



# STATE OF NORTH CAROLINA

**ROANOKE-CHOWAN COMMUNITY COLLEGE**

**AHOSKIE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**ROANOKE-CHOWAN COMMUNITY COLLEGE**

**AHOSKIE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

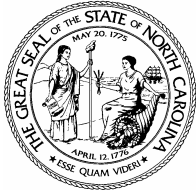
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**ADMINISTRATIVE OFFICERS**

**DR. RALPH G. SONEY, PRESIDENT**

**MRS. CAROLYN LADOW, DEAN OF FINANCE AND ADMINISTRATION**



STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Roanoke-Chowan Community College for the year ended June 30, 2006, 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 Finding and Recommendation section of this report. The College's response is included following each finding.

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

*Leslie W. Merritt, Jr.*

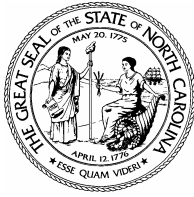
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

March 16, 2007

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STATE OF NORTH CAROLINA  
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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying basic financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, 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 Roanoke-Chowan Community College as of June 30, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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

February 19, 2007

## **ROANOKE-CHOWAN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Overview of Financial Statements and Financial Analysis**

Roanoke-Chowan Community College would like to present financial statements for the year ended June 30, 2006. This Management's Discussion and Analysis will include comparison between current year and prior fiscal year's information.

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

### **Statement of Net Assets**

The Statement of Net Assets presents assets, liabilities and net assets of the College at a point in time for the fiscal year ended June 30, 2006.

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

Net assets are divided into three major categories. The first category, invested in capital assets, provides the equity in property, plant and equipment owned by the institution. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and construction in progress. Depreciable assets include buildings, general infrastructure, and machinery and equipment. The next asset category is expendable restricted net assets, which are available for expenditures by the College but must be spent for purposes specified by an external entity that has placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the institution.

As seen in the comparison of current year and prior fiscal year information, there was a decrease in the current assets classification. This change is largely due to the liquidation of bookstore assets including inventory and receivables in preparation for the outsourcing to College Bookstores of America effective July 1, 2006.

The College had a net amount of \$7.4 million invested in capital assets at year end. This was not a significant change from the prior year balance of \$7.3 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	<i>(in thousands)</i>		<b>Increase (Decrease)</b>
	<b>June 30, 2006</b>	<b>June 30, 2005</b>	
Current Assets	\$ 832.99	\$ 1,052.03	\$ (219.04)
Noncurrent Assets - Noncapital	20.99	486.38	(465.39)
Noncurrent Assets - Capital	<u>7,374.55</u>	<u>7,262.52</u>	<u>112.03</u>
<b>Total Assets</b>	<b>8,228.53</b>	<b>8,800.93</b>	<b>(572.40)</b>
Current Liabilities	147.30	186.68	(39.38)
Noncurrent Long-Term Liabilities	<u>182.57</u>	<u>171.48</u>	<u>11.09</u>
<b>Total Liabilities</b>	<b>329.87</b>	<b>358.16</b>	<b>(28.29)</b>
Invested in Capital Assets	7,374.55	7,262.52	112.03
Net Assets - Restricted	206.48	672.32	(465.84)
Net Assets - Unrestricted	<u>317.63</u>	<u>507.93</u>	<u>(190.30)</u>
<b>Total Net Assets</b>	<b>\$ 7,898.66</b>	<b>\$ 8,442.77</b>	<b>\$ (544.11)</b>

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

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

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

A decrease in the bond allotment from North Carolina Community College System for fiscal year 2006 accounts for the decrease in capital aid and grants category. The other revenue categories show a slight decrease due to the close out of several grants including the New Choices Grant and the Duke Endowment Grant.

