

STATE OF NORTH CAROLINA

ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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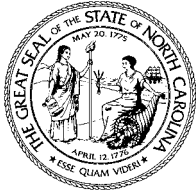
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2010, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, 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.

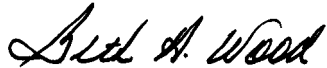
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roanoke-Chowan Community College as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011 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, 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)

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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

January 7, 2011

ROANOKE-CHOWAN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010. College management has prepared this discussion along with the financial statements and notes to the financial statements. This section should be read in conjunction with and is qualified in its entirety by, the financial statements and notes to the financial statements. The financial statements, notes to the financial statements, and this discussion are the responsibility of College management.

Financial Statement Presentation

The College's basic financial statements include the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. They are designed to emulate 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 both the gross and net costs of College activities that are supported mainly by state, local, federal, foundation 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, financing activities, capital related activities and investing activities. The Roanoke-Chowan Community College Foundation, Inc. (Foundation) is blended into the financial statements for Roanoke-Chowan Community College. The Foundation is a separate organization and its financial statements are audited annually. The Foundation had total net assets of \$184,664.53 at June 30, 2010.

Statement of Net Assets

The Statement of Net Assets presents assets, liabilities and net assets of the College for the fiscal year ended June 30, 2010. 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 users of these statements 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, net of related debt, provides the equity in property, plant and equipment owned by the institution less any liability for debt related to the asset. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and depreciable assets include buildings, general infrastructure, and machinery and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The next asset category is restricted net assets. They are identified as either nonexpendable or expendable and are available to the College, but represent resources that are subject to external restrictions on how they may be used. The final category is unrestricted net assets, which are available to the College to expend 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 was caused by a decrease in the level of funding received from the Golden Leaf Grant which supports the Early College High School Program. During the start up year of the grant in 2008-2009, the College received \$931,900.00. The College received \$227,680.00 in 2009-2010, the second year of the three year grant. The corresponding receivable associated with the Golden Leaf Grant decreased from \$456,140.00 in 2009 to \$258,460 in 2010. This decrease was offset by an increase in cash. The College received a Golden Leaf GLOW grant of which \$116,169.15 remained unspent at year end. There was also an \$81,292.26 increase in available cash generated by auxiliary operations.

Current liabilities show a decrease due to a decrease of \$30,881.73 in accrued payroll. The number of nine month faculty members that elected to have their pay distributed over twelve months was reduced in fiscal year 2009-2010.

Noncurrent Long-Term Liabilities show a slight decrease because of payment made on the capital lease for the welding booths in the Welding Program.

Capital Assets decreased \$208,582.91 resulting from depreciation expense of \$367,681.10 offset by equipment purchases.

In the Net Assets section, the College had \$7,807,524.09 Invested in Capital Assets, Net of Related Debt at year end. The account decreased \$180,783.63 with the change in Capital Assets described above and payments on capital leases. The Restricted Net Assets also show a decrease in fund balance that reflects the amounts received from Golden Leaf Grant in support of the Early College High School program. This amount is offset by expenditures against prior year revenues. The Unrestricted Net Assets increased due to the increase in revenues from specific fees, auxiliary services, bookstore commissions and the decrease in the level of expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	June 30, 2010	June 30, 2009 Restated	Increase (Decrease)
Assets			
Current Assets	\$ 1,272,115.76	\$ 1,310,654.53	\$ (38,538.77)
Noncurrent Assets	75,614.21	74,525.76	1,088.45
Capital Assets	<u>7,858,250.85</u>	<u>8,066,833.76</u>	<u>(208,582.91)</u>
Total Assets	<u>9,205,980.82</u>	<u>9,452,014.05</u>	<u>(246,033.23)</u>
Liabilities			
Current Liabilities	474,053.55	503,382.10	(29,328.55)
Noncurrent Long-Term Liabilities	<u>273,342.57</u>	<u>290,674.81</u>	<u>(17,332.24)</u>
Total Liabilities	<u>747,396.12</u>	<u>794,056.91</u>	<u>(46,660.79)</u>
Net Assets			
Invested in Capital Assets	7,807,524.09	7,988,307.72	(180,783.63)
Restricted	832,288.14	1,011,750.70	(179,462.56)
Unrestricted	<u>(181,227.53)</u>	<u>(342,101.28)</u>	<u>160,873.75</u>
Total Net Assets	<u>\$ 8,458,584.70</u>	<u>\$ 8,657,957.14</u>	<u>\$ (199,372.44)</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, distinguishing between operating and nonoperating revenues and expenses.

