



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

CYNTHIA S. WHARTON, CHAIRMAN

S. JACK WEBSTER, VICE CHAIRMAN

**W. B. APPLE, JR.
JESSE L. BURCHELL
FRANK M. DALTON
SARAH DAY
RUTH HODGES**

**BARBARA S. MOORE
GARLAND RAKESTRAW
GRAYSON WHITT
VERNIE WILLIAMS
KENAN WRIGHT**

ADMINISTRATIVE OFFICERS

DR. ROBERT C. KEYS, PRESIDENT

STEVEN W. WOODRUFF, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES



Ralph Campbell, Jr.
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.osa.state.nc.us>

REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Rockingham Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Rockingham Community College. The review procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Rockingham Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT ACCOUNTANT’S REVIEW REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	6
B Statement of Revenues, Expenses, and Changes in Net Assets	7
C Statement of Cash Flows	8
Notes to the Financial Statements	11
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	24
DISTRIBUTION OF REVIEW REPORT	26



STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
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.osa.state.nc.us>

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Rockingham Community College
Wentworth, North Carolina

We have reviewed the accompanying Statement of Net Assets of Rockingham Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services*, issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

April 1, 2004

[This Page Left Blank Intentionally]

MANAGEMENT'S DISCUSSION AND ANALYSIS

An important part of Rockingham Community College's financial statements is the Management's Discussion and Analysis of the College's financial activities for the fiscal year ended June 30, 2003. Readers should consider this information in conjunction with the College's financial statements and related notes.

Overview of the Financial Statements

Rockingham Community College, along with all other colleges in the North Carolina Community College System, prepared its financial statements in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, beginning with the June 30, 2002 fiscal year end. The financial statements include the Statement of Net Assets (Exhibit A), the Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit B), and the Statement of Cash Flows (Exhibit C).

The Statement of Net Assets reflects current and noncurrent assets and liabilities as well as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets reflects the operating revenues and expenses of the College as well as nonoperating revenues and expenses. The result is an increase or decrease in net assets during the fiscal year.

The Statement of Cash Flows is prepared using the direct method and reflects the change in cash and cash equivalents during the fiscal year. The Notes to the Financial Statements are an integral part of Exhibits A, B, and C.

Comparative Data

Statement of Net Assets

Total current assets as of June 30, 2003 decreased by 5.27% when compared to June 30, 2002. This is largely due to an increase in collection of outstanding receivables. Total noncurrent assets decreased 5.49% when compared to the prior year. The decrease is primarily due to a decrease in depreciable net capital assets.

Total current liabilities at June 30, 2003 increased 22.76% over the amount reflected on June 30, 2002. An increase in accounts payable of 19.05% and an increase in deferred revenue of 52.15% account for this increase. Total noncurrent liabilities increased by 7.55% due to an increase in outstanding construction contracts.

Total net assets decreased from \$13,018,401.06 at June 30, 2002 to \$12,184,364.51 at June 30, 2003, a decrease of 6.41%. This is due to the changes in assets and liabilities described above. The College's management does not consider the overall decrease to have a significant impact on the College's financial situation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues increased by 13.43% in 2003 when compared to the year ended 2002. Collection of student tuition and fees increased 31.67% due to an increase in enrollment, new technology and parking fees, and a 10% tuition increase mandated by the North Carolina State Board of Community Colleges. Federal grants and contracts revenue increased by 19.84% due to an increase in Pell Grants awarded in the past year.

Operating expenses increased by 1.69% due to a large increase in expenditures in supplies and materials. The large increase in expenditures in that category are the result of additional expenditures for items such as chairs, computers, printers, desks and other items that were charged to supplies since their individual costs were less than \$1,000.00 each.

Nonoperating revenues experienced less than a 1% change; however, changes in other revenues were more significant. State capital aid decreased 22.31% due to the end of House Bill 275 equipment allocations while capital grants increased by 262.90% because of increased bond fund expenditures and the completion of a new building. County capital grants decreased by 45.76% due to a decrease in appropriation.

Statement of Cash Flows

Cash flows from operating activities decreased by 2.80% in 2003. Cash received from customers increased by 15.08% while payments to vendors and suppliers increased 10.22%, again due to increase in payments for supplies and materials.