The decrease in operating expenses was due to the adjustment made in prior years' depreciation expense lines and the reduction in expenditures associated with construction projects.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

	<i>(in thousands)</i>		
	<b>For Year Ended June 30, 2006</b>	<b>For Year Ended June 30, 2005</b>	<b>Increase (Decrease)</b>
Federal Contracts and Grants	\$ 2,469.17	\$ 2,822.97	\$ (353.80)
Other Operating Revenues	736.06	597.85	138.21
Total Operating Revenues	3,205.23	3,420.82	(215.59)
State Aid	4,480.72	4,268.32	212.40
Other Nonoperating Revenues	784.44	870.60	(86.16)
Total Nonoperating Revenues	5,265.16	5,138.92	126.24
Capital Aid and Grants	227.97	251.06	(23.09)
Total Revenues	8,698.36	8,810.80	(112.44)
Operating Expenses	(9,242.47)	(9,334.03)	91.56
Increase in Net Assets	(544.11)	(523.23)	(20.88)
Net Assets, July 1	8,442.77	8,966.00	(523.23)
Net Assets, June 30	<u>\$ 7,898.66</u>	<u>\$ 8,442.77</u>	<u>\$ (544.11)</u>

### Capital Asset and Debt Administration

The College has no major construction initiatives funded or planned for the 2007 fiscal year.

During the 2006 fiscal year, the College has incurred no significant changes in regards to long-term debt or changes in credit rating or debt limitations.

### Economic Outlook

The economic future of Roanoke-Chowan Community College looks very good. We have seen significant improvement in the State's economy in the past fiscal year. The College anticipates continued growth in the 2006-07 budget funding cycle. Funding should show an increase due to larger appropriations from State and County sources, and additional funding activities from federal grants and other sources.

In the fiscal year 2007, the College will implement several new initiatives and programs. Building Construction Technology and a day time Barbering program are on track for implementation in the fall. Physical education classes have been approved and added to the schedule for the first time in Roanoke-Chowan's history. A new Evening/Weekend College is also slated to begin in the Fall Semester for student enrollment. These along with other fundamental program changes will move the College forward, increase enrollment and provide growth for the enhancement of the College's mission.

The College will continue to make every effort to meet its goals and objects and to serve the citizens and the community of its service area.

***Roanoke-Chowan Community College***  
***Statement of Net Assets***  
***June 30, 2006***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 136,484.78
Restricted Cash and Cash Equivalents	251,440.27
Receivables, Net (Note 3)	312,113.87
Inventories	130,759.85
Prepaid Items	2,151.78
Notes Receivable (Note 3)	40.00
	<hr/>
Total Current Assets	832,990.55
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	805.08
Restricted Due from Primary Government	20,187.50
Capital Assets - Nondepreciable (Note 4)	34,805.00
Capital Assets - Depreciable, Net (Note 4)	7,339,745.47
	<hr/>
Total Noncurrent Assets	7,395,543.05
	<hr/>

Total Assets

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8,228,533.60

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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	68,909.06
Unearned Revenue	10,377.47
Funds Held for Others	3,805.08
Long-Term Liabilities - Current Portion (Note 6)	64,211.62
	<hr/>
Total Current Liabilities	147,303.23
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	182,566.31
	<hr/>

Total Liabilities

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329,869.54

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**NET ASSETS**

Invested in Capital Assets

7,374,550.47

Restricted for:

Expendable:

Scholarships and Fellowships	176,772.69
Loans	15,929.19
Capital Projects	13,781.33

Unrestricted

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317,630.38

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Total Net Assets

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\$ 7,898,664.06

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

***Roanoke-Chowan Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 490,887.21
Federal Grants and Contracts	2,469,170.68
State and Local Grants and Contracts	31,227.00
Sales and Services, Net (Note 8)	206,973.96
Other Operating Revenues	6,970.87

Total Operating Revenues	3,205,229.72
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**EXPENSES**

Operating Expenses:

Personal Services	5,667,088.71
Supplies and Materials	955,002.31
Services	607,814.24
Scholarships and Fellowships	1,491,485.89
Utilities	174,928.40
Depreciation	346,148.72

Total Operating Expenses	9,242,468.27
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Operating Loss	(6,037,238.55)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	4,480,720.04
County Appropriations	617,703.50
Noncapital Grants	167,344.03
Noncapital Gifts	4,475.00
Investment Income	12,586.51
Other Nonoperating Expenses	(17,664.87)

Net Nonoperating Revenues	5,265,164.21
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Loss Before Other Revenues	(772,074.34)
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State Capital Aid	145,423.49
County Capital Appropriations	39,033.50
Capital Grants	43,508.00

Decrease in Net Assets	(544,109.35)
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**NET ASSETS**

Net Assets, July 1, 2005	8,442,773.41
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Net Assets, June 30, 2006	\$ 7,898,664.06
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The accompanying notes to the financial statements are an integral part of this statement.

