

STATE OF NORTH CAROLINA

ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

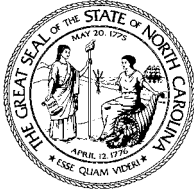
BOARD OF TRUSTEES

MS. WENDY RUFFIN-BARNES, CHAIR

ADMINISTRATIVE OFFICERS

DR. HAROLD MITCHELL, INTERIM PRESIDENT

MS. KELLY VANN, DEAN OF FINANCE AND FACILITIES



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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*.

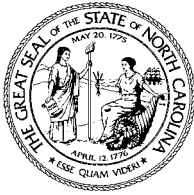
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC 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 AUDITING STANDARDS</i>	25
ORDERING INFORMATION	27



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2012, 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, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013 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)

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

April 24, 2013

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, 2012. 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 and financing 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 the Foundation financial statements are audited annually. The Foundation had total net assets of \$188,259.89 at June 30, 2012.

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, 2012. 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, 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 depreciable assets include buildings, general infrastructure, and machinery and equipment.

The next net 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

external restrictions on how they may be used. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the institution.

As seen in the comparison of current fiscal year and prior fiscal year information, there was a decrease in the current assets classification. This was caused by a decrease in accounts receivable from the Golden LEAF Grant, which supports the Early College High School Program. This grant was set up as a three-year grant and ended in fiscal 2012.

Capital Assets decreased \$240,803.68 resulting from depreciation expense of \$373,683.84 offset by equipment purchases and disposal of assets.

Current liabilities increased due to the amount of accrued payroll. Faculty contracts actually cover nine months (from mid-August through mid-May) with the first payment made in September. Faculty members typically elect to have their pay distributed over twelve months (September-August). However, in fiscal 2010-2011, faculty member contracts were paid over 13 months in order to prepare for the expected decrease in the fiscal 2011-2012 budget. As a result, the College accrued more in fiscal 2011-2012.

In the Net Assets section, the College had \$7,398,929.76 Invested in Capital Assets at year-end. The account decreased \$219,823.65 with the change in Capital Assets described above and payments on the capital lease. The Restricted Net Assets also show a decrease in fund balance that reflects the amounts received from the Golden LEAF Grant in support of the Early College High School Program, the Rivers Construction Technology Grant, and the LSTA Grant. These grants were not awarded to the College this fiscal year.

Condensed Statement of Net Assets

	June 30, 2012	June 30, 2011	Increase (Decrease)
Assets			
Current Assets	\$ 693,865.33	\$ 871,338.45	\$ (177,473.12)
Noncurrent Assets	6,691.22	8,201.99	(1,510.77)
Capital Assets	<u>7,398,929.76</u>	<u>7,639,733.44</u>	<u>(240,803.68)</u>
Total Assets	<u>8,099,486.31</u>	<u>8,519,273.88</u>	<u>(419,787.57)</u>
Liabilities			
Current Liabilities	500,650.26	334,334.39	166,315.87
Noncurrent Long-Term Liabilities	<u>178,498.44</u>	<u>160,904.83</u>	<u>17,593.61</u>
Total Liabilities	<u>679,148.70</u>	<u>495,239.22</u>	<u>183,909.48</u>
Net Assets			
Invested in Capital Assets	7,398,929.76	7,618,753.41	(219,823.65)
Restricted	337,326.55	452,582.59	(115,256.04)
Unrestricted	<u>(315,918.70)</u>	<u>(47,301.34)</u>	<u>(268,617.36)</u>
Total Net Assets	<u>\$ 7,420,337.61</u>	<u>\$ 8,024,034.66</u>	<u>\$ (603,697.05)</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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Due to the decrease in State Aid, operating expenses decreased this fiscal year as compared to last fiscal year. The College had to spend conservatively therefore, supplies and materials purchased during the year saw an overall decrease of \$200,279.29.

