,331.51

Capital Contributions

State capital contributions are received through appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The North Carolina State Board of Community Colleges 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. Robeson County provides capital contributions for maintenance equipment, motor vehicles, and small construction items. The decrease in State Capital Aid is due to a reduction in allotments from the 2000 Higher Education Bond Referendum by the North Carolina Community College Systems Office.

	6/30/05	6/30/04
State Capital Aid	$ 4,862,741.66	$ 8,309,246.16
County Capital Appropriations	150,000.00	115,000.00
Capital Grants	115,226.33	
Capital Gifts	35,000.00	
Total Capital Contributions	$ 5,162,967.99	$ 8,424,246.16

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.

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 beginning in the fall 2004 semester. 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 2004 was 2,161 compared to enrollment of 2,181 for the spring semester 2005. This represents an increase of 0.9%.

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, 2005 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	849,066.05
Restricted Cash and Cash Equivalents		247,329.29
Receivables, Net (Note 3)		186,837.43
Inventories		22,924.12
Total Current Assets		1,306,156.89
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		11,586.27
Restricted Due from Primary Government		4,620,175.59
Capital Assets - Nondepreciable (Note 4)		10,246,714.68
Capital Assets - Depreciable, Net (Note 4)		7,193,925.75
Total Noncurrent Assets		22,072,402.29
Total Assets		23,378,559.18
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		1,339,471.90
Deferred Revenue		63,455.68
Funds Held for Others		71,374.33
Long-Term Liabilities - Current Portion (Note 6)		233,905.02
Total Current Liabilities		1,708,206.93
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		859,306.33
Total Liabilities		2,567,513.26
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		17,109,718.87
Restricted for Expendable:		
Capital Projects		3,888,695.52
Other		27,586.49
Unrestricted		(214,954.96)
Total Net Assets	$	20,811,045.92

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, 2005

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	990,833.60
Federal Grants and Contracts		4,986,053.58
State and Local Grants and Contracts		441,228.19
Sales and Services		235,459.68
Other Operating Revenues		80,739.45
Net Operating Revenues		6,734,314.50
EXPENSES		
Operating Expenses:		
Salaries and Benefits		13,315,063.32
Supplies and Materials		1,855,891.80
Services		2,070,099.79
Scholarships and Fellowships		3,878,600.14
Utilities		351,443.90
Depreciation		561,552.20
Total Operating Expenses		22,032,651.15
Operating Loss		(15,298,336.65)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,921,981.71
County Appropriations		1,355,000.00
Noncapital Grants		731,135.43
Noncapital Gifts		240,737.80
Investment Income		26,689.63
Interest and Fees on Debt		(17,152.74)
Total Nonoperating Revenues		14,258,391.83
Loss Before Other Revenues		(1,039,944.82)
State Capital Aid		4,862,741.66
County Capital Appropriations		150,000.00
Capital Grants		115,226.33
Capital Gifts		35,000.00
Increase in Net Assets		4,123,023.17
NET ASSETS		
Net Assets, July 1, 2004 as Restated (Note 16)		16,688,022.75
Net Assets, June 30, 2005	$	20,811,045.92

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, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 6,666,803.49
Payments to Employees and Fringe Benefits	(13,316,979.27)
Payments to Vendors and Suppliers	(4,328,458.33)
Payments for Scholarships and Fellowships	(3,878,600.14)
Other Receipts	2,120.11
Net Cash Used by Operating Activities	(14,855,114.14)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,921,981.71
County Appropriations	1,355,000.00
Noncapital Grants Received	1,282,262.87
Noncapital Gifts Received	240,737.80
Cash Provided by Noncapital Financing Activities	14,799,982.38
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	5,946,529.51
County Capital Appropriations	150,000.00
Capital Grants Received	115,226.33
Capital Gifts Received	35,000.00
Acquisition and Construction of Capital Assets	(5,655,947.98)
Principal Paid on Capital Debt and Leases	(92,967.06)
Interest Paid on Capital Debt and Leases	(17,152.74)
Net Cash Provided by Capital and Related Financing Activities	480,688.06
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	26,689.63
Net Increase in Cash and Cash Equivalents	452,245.93
Cash and Cash Equivalents, July 1, 2004	655,735.68
Cash and Cash Equivalents, June 30, 2005	$ 1,107,981.61
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (15,298,336.65)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	561,552.20
Changes in Assets and Liabilities:	
Receivables, Net	(32,026.09)
Inventories	21,843.74
Accounts Payable and Accrued Liabilities	11,531.26
Due to Primary Government	(4,938.53)
Deferred Revenue	(35,484.92)
Funds Held for Others	2,120.11
Compensated Absences	(81,375.26)
Net Cash Used by Operating Activities	$ (14,855,114.14)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	849,066.05
Restricted Cash and Cash Equivalents		247,329.29
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		11,586.27
Total Cash and Cash Equivalents - June 30, 2005	$	1,107,981.61

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	120,436.89

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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.