***Roanoke-Chowan Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,331,445.45
Payments to Employees and Fringe Benefits	(5,678,210.86)
Payments to Vendors and Suppliers	(1,701,863.51)
Payments for Scholarships and Fellowships	(1,491,485.89)
Other Payments	(1,417.29)
	<hr/>
Net Cash Used by Operating Activities	(5,541,532.10)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	4,480,720.04
County Appropriations	617,703.50
Noncapital Grants Received	619,818.89
Noncapital Gifts and Endowments Received	4,475.00
	<hr/>
Cash Provided by Noncapital Financing Activities	5,722,717.43

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	145,423.49
County Capital Appropriations	39,033.50
Capital Grants Received	43,508.00
Acquisition and Construction of Capital Assets	(475,847.66)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(247,882.67)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	12,586.51
	<hr/>
Net Cash Provided by Investing Activities	12,586.51

Net Decrease in Cash and Cash Equivalents	(54,110.83)
Cash and Cash Equivalents, July 1, 2005	442,840.96
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 388,730.13

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

Operating Loss	\$ (6,037,238.55)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	346,148.72
Changes in Assets and Liabilities:	
Receivables, Net	135,366.86
Inventories	30,946.06
Prepaid Items	(2,151.78)
Accounts Payable and Accrued Liabilities	(5,843.71)
Unearned Revenue	(14,332.42)
Funds Held for Others	3,764.00
Compensated Absences	1,808.72
	<hr/>
Net Cash Used by Operating Activities	\$ (5,541,532.10)

***Roanoke-Chowan Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2006***

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

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 136,484.78
Restricted Cash and Cash Equivalents	251,440.27
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>805.08</u>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 388,730.13</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Capital Asset Write-Offs	\$ 108,916.54
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The accompanying notes to the financial statements are an integral part of this statement.

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**ROANOKE-CHOWAN COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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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. Roanoke-Chowan Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

**Invested in Capital Assets** – This represents the College’s total investment in capital assets.

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

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

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

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$300.00, and deposits in private financial institutions with a carrying value of \$388,430.13, and a bank balance of \$400,935.68.

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, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 218,136.61	\$ 11,181.51	\$ 206,955.10
Accounts	105,158.77		105,158.77
<b>Total Current Receivables</b>	<u>\$ 323,295.38</u>	<u>\$ 11,181.51</u>	<u>\$ 312,113.87</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 40.00</u>	<u>\$ 0.00</u>	<u>\$ 40.00</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 34,805.00
Construction in Progress	14,023.50		14,023.50	
<b>Total Capital Assets, Nondepreciable</b>	<b>48,828.50</b>		<b>14,023.50</b>	<b>34,805.00</b>
Capital Assets, Depreciable:				
Buildings	10,915,323.78	264,100.00		11,179,423.78
Machinery and Equipment	635,588.11	64,560.16	108,916.54	591,231.73
General Infrastructure	81,100.00	161,211.00		242,311.00
<b>Total Capital Assets, Depreciable</b>	<b>11,632,011.89</b>	<b>489,871.16</b>	<b>108,916.54</b>	<b>12,012,966.51</b>
Less Accumulated Depreciation:				
Buildings	4,028,327.76	280,619.01		4,308,946.77
Machinery and Equipment	363,413.78	51,283.28	91,251.67	323,445.39
General Infrastructure	26,582.45	14,246.43		40,828.88
<b>Total Accumulated Depreciation</b>	<b>4,418,323.99</b>	<b>346,148.72</b>	<b>91,251.67</b>	<b>4,673,221.04</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>7,213,687.90</b>	<b>143,722.44</b>	<b>17,664.87</b>	<b>7,339,745.47</b>
<b>Capital Assets, Net</b>	<b>\$ 7,262,516.40</b>	<b>\$ 143,722.44</b>	<b>\$ 31,688.37</b>	<b>\$ 7,374,550.47</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 38,857.31
Accrued Payroll	25,380.14
Other	4,671.61
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 68,909.06</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 244,969.21	\$ 302,956.72	\$ 301,148.00	\$ 246,777.93	\$ 64,211.62



