



# STATE OF NORTH CAROLINA

**ROANOKE-CHOWAN COMMUNITY COLLEGE**

**AHOSKIE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**ROANOKE-CHOWAN COMMUNITY COLLEGE**

**AHOSKIE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2008**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

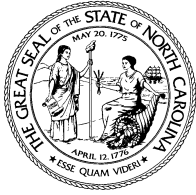
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**ADMINISTRATIVE OFFICERS**

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

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



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly E. Perdue  
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, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Responses 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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets .....	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	8
A-3 Statement of Cash Flows .....	9
Notes to the Financial Statements .....	11
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i> .....	25
AUDIT FINDINGS AND RESPONSES .....	29
ORDERING INFORMATION .....	32



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

In accordance with *Government Auditing Standards*, we have also issued our report July 21, 2009 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA  
State Auditor

July 21, 2009

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

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

### **Financial Statement Presentation**

The College's basic financial statements are designed to emulate a corporate presentation model whereby all College activities are consolidated into one column. The Statement of Net Assets includes all assets and liabilities. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The increase or decrease in net assets is an indicator of the improvement or erosion of the College's financial condition. The focus of the Statement of Revenues, Expenses, and Changes in Net Assets is designed to be similar to the bottom line results for the College. This statement focuses on the both the gross and net costs of College activities that are supported mainly by State, local, federal, and other revenues. This approach is intended to simplify the user's analysis of the cost of various College services to students and the public. The Statement of Cash Flows presents information detailing the sources and uses of cash from both operating activities and financing activities.

### **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, 2008. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

As seen in the comparison of current year and prior fiscal year information, there was an increase in the current assets classification. This increase is due to the Golden Leaf Grant support of the Early College High School Project between the College and Hertford County for \$1,388,040.00.

The College had \$7,659,697.45 invested in capital assets at year end. This reflects a change from the prior year balance of \$7,967,360.48 relative to \$307,663.03 mainly due to current year depreciation.

### Condensed Statement of Net Assets

	<u>June 30, 2008</u>	<u>As Restated June 30, 2007</u>	<u>Increase (Decrease)</u>
<b>Assets</b>			
Current Assets	\$ 1,705,144.38	\$ 488,279.42	\$ 1,216,864.96
Noncurrent Assets	0.30	0.30	
Capital Assets	<u>7,659,697.45</u>	<u>7,967,360.48</u>	<u>(307,663.03)</u>
Total Assets	<u>9,364,842.13</u>	<u>8,455,640.20</u>	<u>909,201.93</u>
<b>Liabilities</b>			
Current Liabilities	613,216.55	430,639.00	182,577.55
Noncurrent Long-Term Liabilities	<u>228,366.69</u>	<u>256,495.80</u>	<u>(28,129.11)</u>
Total Liabilities	<u>841,583.24</u>	<u>687,134.80</u>	<u>154,448.44</u>
<b>Net Assets</b>			
Invested in Capital Assets	7,659,697.45	7,967,360.48	(307,663.03)
Net Assets - Restricted	1,551,019.52	68,955.23	1,482,064.29
Net Assets - Unrestricted	<u>(687,458.08)</u>	<u>(267,810.31)</u>	<u>(419,647.77)</u>
Total Net Assets	<u>\$ 8,523,258.89</u>	<u>\$ 7,768,505.40</u>	<u>\$ 754,753.49</u>

### 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. Federal grants and contracts showed a significant decrease due to reduction of grants available and secured for the 2007-2008 fiscal year along with the decline in Pell and federal work-study awards. Salaries and fringe benefits expenses are the predominant operating expense but showed a decrease due to the reduction of full-time employees from 2006-2007 to 2007-2008. Pell Grant awards distributed were less in 2007-2008 in relation to 2006-2007 due to more restrictive qualification requirements and to the decline in enrollment. A noted decrease in supplies and materials is mainly due to the substantial decline of



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

resources available to exercise spending. 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. The significant increase in noncapital grants is due to a grant received from Golden Leaf, Inc. in the amount of \$1,388,040.00. These funds were a direct result of a partnership between Hertford County Schools and Roanoke-Chowan Community College to establish an Early College High School.