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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal and State governments 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 5 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.

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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

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

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

N. 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 *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North

Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $550.00, and deposits in private financial institutions with a carrying value of $735,752.47 and a bank balance of $862,826.78.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $371,679.14, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 191,754.62	$ 30,538.57	$ 161,216.05
Intergovernmental	4,089.60		4,089.60
Other	21,531.78		21,531.78
Total Current Receivables	$ 217,376.00	$ 30,538.57	$ 186,837.43

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	$ 358,972.63	$ 0.00	$ 0.00	$ 358,972.63
Construction in Progress	4,248,618.21	5,639,123.84		9,887,742.05
Total Capital Assets, Nondepreciable	4,607,590.84	5,639,123.84		10,246,714.68
Capital Assets, Depreciable:				
Buildings	11,206,187.77			11,206,187.77
Machinery and Equipment	2,829,085.20	137,261.03	30,627.37	2,935,718.86
General Infrastructure	1,091,004.63			1,091,004.63
Total Capital Assets, Depreciable	15,126,277.60	137,261.03	30,627.37	15,232,911.26
Less Accumulated Depreciation:				
Buildings	5,279,926.68	272,261.28		5,552,187.96
Machinery and Equipment	1,814,066.50	265,341.80	30,627.37	2,048,780.93
General Infrastructure	414,067.50	23,949.12		438,016.62
Total Accumulated Depreciation	7,508,060.68	561,552.20	30,627.37	8,038,985.51
Total Capital Assets, Depreciable, Net	7,618,216.92	(424,291.17)		7,193,925.75
Capital Assets, Net	$ 12,225,807.76	$ 5,214,832.67	$ 0.00	$ 17,440,640.43

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 733,223.18
Accrued Payroll	258,238.46
Contract Retainage	220,253.15
Intergovernmental Payables	127,757.11
Total Accounts Payable and Accrued Liabilities	$ 1,339,471.90

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Capital Leases Payable	$ 423,888.62	$ 0.00	$ 92,967.06	$ 330,921.56	$ 97,371.88
Compensated Absences	843,665.05	611,798.31	693,173.57	762,289.79	136,533.14
Total Long-Term Liabilities	$ 1,267,553.67	$ 611,798.31	$ 786,140.63	$ 1,093,211.35	$ 233,905.02

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, 2005:

Fiscal Year	Amount
2006	$ 110,119.80
2007	110,119.80
2008	86,349.24
2009	49,642.64
Total Minimum Lease Payments	356,231.48
Amount Representing Interest (7.104% Rate of Interest)	25,309.92
Present Value of Future Lease Payments	$ 330,921.56

NOTE 8 - REVENUES

Student tuition and fees net of scholarship discounts and an allowance for uncollectible accounts is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,013,990.53	$ 1,008,019.37	$ 15,137.56	$ 990,833.60

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	$ 8,199,674.00	$ 1,370,539.42	$ 515,573.31	$ 0.00	$ 0.00	$ 0.00	$ 10,085,786.73
Academic Support	1,387,963.67	115,671.10	93,798.10				1,597,432.87
Student Services	1,044,500.42	38,625.49	163,110.00				1,246,235.91
Institutional Support	1,970,195.84	166,382.17	647,084.82	140.64			2,783,803.47
Operations and Maintenance of Plant	659,332.48	161,592.35	621,281.05		351,443.90		1,793,649.78
Student Financial Aid	53,396.91	621.34	8,492.44	3,878,459.50			3,940,970.19
Auxiliary Enterprises		2,459.93	20,760.07				23,220.00
Depreciation						561,552.20	561,552.20
Total Operating Expenses	$ 13,315,063.32	$ 1,855,891.80	$ 2,070,099.79	$ 3,878,600.14	$ 351,443.90	$ 561,552.20	$ 22,032,651.15

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 with the exception of the College President. Community College Presidents hired on or after January 1, 2003, can elect to participate in the Optional Retirement Program within 30 days of initial eligibility, otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The plan is 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $11,199,460.48, of which $8,333,493.62 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $500,009.62 and $180,836.81 respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $180,836.81, $16,886.20, and $0.00, 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.