Nonoperating revenues are revenues received for which goods and services are not provided. State Aid is considered nonoperating because it is provided by the Legislature without the Legislature directly receiving goods and services for those revenues. State Aid shows a noted decrease due to increase in the mandatory budget reversions imposed through management flexibility reductions; and the loss of several federal pass-through grants, such as Tech Prep, and Health Sciences. The change in non-capital grants reflects an increase in this fiscal year. 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, 2012	Restated June 30, 2011	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees	\$ 409,662.49	\$ 353,024.51	\$ 56,637.98
Other Operating Revenues	33,672.88	67,403.03	(33,730.15)
Total Operating Revenues	<u>443,335.37</u>	<u>420,427.54</u>	<u>22,907.83</u>
Operating Expenses			
Salaries and Benefits	6,652,150.70	6,663,175.89	(11,025.19)
Supplies and Materials	616,338.86	816,618.15	(200,279.29)
Services	792,620.19	720,953.73	71,666.46
Scholarships and Fellowships	1,861,585.57	1,803,941.15	57,644.42
Utilities	257,093.68	268,824.74	(11,731.06)
Depreciation	373,683.84	369,425.56	4,258.28
Total Operating Expenses	<u>10,553,472.84</u>	<u>10,642,939.22</u>	<u>(89,466.38)</u>
Operating Loss	<u>(10,110,137.47)</u>	<u>(9,848,231.86)</u>	<u>112,374.21</u>
Nonoperating Revenues			
State Aid	5,092,851.87	5,503,267.45	(410,415.58)
County Appropriations	855,839.00	823,083.48	32,755.52
Noncapital Grants	3,185,543.90	2,968,841.06	216,702.84
Other Nonoperating Revenues	7,336.75	56,811.31	(49,474.56)
Total Nonoperating Revenues	<u>9,141,571.52</u>	<u>9,352,003.30</u>	<u>(210,431.78)</u>
Loss Before Other Revenues	<u>(968,565.95)</u>	<u>(496,228.56)</u>	<u>(472,337.39)</u>
Capital Aid and Grants	<u>364,868.90</u>	<u>435,958.34</u>	<u>(71,089.44)</u>
Decrease-in Net Assets	<u>(603,697.05)</u>	<u>(60,270.22)</u>	<u>(543,426.83)</u>
Net Assets			
Net Assets, Beginning of Year	<u>8,024,034.66</u>	<u>8,458,584.70</u>	<u>(434,550.04)</u>
Net Assets, End of Year	<u>\$ 7,420,337.61</u>	<u>\$ 8,398,314.48</u>	<u>\$ (977,976.87)</u>

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College has experienced a reduction in enrollment but continues to be proactive in recruiting to increase enrollment growth and community support. Enrollment projections for 2012-2013 indicate a slight increase, based on the marketing efforts, community outreach, and the implementation of the “boot-camp” programs. 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, 2012

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 171,939.71
Restricted Cash and Cash Equivalents	357,614.07
Receivables, Net (Note 3)	55,510.77
Inventories	84,744.24
Prepaid Items	22,897.37
Notes Receivable, Net (Note 3)	<u>1,159.17</u>

Total Current Assets	<u>693,865.33</u>
----------------------	-------------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	6,691.22
Capital Assets - Nondepreciable (Note 4)	34,805.00
Capital Assets - Depreciable, Net (Note 4)	<u>7,364,124.76</u>

Total Noncurrent Assets	<u>7,405,620.98</u>
-------------------------	---------------------

Total Assets	<u>8,099,486.31</u>
--------------	---------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	449,103.71
Funds Held for Others	10,029.65
Long-Term Liabilities - Current Portion (Note 6)	<u>41,516.90</u>

Total Current Liabilities	500,650.26
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>178,498.44</u>
--------------------------------	-------------------

Total Liabilities	<u>679,148.70</u>
-------------------	-------------------

NET ASSETS

Invested in Capital Assets	7,398,929.76
----------------------------	--------------

Restricted for:

Expendable:

Scholarships and Fellowships	237,332.01
Loans	14,891.21
Instructional Technology Programs	78,511.05
Other	6,592.28