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

	<u>June 30, 2008</u>	<u>As Restated June 30, 2007</u>	<u>Increase (Decrease)</u>
<b>Operating Revenues</b>			
Federal, State and Local Grants and Contracts	\$ 1,938,021.58	\$ 2,251,917.09	\$ (313,895.51)
Other Operating Revenues	450,231.93	732,156.01	(281,924.08)
Total Operating Revenues	<u>2,388,253.51</u>	<u>2,984,073.10</u>	<u>(595,819.59)</u>
<b>Operating Expenses</b>			
Personal Services	6,431,294.90	6,817,916.50	(386,621.60)
Supplies and Materials	448,692.73	779,962.27	(331,269.54)
Services	961,979.82	857,117.79	104,862.03
Scholarships and Fellowships	1,211,268.29	1,475,669.83	(264,401.54)
Utilities	212,686.92	217,564.39	(4,877.47)
Depreciation	336,664.46	354,532.40	(17,867.94)
Total Operating Expenses	<u>9,602,587.12</u>	<u>10,502,763.18</u>	<u>(900,176.06)</u>
Operating Loss	<u>(7,214,333.61)</u>	<u>(7,518,690.08)</u>	<u>304,356.47</u>
<b>Nonoperating Revenues (Expenses)</b>			
State Aid	5,476,533.23	5,234,317.02	242,216.21
County Appropriations	796,737.00	735,799.62	60,937.38
Noncapital Grants	1,626,740.51	215,202.14	1,411,538.37
Other Nonoperating Revenues (Expenses)	<u>(18,500.14)</u>	<u>22,635.76</u>	<u>(41,135.90)</u>
Total Nonoperating Revenues	<u>7,881,510.60</u>	<u>6,207,954.54</u>	<u>1,673,556.06</u>
Income/(Loss) Before Other Revenues	<u>667,176.99</u>	<u>(1,310,735.54)</u>	<u>1,977,912.53</u>
Capital Aid and Grants	<u>87,576.50</u>	<u>392,780.81</u>	<u>(305,204.31)</u>
Increase (Decrease) in Net Assets	<u>754,753.49</u>	<u>(917,954.73)</u>	<u>1,672,708.22</u>
<b>Net Assets</b>			
Net Assets, Beginning of Year as Restated	<u>7,768,505.40</u>	<u>8,686,460.13</u>	<u>(917,954.73)</u>
Net Assets, End of Year	<u>\$ 8,523,258.89</u>	<u>\$ 7,768,505.40</u>	<u>\$ 754,753.49</u>

### Capital Asset and Debt Administration

Roanoke-Chowan Community College does not have construction in progress. However, the College is doing non-capitalizable renovations to the Freeman Building to accommodate the Early College High School students.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Economic Outlook**

Roanoke-Chowan Community College has experienced a reduction in enrollment but continues to be proactive in recruiting to increase enrollment growth & community support. Enrollment projections for 2008-2009 indicate a slight increase, based on the implementation of the Hertford County Early College High School. The economic position of the College is closely tied to that of the State of North Carolina and Hertford County. The direct impact of the local and national economy on the appropriations for the College is uncertain. Management feels that by using a conservative, realistic approach in handling its resources, the College will be able to continue supporting the educational needs of its students in a quality learning environment.

***Roanoke-Chowan Community College***  
***Statement of Net Assets***  
***June 30, 2008***

***Exhibit A-1***

**ASSETS**

Current Assets:

Restricted Cash and Cash Equivalents	\$ 110,306.40
Receivables, Net (Note 3)	118,057.36
Due from State of North Carolina Component Units	1,388,040.00
Inventories	55,895.39
Prepaid Items	25,794.71
Notes Receivable, Net (Note 3)	<u>7,050.52</u>
Total Current Assets	<u>1,705,144.38</u>

Noncurrent Assets:

Restricted Due from Primary Government	0.30
Capital Assets - Nondepreciable (Note 4)	34,805.00
Capital Assets - Depreciable, Net (Note 4)	<u>7,624,892.45</u>
Total Noncurrent Assets	<u>7,659,697.75</u>

Total Assets	<u>9,364,842.13</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	555,023.75
Unearned Revenue	7,859.60
Long-Term Liabilities - Current Portion (Note 6)	<u>50,333.20</u>
Total Current Liabilities	<u>613,216.55</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>228,366.69</u>
Total Noncurrent Liabilities	<u>228,366.69</u>

Total Liabilities	<u>841,583.24</u>
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**NET ASSETS**