The Optional Retirement Program (Program) is a defined contribution retirement plan that provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. The North Carolina State Board of Community Colleges is responsible for the administration of the Program and designates the companies authorized to offer investment products. The Board has authorized the following carriers: Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), Lincoln Life Insurance Company, Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments. Participants may elect to allocate their contributions and the College contributions to the carrier of their choice. Each carrier offers a variety of investment funds, including both fixed and variable account investment options and mutual funds.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the year ended June 30, 2005, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The College assumes no liability other than its contribution.

For the year ended June 30, 2005, the College had a total payroll of $11,199,460.48, of which $112,386.00 was covered under the Optional Retirement Program. Total employee and employer contributions for pension benefits for the year were $6,743.16 and $7,687.20, respectively.

B. **Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program 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 $169,932.00 for the year ended June 30, 2005.

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 $60,245.00 for the year ended June 30, 2005.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs that 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 or the Optional Retirement Program. 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 and the Optional Retirement Program for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was $270,268.15. 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 and the Optional Retirement Program. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $37,584.16. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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 $1,307,518.77 at June 30, 2005.

B. Pending Litigation and Claims – The College is a party to 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 records the allotments as revenue on the accompanying financial statements. The College has recorded revenue for all allotments relating to the general obligation bonds.

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 $64,795.00 for the year ended June 30, 2005.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 16 - NET ASSET RESTATEMENTS

As of July 1, 2004, net assets as previously reported, was restated as follows:

	Amount
July 1, 2004, Net Assets as Previously Reported	$ 16,710,912.28
Restatements:	
Capital Lease Errors FY03 and FY04	7,584.10
Receivable Corrections	(30,473.63)
July 1, 2004, Net Assets as Restated	$ 16,688,022.75

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State Auditor

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, 2005, and have issued our report thereon dated March 24, 2006.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

Findings

1. Inadequate Separation of Duties and Management Review
2. Weak Internal Controls Over Machinery and Equipment

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. However, of the reportable conditions described above, we consider Finding 2 to be a material weakness.

Compliance and Other Matters

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

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

March 24, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number 2 was also reported in the prior year.

1. Inadequate Separation of Duties and Management Review

The College did not have adequate controls in place to assure proper segregation of duties and proper review procedures.

- Cash handling responsibilities were not properly segregated. The College accountant made bank deposits and reconciled all bank accounts. The accountant also made journal entries which, in combination with the other duties, provided a means to commit and conceal errors or fraud. Additionally, most business office personnel, including accounting personnel, had access to the office vault where cash is stored overnight.
- Management did not ensure that proper reviews were performed. Management did not review bank reconciliations performed by the accountant. Documented daily cash receipts were not reconciled to validated bank deposit slips to ensure that all received cash was properly deposited.

Recommendation: Bank reconciliations should be performed by an employee who does not handle cash. Access to stored cash should be limited. Daily cash receipts should be reconciled to validated bank deposit slips. Management should review and approve monthly bank reconciliations.

College's Response:

1. Deposits by accountant or other employees:

Bank deposit totals are now recorded and bank deposit slips are initialed by the cashier before the daily deposit is transferred to the person making the deposit. The depositor also initials the deposit slip to provide a record of who was responsible for making the deposit.

Upon receipt of the validated deposit slip, the cashier compares the validated total with the amount that was given to the depositor.

These adjustments to the deposit process will allow the business office maximum flexibility in completing daily tasks.

2. Journal entries:

   Journal entries are now reviewed and approved on a monthly basis by management.

3. Access to stored cash:

   The process for handling stored cash will be modified to reduce access by business office personnel to an acceptable level.

4. Monthly bank reconciliations:

   Bank reconciliations are now reviewed and approved by management.

5. Daily cash receipts:

   Daily cash receipts are reconciled to validated bank deposit slips.

2. WEAK INTERNAL CONTROLS OVER MACHINERY AND EQUIPMENT

As previously reported, the College did not have adequate controls in place over machinery and equipment to assure proper segregation of duties. One individual had the responsibility for ordering machinery and equipment from vendors, 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.

Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

This finding is resolved. The College has strengthened internal controls over machinery and equipment so that no one individual controls all key aspects of a transaction or event.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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