Generally, operating revenues are received for providing goods and services to various constituents of the College, while operating expenses are paid to acquire or produce those services to carry out the mission of the College. The increase in Student Tuition and Fees was due to enrollment growth in curriculum and continuing education for the 2010 fiscal year. Curriculum full-time headcount increased from 566 students in 2008-2009 to 901 students in 2009-2010, where part-time student headcount decreased from 1,241 to 941 relative to the same fiscal year. Federal Grants and Contracts showed a significant decrease due to the Commercial Driver's License Training Grant (CDL) ending in 2008-2009.

The operating expense increase was associated with an increase in the number of eligible students receiving federal financial aid (PELL, SEOG, CWSP, etc.). This caused scholarships and fellowship expenditures to increase by \$523,589.94. The increase in Supplies and Materials was due to increases in educational supplies and educational equipment needed to meet the demands of the increased enrollment. The decrease in services was caused by changes in the instructional course load of our full time faculty and a decrease of \$110,282.27 in contracted instruction.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State Aid shows a noted decrease due to spending restrictions placed against State appropriations for 2009-2010 and the mandatory budget reversions imposed through management flexibility reductions. The change in noncapital grants reflects an increase in 2009-2010. This change is due to the increased level of federal financial aid funding (PELL, SEOG, CWSP, etc.) by eligible students receiving aid.

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

	June 30, 2010	June 30, 2009 (Restated)	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees	\$ 403,113.46	\$ 224,315.84	\$ 178,797.62
Federal, State and Local Grants and Contracts	397,024.06	488,456.79	(91,432.73)
Other Operating Revenues	59,424.16	111,799.64	(52,375.48)
Total Operating Revenues	<u>859,561.68</u>	<u>824,572.27</u>	<u>34,989.41</u>
Operating Expenses			
Personal Services	6,442,990.03	6,467,175.59	(24,185.56)
Supplies and Materials	636,347.45	496,165.18	140,182.27
Services	528,227.31	684,454.96	(156,227.65)
Scholarships and Fellowships	1,807,817.80	1,284,227.96	523,589.84
Utilities	264,091.31	226,315.89	37,775.42
Depreciation	367,681.10	350,345.69	17,335.41
Total Operating Expenses	<u>10,047,155.00</u>	<u>9,508,685.27</u>	<u>538,469.73</u>
Operating Loss	<u>(9,187,593.32)</u>	<u>(8,684,113.00)</u>	<u>(503,480.32)</u>
Nonoperating and Capital Revenues			
State Aid	4,970,747.89	5,316,668.44	(345,920.55)
County Appropriations	824,983.20	813,839.00	11,144.20
Noncapital Grants	2,823,740.30	2,156,283.89	667,456.41
Other Nonoperating Revenues	7,907.69	12,840.07	(4,932.38)
Capital Aid and Capital Grants	360,841.80	261,784.49	99,057.31
Total Nonoperating and Capital Revenues	<u>8,988,220.88</u>	<u>8,561,415.89</u>	<u>426,804.99</u>
Decrease in Net Assets	(199,372.44)	(122,697.11)	(76,675.33)
Net Assets			
Net Assets, Beginning of Year as Restated	<u>8,657,957.14</u>	<u>8,780,654.25</u>	<u>(122,697.11)</u>
Net Assets, End of Year	<u>\$ 8,458,584.70</u>	<u>\$ 8,657,957.14</u>	<u>\$ (199,372.44)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

The following chart depicts the College's capital assets for the last two years:

	Capital Assets June 30, 2010 and 2009 (in thousands)		
	2010	2009	Increase (Decrease)
Capital Assets, Nondepreciable			
Land	\$ 34,805.00	\$ 34,805.00	\$ 0.00
Capital Assets, Depreciable			
Buildings	\$ 11,738,814.53	\$ 11,738,814.53	\$ 0.00
Machinery and Equipment	883,633.09	724,524.90	159,108.19
General Infrastructure	242,311.00	242,311.00	
Total Capital Assets, Depreciable	12,864,758.62	12,705,650.43	159,108.19
Less: Accumulated Depreciation	5,041,312.77	4,673,631.67	367,681.10
Capital Assets, Depreciable, Net	7,823,445.85	8,032,018.76	(208,572.91)
Capital Assets, Net	\$ 7,858,250.85	\$ 8,066,823.76	\$ (208,572.91)

There is no construction in progress planned for the College and only a small increase in equipment.

Economic Outlook

The level of State support is one of the key factors influencing the College's financial condition and its ability to expand programs, undertake new initiatives, and meet its core mission and on-going operational needs. In addition, there is a direct relationship between the level of State support and tuition increases, as declines in State support have resulted in increased tuition and/or mandatory budget reversions. Enrollment projections for 2010-2011 indicate an increase in full-time students enrolled as well as the additional students attending the Hertford County Early College High School. The Fall 2010, headcount was 983, 506 full-time curriculum students and 477 part-time. In Fall 2009, headcount was 839, 346 full-time curriculum students and 493 part-time. This computes to approximately an 18% increase in Fall 2010 verses Fall 2009. The economic position of the College is closely tied to that of the State of North Carolina and Hertford County. The unemployment rate for Hertford County for 2009 was 9.3% verses 6.7% in 2008 which shows an increase of 2.6%. The specific impact of the local and national economy on the appropriations for the College is uncertain. The management is optimistic about the future of Roanoke-Chowan Community College. There are challenges expected in managing the growth of this College, but management is excited about the opportunity to provide quality education and training to the citizens of Hertford County, in a quality learning environment to the extent resources will allow.

Roanoke-Chowan Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 342,766.61
Restricted Cash and Cash Equivalents	523,080.54
Receivables, Net (Note 4)	65,331.68
Due from State of North Carolina Component Units	258,460.00
Inventories	70,174.79
Prepaid Items	12,232.32
Notes Receivable, Net (Note 4)	69.82
	<hr/>
Total Current Assets	1,272,115.76

Noncurrent Assets:

Restricted Cash and Cash Equivalents	75,614.21
Capital Assets - Nondepreciable (Note 5)	34,805.00
Capital Assets - Depreciable, Net (Note 5)	7,823,445.85
	<hr/>
Total Noncurrent Assets	7,933,865.06
	<hr/>
Total Assets	9,205,980.82

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	414,767.46
Unearned Revenue	1,337.60
Funds Held for Others	3,334.22
Long-Term Liabilities - Current Portion (Note 7)	54,614.27
	<hr/>
Total Current Liabilities	474,053.55

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	273,342.57
	<hr/>
Total Liabilities	747,396.12

NET ASSETS

Invested in Capital Assets, Net of Related Debt	7,807,524.09
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	73,801.89
Expendable:	
Scholarships and Fellowships	100,803.60
Loans	13,123.65
Restricted for Early College High School Program	362,236.01
Restricted for Short-Term Skills Training Program	146,169.15
Other	136,153.84
Unrestricted	(181,227.53)
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Total Net Assets	\$ 8,458,584.70

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 403,113.46
Federal Grants and Contracts	338,334.06
State and Local Grants and Contracts	58,690.00
Sales and Services, Net (Note 9)	43,979.41
Other Operating Revenues	15,444.75
	<hr/>
Total Operating Revenues	859,561.68
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	6,442,990.03
Supplies and Materials	636,347.45
Services	528,227.31
Scholarships and Fellowships	1,807,817.80
Utilities	264,091.31
Depreciation	367,681.10
	<hr/>
Total Operating Expenses	10,047,155.00
	<hr/>
Operating Loss	(9,187,593.32)
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NONOPERATING REVENUES (EXPENSES)