Invested in Capital Assets	7,659,697.45
Restricted for:	
Expendable:	
Scholarships and Fellowships	71,221.71
Loans	18,327.90
Restricted for Specific Programs	1,461,469.91
Unrestricted	<u>(687,458.08)</u>
Total Net Assets	<u>\$ 8,523,258.89</u>

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

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

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 313,040.49
Federal Grants and Contracts	1,838,941.33
State and Local Grants and Contracts	99,080.25
Sales and Services (Note 8)	62,723.11
Other Operating Revenues	74,468.33
	<hr/>
Total Operating Revenues	2,388,253.51
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	6,431,294.90
Supplies and Materials	448,692.73
Services	961,979.82
Scholarships and Fellowships	1,211,268.29
Utilities	212,686.92
Depreciation	336,664.46
	<hr/>
Total Operating Expenses	9,602,587.12
	<hr/>
Operating Loss	(7,214,333.61)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	5,476,533.23
County Appropriations	796,737.00
Noncapital Grants	1,626,740.51
Noncapital Gifts	93,983.00
Investment Income	1,983.27
Other Nonoperating Expenses	(114,466.41)
	<hr/>
Net Nonoperating Revenues (Expenses)	7,881,510.60
	<hr/>
Income Before Other Revenues	667,176.99
	<hr/>
State Capital Aid	86,481.50
Capital Grants	1,095.00
	<hr/>
Increase in Net Assets	754,753.49

**NET ASSETS**

Net Assets, July 1, 2007 as Restated (Note 15)	7,768,505.40
	<hr/>
Net Assets, June 30, 2008	\$ 8,523,258.89
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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, 2008***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,580,142.12
Payments to Employees and Fringe Benefits	(6,397,234.06)
Payments to Vendors and Suppliers	(1,501,706.70)
Payments for Scholarships and Fellowships	(1,211,268.29)
Loans Issued to Students	(5,754.00)
Collection of Loans to Students	3,828.36
Other Payments	(175,324.78)
	<hr/>
Net Cash Used by Operating Activities	(6,707,317.35)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	5,476,533.23
County Appropriations	796,737.00
Noncapital Grants Received	219,091.51
Noncapital Gifts Received	93,983.00
	<hr/>
Cash Provided by Noncapital Financing Activities	6,586,344.74

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

State Capital Aid Received	86,481.50
Capital Grants Received	1,095.00
Acquisition and Construction of Capital Assets	(29,001.43)
Other Receipts	33,852.00
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	92,427.07

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	1,983.27
	<hr/>
Cash Provided by Investing Activities	1,983.27

Net Decrease in Cash and Cash Equivalents	(26,562.27)
Cash and Cash Equivalents, July 1, 2007	136,868.67
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 110,306.40

***Roanoke-Chowan Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2008***

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

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

Operating Loss	\$ (7,214,333.61)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	336,664.46
Provision for Uncollectible Loans and Write-Offs	(148,318.41)
Changes in Assets and Liabilities:	
Receivables, Net	163,502.76
Inventories	15,816.70
Prepaid Items	(13,172.05)
Notes Receivable, Net	(1,925.64)
Accounts Payable and Accrued Liabilities	163,835.05
Unearned Revenue	1,379.48
Compensated Absences	(10,766.09)
Net Cash Used by Operating Activities	<u>\$ (6,707,317.35)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Restricted Cash and Cash Equivalents	<u>\$ 110,306.40</u>
Total Cash and Cash Equivalents - June 30, 2008	<u>\$ 110,306.40</u>

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

Increase in Receivables Related to Nonoperating Income	\$ 1,407,649.00
Capital Asset Write-Offs	14,228.20

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

**ROANOKE-CHOWAN COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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, 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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** – Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include 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. 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 discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 does 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