Unrestricted	<u>(315,918.70)</u>
--------------	---------------------

Total Net Assets	<u>\$ 7,420,337.61</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, 2012***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 409,662.49
Sales and Services, Net (Note 8)	25,164.73
Other Operating Revenues	8,508.15
	<hr/>
Total Operating Revenues	443,335.37
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	6,652,150.70
Supplies and Materials	616,338.86
Services	792,620.19
Scholarships and Fellowships	1,861,585.57
Utilities	257,093.68
Depreciation	373,683.84
	<hr/>
Total Operating Expenses	10,553,472.84
	<hr/>
Operating Loss	(10,110,137.47)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	5,092,851.87
County Appropriations	855,839.00
Noncapital Grants - Student Financial Aid	2,778,015.49
Other Noncapital Grants	407,528.41
Noncapital Gifts	23,895.67
Investment Income	1,059.48
Interest and Fees on Debt	(537.73)
Other Nonoperating Expenses	(17,080.67)
	<hr/>
Net Nonoperating Revenues	9,141,571.52
	<hr/>
Loss Before Other Revenues	(968,565.95)
	<hr/>
State Capital Aid	356,707.92
Capital Grants	8,160.98
	<hr/>
Decrease in Net Assets	(603,697.05)
	<hr/>

NET ASSETS

Net Assets, July 1, 2011	8,024,034.66
	<hr/>
Net Assets, June 30, 2012	\$ 7,420,337.61
	<hr/> <hr/>

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 435,555.07
Payments to Employees and Fringe Benefits	(6,481,155.81)
Payments to Vendors and Suppliers	(1,627,291.70)
Payments for Scholarships and Fellowships	(1,861,585.57)
Loans Issued to Students	(2,918.68)
Collection of Loans to Students	1,852.44
Other Payments	(5,537.45)
	<hr/>
Net Cash Used by Operating Activities	(9,541,081.70)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,092,851.87
County Appropriations	855,839.00
Noncapital Grants - Student Financial Aid	2,778,015.49
Noncapital Grants Received	506,988.41
Noncapital Gifts Received	23,895.67
	<hr/>
Cash Provided by Noncapital Financing Activities	9,257,590.44
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	356,707.92
Capital Grants Received	8,160.98
Acquisition of Capital Assets	(148,575.22)
Principal Paid on Capital Leases	(20,980.03)
Interest Paid on Capital Leases	(537.73)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	194,775.92
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,059.48
	<hr/>
Cash Provided by Investing Activities	1,059.48
	<hr/>

Net Decrease in Cash and Cash Equivalents	(87,655.86)
Cash and Cash Equivalents, July 1, 2011	623,900.86
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 536,245.00
	<hr/> <hr/>

Roanoke-Chowan Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (10,110,137.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	373,683.84
Provision for Uncollectible Loans	406.35
Miscellaneous Nonoperating Income	(1,385.61)
Changes in Assets and Liabilities:	
Receivables, Net	(12,467.45)
Inventories	(828.01)
Prepaid Items	5,823.38
Notes Receivable, Net	(1,066.24)
Accounts Payable and Accrued Liabilities	208,066.38
Funds Held for Others	535.31
Compensated Absences	(3,712.18)
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (9,541,081.70)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 171,939.71
Restricted Cash and Cash Equivalents	357,614.07
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	6,691.22
	<hr/>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 536,245.00</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$ 15,695.06
------------------------------------	--------------

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, 2012

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 - Although legally separate, The Roanoke-Chowan Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The 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, 2012, the Foundation distributed \$3,248.51 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, NC 27910, or by calling 252-862-1316.