State Aid	4,970,747.89
County Appropriations	824,983.20
Noncapital Grants - Federal Student Financial Aid	2,372,811.21
Noncapital Grants	423,797.11
Noncapital Gifts	27,131.98
Investment Income	2,460.56
Interest and Fees on Debt	(4,477.36)
Other Nonoperating Revenues	9,924.49
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Net Nonoperating Revenues	8,627,379.08
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Income Before Other Revenues	(560,214.24)
	<hr/>
State Capital Aid	304,886.00
County Capital Aid	49,855.80
Capital Grants	6,100.00
	<hr/>
Decrease in Net Assets	(199,372.44)
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NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 16)	8,657,957.14
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Net Assets, June 30, 2010	\$ 8,458,584.70
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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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 899,228.49
Payments to Employees and Fringe Benefits	(6,476,138.53)
Payments to Vendors and Suppliers	(1,408,296.81)
Payments for Scholarships and Fellowships	(1,807,817.80)
Loans Issued to Students	(2,132.42)
Collection of Loans to Students	2,526.27
Other Payments	(18,005.11)
	<u>(8,810,635.91)</u>
Net Cash Used by Operating Activities	<u>(8,810,635.91)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	4,970,747.89
County Appropriations	824,983.20
Noncapital Grants - Federal Student Financial Aid	2,372,811.21
Noncapital Grants Received	771,477.11
Noncapital Gifts	27,131.98
	<u>8,967,151.39</u>
Cash Provided by Noncapital Financing Activities	<u>8,967,151.39</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	304,886.00
County Capital Aid	49,855.80
Capital Grants Received	6,100.00
Acquisition and Construction of Capital Assets	(159,098.19)
Principal Paid on Capital Leases	(27,799.28)
Interest Paid on Capital Leases	(4,477.36)
	<u>169,466.97</u>
Net Cash Provided by Capital and Related Financing Activities	<u>169,466.97</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>2,460.56</u>
Cash Provided by Investing Activities	<u>2,460.56</u>

Net Increase in Cash and Cash Equivalents	328,443.01
Cash and Cash Equivalents, July 1, 2009	<u>613,018.35</u>
Cash and Cash Equivalents, June 30, 2010	<u><u>\$ 941,461.36</u></u>

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ROANOKE-CHOWAN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit - The Roanoke-Chowan Community College Foundation, Inc. (Foundation) is governed by a five-member board. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Roanoke-Chowan Community College Board of Trustees and the Foundation's sole purpose is to benefit Roanoke-Chowan Community College, its financial statements have been blended with those of the College.

During the year ended June 30, 2010, the Foundation distributed \$3,048.17 to the College for both restricted and unrestricted purposes. Separate financial statements for the Foundation may be obtained from the Roanoke Chowan Community College, Controller's Office, 109 Community College Road, Ahoskie, North Carolina 27910, or by calling 252-862-1226.

- 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

F. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory 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 of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 20 years for general infrastructure, 10 to 51 years for buildings, and 2 to 45 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 capital lease obligations and compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

Invested in Capital Assets, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College's print shop and cafeteria. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$570.00, and deposits in private financial institutions with a carrying value of \$792,940.88 and a bank balance of \$811,966.50.

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, 2010, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$147,950.48 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2010, net appreciation of \$47,088.46 was available to be spent, of which \$47,088.46 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 235,488.96	\$ 194,364.05	\$ 41,124.91
Accounts	23,609.71		23,609.71
Intergovernmental	597.06		597.06
Total Current Receivables	\$ 259,695.73	\$ 194,364.05	\$ 65,331.68
Notes Receivable - Noncurrent:			
Institutional Student Loan Programs	\$ 4,019.77	\$ 3,949.95	\$ 69.82

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable				
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 34,805.00
Total Capital Assets, Nondepreciable	34,805.00			34,805.00
Capital Assets, Depreciable:				
Buildings	11,738,814.53			11,738,814.53
Machinery and Equipment	724,534.90	159,098.19		883,633.09
General Infrastructure	242,311.00			242,311.00
Total Capital Assets, Depreciable	12,705,660.43	159,098.19		12,864,758.62
Less Accumulated Depreciation				
Buildings	4,313,192.42	284,094.36		4,597,286.78
Machinery and Equipment	271,147.89	67,432.58		338,580.47
General Infrastructure	89,291.36	16,154.16		105,445.52
Total Accumulated Depreciation	4,673,631.67	367,681.10		5,041,312.77
Total Capital Assets, Depreciable, Net	8,032,028.76	(208,582.91)		7,823,445.85
Capital Assets, Net	\$ 8,066,833.76	\$ (208,582.91)	\$ 0.00	\$ 7,858,250.85