totaling \$330.00, and deposits in private financial institutions with a carrying value of \$109,976.40 and a bank balance of \$157,724.91.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 211,936.09	\$ 148,318.41	\$ 63,617.68
Accounts	34,830.68		34,830.68
Other	19,609.00		19,609.00
<b>Total Current Receivables</b>	<u>\$ 266,375.77</u>	<u>\$ 148,318.41</u>	<u>\$ 118,057.36</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 18,232.03</u>	<u>\$ 11,181.51</u>	<u>\$ 7,050.52</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, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 34,805.00
<b>Total Capital Assets, Nondepreciable</b>	<u>34,805.00</u>			<u>34,805.00</u>
Capital Assets, Depreciable:				
Buildings	11,223,518.16			11,223,518.16
Machinery and Equipment	679,689.31	29,001.43	14,228.20	694,462.54
General Infrastructure	242,311.00			242,311.00
<b>Total Capital Assets, Depreciable</b>	<u>12,145,518.47</u>	<u>29,001.43</u>	<u>14,228.20</u>	<u>12,160,291.70</u>
Less Accumulated Depreciation:				
Buildings	3,784,160.44	263,009.74		4,047,170.18
Machinery and Equipment	371,819.51	57,500.56	14,228.20	415,091.87
General Infrastructure	56,983.04	16,154.16		73,137.20
<b>Total Accumulated Depreciation</b>	<u>4,212,962.99</u>	<u>336,664.46</u>	<u>14,228.20</u>	<u>4,535,399.25</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>7,932,555.48</u>	<u>(307,663.03)</u>		<u>7,624,892.45</u>
<b>Capital Assets, Net</b>	<u>\$ 7,967,360.48</u>	<u>\$ (307,663.03)</u>	<u>\$ 0.00</u>	<u>\$ 7,659,697.45</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 176,224.86
Accrued Payroll	<u>378,798.89</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 555,023.75</u>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	\$ 289,465.98	\$ 210,412.35	\$ 221,178.44	\$ 278,699.89	\$ 50,333.20

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - LEASE OBLIGATIONS

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

Fiscal Year	<u>Amount</u>
2009	\$ 71,889.48
2010	57,949.58
2011	48,093.96
2012	<u>39,444.19</u>
Total Minimum Lease Payments	<u><u>\$ 217,377.21</u></u>

Rental expense for all operating leases during the year was \$72,302.19.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	<u>\$ 714,829.75</u>	<u>\$ 401,789.26</u>	<u>\$ 313,040.49</u>
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Print Shop	\$ 31,037.41	\$ 0.00	\$ 31,037.41
Other	<u>31,685.70</u>		<u>31,685.70</u>
<b>Total Sales and Services</b>	<u><u>\$ 62,723.11</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 62,723.11</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,488,779.38	\$ 208,885.83	\$ 166,093.13	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,863,758.34
Academic Support	430,037.67	32,120.16	21,285.45				483,443.28
Student Services	331,910.54	10,342.69	94,645.95				436,899.18
Institutional Support	1,422,196.11	99,074.32	462,832.87				1,984,103.30
Operations and Maintenance of Plant	381,675.90	81,557.96	136,840.20		212,686.92		812,760.98
Student Financial Aid	376,695.30	8,697.08	40,019.09	1,211,268.29			1,636,679.76
Auxiliary Enterprises		8,014.69	40,263.13				48,277.82
Depreciation						336,664.46	336,664.46
<b>Total Operating Expenses</b>	<b>\$ 6,431,294.90</b>	<b>\$ 448,692.73</b>	<b>\$ 961,979.82</b>	<b>\$ 1,211,268.29</b>	<b>\$ 212,686.92</b>	<b>\$ 336,664.46</b>	<b>\$ 9,602,587.12</b>

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

For the current fiscal year, the College had a total payroll of \$5,636,003.00, of which \$4,500,224.01 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$137,256.84 and \$270,013.43, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$137,256.84, \$117,895.66, and \$90,332.69, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$7,100.00 for the year ended June 30, 2008.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$28,566.00 for the year ended June 30, 2008.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$1,520.39 for the year ended June 30, 2008.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

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

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

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$184,509.20, \$168,422.37, and \$146,694.12, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$23,401.16, \$23,047.28, and \$20,073.93, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina’s *Comprehensive Annual Financial Report*.

### NOTE 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 \$1,000,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a \$75,000 deductible and a 10% participation in each loss above the deductible. 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.

### NOTE 13 - CONTINGENCIES

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

### **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 \$12,206.00 for the year ended June 30, 2008.

### **NOTE 15 - NET ASSET RESTATEMENTS**

As of July 1, 2007, net assets as previously reported was restated as follows:

July 1, 2007 Net Assets as Previously Reported	\$ 8,104,978.62
Prior Year Correction of Software Conversion Error	(18,573.72)
Correction for Unrecorded Accrual	<u>(317,899.50)</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 7,768,505.40</u></u>

### **NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

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

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

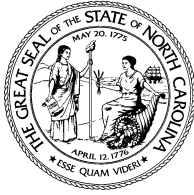
*GASB Statement No. 50, Pension Disclosures.*

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

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

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



Beth A. Wood, CPA  
State Auditor

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

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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, 2008, and have issued our report thereon dated July 21, 2009.