- 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 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 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, include 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 are recorded net of estimated uncollectible amounts.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 15 years for general infrastructure, 25 to 51 years for buildings, and 5 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 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.
- 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 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 - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 and (2) sales and services of auxiliary enterprises. 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. This

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

institutional auxiliary operation includes activities such as the College's print shop. 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 \$385,163.96 and a bank balance of \$444,039.24.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6(d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$150,511.04 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 1.5 years as of June 30, 2012. 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 274,310.94	\$ 245,865.08	\$ 28,445.86
Student Sponsors	13,474.46	673.72	12,800.74
Accounts	14,264.17		14,264.17
Total Current Receivables	\$ 302,049.57	\$ 246,538.80	\$ 55,510.77
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 3,642.66	\$ 2,483.49	\$ 1,159.17

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
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	11,694,720.15			11,694,720.15
Machinery and Equipment	1,078,635.62	148,575.22	61,699.08	1,165,511.76
General Infrastructure	242,311.00			242,311.00
Total Capital Assets, Depreciable	13,015,666.77	148,575.22	61,699.08	13,102,542.91
Less Accumulated Depreciation for:				
Buildings	4,860,069.04	279,684.96		5,139,754.00
Machinery and Equipment	429,069.61	77,844.72	46,004.02	460,910.31
General Infrastructure	121,599.68	16,154.16		137,753.84
Total Accumulated Depreciation	5,410,738.33	373,683.84	46,004.02	5,738,418.15
Total Capital Assets, Depreciable, Net	7,604,928.44	(225,108.62)	15,695.06	7,364,124.76
Capital Assets, Net	\$ 7,639,733.44	\$ (225,108.62)	\$ 15,695.06	\$ 7,398,929.76

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 62,696.95
Accrued Payroll	386,406.76
Total Accounts Payable and Accrued Liabilities	\$ 449,103.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Compensated Absences	\$ 223,727.52	\$ 251,916.95	\$ 255,629.13	\$ 220,015.34	\$ 41,516.90

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for copiers consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 81,558.12
2014	81,558.12
2015	81,558.12
2016	80,584.42
2017	41,053.71
Total Minimum Lease Payments	\$ 366,312.49

Rental expense for all operating leases during the year was \$61,697.96.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 1,365,294.02</u>	<u>\$ 0.00</u>	<u>\$ 915,218.35</u>	<u>\$ 40,413.18</u>	<u>\$ 409,662.49</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Print Shop	\$ 7,961.01	\$ 4,825.79	\$ 0.00	\$ 0.00	\$ 3,135.22
Cafeteria/Vending	6,672.58				6,672.58
Other	15,356.93				15,356.93
Total Sales and Services	<u>\$ 29,990.52</u>	<u>\$ 4,825.79</u>	<u>\$ 0.00</u>	<u>0.00</u>	<u>\$ 25,164.73</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:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,412,822.79	\$ 293,726.76	\$ 124,589.81	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,831,139.36
Academic Support	546,675.89	51,527.14	8,136.34				606,339.37
Student Services	261,206.02	33,130.71	24,214.02	2,162.50			320,713.25
Institutional Support	1,546,620.40	169,415.17	499,208.28	1,564.88			2,216,808.73
Operations and Maintenance of Plant	404,853.44	55,101.64	86,538.79		257,093.68		803,587.55
Student Financial Aid	479,681.50	12,821.12	40,206.86	1,857,193.19			2,389,902.67
Auxiliary Enterprises	290.66	616.32	9,726.09	665.00			11,298.07
Depreciation						373,683.84	373,683.84
Total Operating Expenses	\$ 6,652,150.70	\$ 616,338.86	\$ 792,620.19	\$ 1,861,585.57	\$ 257,093.68	\$ 373,683.84	\$ 10,553,472.84

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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$5,335,361.57, of which \$4,131,162.94 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$307,358.52 and \$247,869.78, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$307,358.52, \$221,757.05, and \$157,231.48, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code 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 \$3,875.00 for the year ended June 30, 2012.

Internal Revenue Code 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 \$15,523.00 for the year ended June 30, 2012.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$206,558.15, \$220,411.19, and \$198,190.93, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- 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, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$21,482.05, \$23,390.56, and \$22,902.05, 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, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

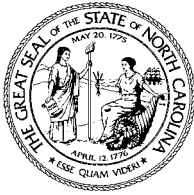
College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with 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

[This page left blank intentionally]



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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, 2012, and have issued our report thereon dated April 24, 2013.

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

The College's management is responsible for establishing and maintaining effective 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.

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.

**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)**

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

April 24, 2013

ORDERING INFORMATION

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

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647