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 50,667.99
Accrued Payroll	363,502.41
Intergovernmental Payables	597.06
Total Accounts Payable and Accrued Liabilities	\$ 414,767.46

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Capital Leases Payable	\$ 78,526.04	\$ 0.00	\$ 27,799.28	\$ 50,726.76	\$ 29,746.73
Compensated Absences	279,496.85	216,525.18	218,791.95	277,230.08	24,867.54
Total Long-Term Liabilities	\$ 358,022.89	\$ 216,525.18	\$ 246,591.23	\$ 327,956.84	\$ 54,614.27

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to instructional welding booth equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 32,276.64
2012	21,517.76
Total Minimum Lease Payments	53,794.40
Amount Representing Interest (6.79% Rate of Interest)	3,067.64
Present Value of Future Lease Payments	\$ 50,726.76

Machinery and equipment acquired under capital lease amounted to \$82,138.96 at June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 56,115.24
2012	46,128.59
Total Minimum Lease Payments	\$ 102,243.83

Rental expense for all operating leases during the year was \$65,304.54.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 980,483.05	\$ 0.00	\$ 577,369.59	\$ 403,113.46
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Print Shop	\$ 28,661.17	\$ 28,125.97	\$ 0.00	\$ 535.20
Cafeteria	32,897.55	280.78		32,616.77
Other	10,827.44			10,827.44
Total Sales and Services	\$ 72,386.16	\$ 28,406.75	\$ 0.00	\$ 43,979.41

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,529,185.69	\$ 335,071.53	\$ 104,777.29	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,969,034.51
Academic Support	427,237.31	44,584.31	3,778.25				475,599.87
Student Services	230,080.45	23,326.21	19,369.82				272,776.48
Institutional Support	1,426,635.45	117,919.73	313,891.57	1,825.00			1,860,271.75
Operations and Maintenance of Plant	386,656.27	90,280.52	51,431.70		264,091.31		792,459.80
Student Financial Aid	437,938.20	23,552.37	33,668.64	1,803,007.43			2,298,166.64
Auxiliary Enterprises	5,256.66	1,612.78	1,310.04	2,985.37			11,164.85
Depreciation						367,681.10	367,681.10
Total Operating Expenses	\$ 6,442,990.03	\$ 636,347.45	\$ 528,227.31	\$ 1,807,817.80	\$ 264,091.31	\$ 367,681.10	\$ 10,047,155.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$5,241,101.06, of which \$4,404,242.89 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$157,231.48 and \$264,254.61, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$157,231.48, \$150,725.04, and \$137,256.84, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$6,300.00 for the year ended June 30, 2010.

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 \$17,226.00 for the year ended June 30, 2010.

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 \$1,080.00 for the year ended June 30, 2010.

NOTE 12 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, 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 of the 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$198,190.93, \$183,920.43, and \$184,509.20, 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 <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$22,902.05, \$23,326.51, and \$23,401.16, 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 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected from losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 14 - COMMITMENTS AND CONTINGENCIES

Pending Litigation and Claims - Three separate discrimination suits related to age, race and disability have been filed against the College in relation to a reduction in force implemented in September 2007. A fourth case involving on the job discriminatory treatment has been filed by a former employee. Since no judgment has been rendered in these cases, the amount of the liability cannot be reasonably estimated at this time. The College has insurance to cover these claims with a deductible of \$25,000 per instance. Management has indicated its intent to continue its vigorous defense of these 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

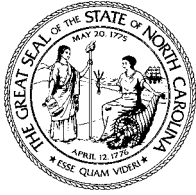
GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 8,484,145.55
Restatement:	
To Correct Foundation Presentation by Blending	172,896.92
To Correct Net Assets Recorded in Agency Funds in Error	<u>914.67</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 8,657,957.14</u></u>



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

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

We have audited the financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

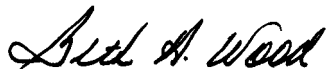
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

January 7, 2011

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