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,054,851.65	\$ 264,907.32	\$ 46,813.14	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,366,572.11
Academic Support	429,814.44	28,143.74	30,895.26				488,853.44
Student Services	430,657.15	15,015.89	44,832.97				490,506.01
Institutional Support	1,093,337.91	91,283.49	304,599.43				1,489,220.83
Operations and Maintenance of Plant	326,847.22	101,178.26	106,040.71		174,928.40		708,994.59
Student Financial Aid	282,528.88	42,577.15	70,414.85	1,491,485.89			1,887,006.77
Auxiliary Enterprises	49,051.46	411,896.46	4,217.88				465,165.80
Depreciation						346,148.72	346,148.72
Total Operating Expenses	<u>\$ 5,667,088.71</u>	<u>\$ 955,002.31</u>	<u>\$ 607,814.24</u>	<u>\$ 1,491,485.89</u>	<u>\$ 174,928.40</u>	<u>\$ 346,148.72</u>	<u>\$ 9,242,468.27</u>

### NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes*. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$4,749,794.06, of which \$3,860,371.51 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$231,742.15 and \$90,332.69, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$90,332.69, \$80,921.87, and \$7,822.58, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$8,840.00 for the year ended June 30, 2006.

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 \$24,116.00 for the year ended June 30, 2006.

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 \$5,464.68 for the year ended June 30, 2006.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$146,694.12. 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$20,073.93. 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Liability insurance for 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 entirely from county or institutional funds by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

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

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

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

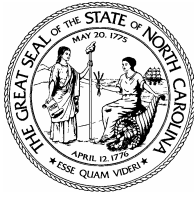
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### **NOTE 13 - COMMITMENTS**

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$49,946.70.

### **NOTE 14 - THE ROANOKE-CHOWAN COMMUNITY COLLEGE FOUNDATION, INC.**

The Roanoke-Chowan Community College Foundation, Inc., is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$2,950.00 for the year ended June 30, 2006.



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

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

We have audited the financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated February 19, 2007.

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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. A reportable condition is described in the Audit Finding and Recommendation section of this report.

**Finding**

Access Rights Inconsistent with Adequate Separation of Duties

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

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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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 that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Finding and Recommendation section of this report, 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, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

February 19, 2007

## **AUDIT FINDING AND RECOMMENDATION**

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### **Matters Related to Financial Reporting**

The following finding was identified during the current audit and describes a condition that represents significant deficiencies in internal control. This finding was also reported in the prior year.

#### ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEPARATION OF DUTIES

The College has granted access rights inconsistent with adequate separation of duties in the following areas:

- a. The Purchasing agent was granted access rights that would allow her the opportunity to perpetrate or conceal errors or fraud. She was given the ability to requisition, order, and receive items as well as approve purchases and requisitions from others. Furthermore, she could post journal entries and update Fixed Assets modules to conceal any other activity. This employee could also vouch payments, access the vendor file, and print checks.
- b. The Payroll Specialist was granted complete access to the Human Resources modules as well as all functions within the accounts payable module. With these rights, she has the ability to set-up fictitious employees in the system.
- c. The Accounts Payable Specialist was granted complete access to the Purchasing module which would allow her to alter the vendor file.
- d. The Controller and the Dean of Finance and Administration were granted complete access to all financial modules. They had access to the general ledger and prepared and posted all journal entries. The Controller prepared bank reconciliations and served as back-up to the Accounts Payable Specialist. Because she had access to blank check stock, fraudulent checks could be created and processed outside the College's Financial System without being detected by manipulating the system via journal entry.

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 to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

*Recommendation:* We acknowledge that the College has implemented and enhanced some compensating controls to detect and prevent fraudulent activity; however, we believe that the College needs to further strengthen internal controls by establishing appropriate access security classes that are unique to the needs of individuals within the office.

## **AUDIT FINDING AND RECOMMENDATION (CONCLUDED)**

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*College's Response:* The Administrative Services Division of Roanoke-Chowan Community College has been diligently working towards correcting access rights since the finding was reported in the prior year. The Information Systems staff has developed and implemented processes and procedures for faculty/staff security access through the creation of a security access worksheet. The new security access worksheet sets up security class and access rights for each faculty/staff member employed by the College. The rights are subsequently approved by the appropriate Division Administrator and President.

The implementation of this process should be completed for all Business Office personnel before the end of this fiscal year. The establishment of this internal control forces management to review and make corrections to all access rights based on individual job responsibilities and function. Access rights granted will be consistent with adequate separation of duties and unique to the needs of individuals within the Business Office. This immediate change has and will continue to greatly strengthen internal controls in this area.

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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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