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College’s financial statements that is more than inconsequential will not be prevented or detected by the College’s internal control. We consider the deficiencies described in both findings in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College’s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in finding 2 in the Audit Findings and Responses section of this report.

The College’s responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College’s response and, accordingly, we express no opinion on it.

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

---

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

*Beth A. Wood*

Beth A. Wood, CPA  
State Auditor

July 21, 2009

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## **AUDIT FINDINGS AND RESPONSES**

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

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

#### 1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Roanoke-Chowan Community College for fiscal year ended June 30, 2008 contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

During our audit, we noted the following misstatements:

- a. The College overstated current cash and cash equivalents by \$14,861 and noncurrent restricted cash and cash equivalents by \$15,209. The College also understated current restricted cash and cash equivalents by \$30,070.
- b. The College overstated unrestricted net assets and understated expendable net assets restricted for specific programs by \$1,461,470.
- c. The College failed to accrue payroll expense in fiscal year 2007 that caused beginning net asset and personal services expenses to be overstated by \$317,899.
- d. The College misclassified a grant of \$1,388,040 from the Golden Leaf Foundation as an operating revenue (state and local grants and contracts) rather than as a nonoperating revenue (noncapital grant).
- e. The College did not record an allowance for doubtful accounts for student accounts receivable. This resulted in a \$148,318 overstatement of receivables and nonoperating revenues.
- f. Various other misstatements were made in the cash flow statement, management's discussion and analysis and the notes to the financial statements.

Management is responsible for the fair presentation of its financial position, results of operations, and cash flows in conformity with generally accepted accounting principles and the policies of the Office of the State Controller.

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and implement effective controls to ensure the completeness and accuracy of the financial statements.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*College Response:* Roanoke-Chowan Community College concurs with the audit finding as presented. We recognize that it is necessary to reclassify cash from noncurrent restricted cash to current restricted cash to properly reflect restrictions on cash balances from interfund borrowing.

The College's financial statement preparation will be reviewed more carefully when compiling the grouping sheets out of Datatel. Asset classifications will be categorized based on established fund authorities. A great emphasis will be placed on the reporting process to ensure the accuracy and fair presentation of the financial statements.

Although, we have not recorded an allowance for doubtful accounts for student accounts receivable in the past, we acknowledge that proper financial statement presentation requires that an allowance be recorded. As noted, the error was corrected for the year ended June 30, 2008. This was done through an analysis of the students' accounts receivable, reviewing account balances by type and by age. A similar analysis will be done each year to adjust the allowance account to a reasonable estimate at June 30 of each year.

All other areas of concern that have been brought to the College's attention will be addressed to ensure proper handling of the year-end financial statement reporting process.

### 2. RESTRICTED FUNDS BORROWED TO COVER CASH DEFICITS

The College used funds restricted for specific purposes to cover cash deficits in other funds for fiscal year ended June 30, 2008. As a result, the College may have violated contractual restrictions on certain funds by using restricted money, at least temporarily, for unallowable purposes.

Our analysis of the cash accounts revealed the following:

- The total cash balance of all the unrestricted funds was negative \$14,861. The College, therefore, borrowed \$14,861 from restricted funds to cover the deficit.
- The College over-expended \$75,239 from six current restricted funds and \$15,333 from five noncurrent restricted funds. Since unrestricted cash was not available to cover the deficits, the College must have borrowed from other restricted funds to cover the deficits.

Management is required to use restricted assets for only purposes established by donors or grantors of such assets.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Recommendation:* The College should monitor the cash balances in the individual funds to ensure that sufficient unrestricted money is available to cover temporary deficit balances. The College should also take measures to address its cash flow problems.

*College Response:* Roanoke-Chowan Community College concurs with the audit finding as presented. The College will be more alert to the available cash balances in each of its respective funds and is implementing the necessary steps to prevent the identified errors from reoccurring in the future presentation of the financial statements. To ensure any interfund borrowing is replenished in a timely manner and to remain in compliance with all applicable restrictions between unrestricted and restricted accounts, reconciliations of each fund will be done monthly to ensure that a cash deficit between restricted and unrestricted funds does not occur.

## **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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