Cash flows from noncapital financing activities decreased by only 0.38%. Cash flows from capital and related financing activities decreased by 57.35%. This was the result of an increase in capital asset acquisitions.

Cash flows from investing activities, consisting of only investment income, decreased by 18.23% due to lower interest rates received on the College's invested funds.

Cash and cash equivalents increased from \$2,287,460.04 at June 30, 2002 to \$2,951,363.07 at June 30, 2003, a difference of 29.02%. The College does not consider that change to have had a significant impact on College operations.

Analysis of Financial Position

Based on the comparative data presented above, the College's management concluded that the College's financial position is essentially unchanged over the past fiscal year.

However, the College is aware that the State of North Carolina is experiencing a period of slower growth than in the past. In 2002-2003, the College was asked to revert \$169,324.00 of its annual budget to the North Carolina Community College System office. This represented 2.18% of the annual State operating budget. Additional appropriation was withheld from the College through cash flow restrictions implemented by the State in May and June 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Asset Activity

Capital Assets totaled \$19,550,090.20 at June 30, 2003 and had accumulated depreciation of \$9,492,390.71 for a net of \$10,057,699.49. The prior year net capital asset total was \$10,728,280.32; thus a decrease of \$670,580.83 or 6.2% occurred. Restatement of construction in progress of \$815,114.76 is largely attributable for this decrease.

Economic Factors and Next Year's Budget

The College's FTE enrollment increased 9.2% in the Fall 2003 as compared to Fall 2002. FTE enrollment increased nearly 18% in the Spring 2004 as compared to Spring 2003. This should lead to additional enrollment growth dollars for the College in the 2004-2005 budget if approved by the North Carolina General Assembly.

One of the biggest challenges for next year will be equipment funding. The community colleges no longer receive House Bill 275 supplemental funding for equipment and now have to rely on the regular State allotment. The College will have to find resources to equip the new Lifelong Learning Center, which may be completed by Spring, 2005.

Additional challenges include the continued implementation of the new administrative computing system and the impact of local and State economic conditions.

Rockingham Community College**Statement of Net Assets****June 30, 2003****Exhibit A****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	1,435,362.78
Restricted Cash and Cash Equivalents		762,669.73
Receivables, Net (Note 3)		166,787.78
Inventories		155,938.72
Notes Receivable, Net (Note 3)		9,075.45
Total Current Assets		2,529,834.46

Noncurrent Assets:

Restricted Due from Primary Government		261,587.21
Notes Receivable, Net (Note 3)		4,932.37
Capital Assets - Nondepreciable (Note 4)		1,138,526.39
Capital Assets - Depreciable, Net (Note 4)		8,919,173.10
Total Noncurrent Assets		10,324,219.07
Total Assets		12,854,053.53

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		194,629.63
Deferred Revenue		195,095.80
Funds Held for Others		9,838.42
Long-Term Liabilities - Current Portion (Note 6)		5,613.37
Total Current Liabilities		405,177.22

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)		264,511.80
Total Noncurrent Liabilities		264,511.80
Total Liabilities		669,689.02

NET ASSETS

Invested in Capital Assets, Net of Related Debt		10,057,699.49
Restricted for:		
Nonexpendable:		
Other		94,213.80
Expendable:		
Scholarships and Fellowships		4,967.50
Loans		27,855.62
Capital Projects		457,459.49
Other		110,516.26
Unrestricted		1,431,652.35
Total Net Assets	\$	12,184,364.51

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

Rockingham Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,635,894.79
Federal Grants and Contracts		1,662,551.69
Sales and Services, Net (Note 8)		944,080.13
Other Operating Revenues		101,332.39
Total Operating Revenues		4,343,859.00
EXPENSES		
Operating Expenses:		
Personal Services		9,347,792.79
Supplies and Materials		1,969,268.48
Services		1,310,467.69
Scholarships and Fellowships		1,194,833.35
Utilities		372,270.52
Depreciation		663,639.14
Total Operating Expenses		14,858,271.97
Operating Loss		(10,514,412.97)
NONOPERATING REVENUES		
State Aid		6,977,719.55
County Appropriations		1,757,523.00
Noncapital Grants		774,614.54
Noncapital Gifts, Net (Note 8)		58,275.39
Investment Income, Net		85,649.99
Other Nonoperating Revenues		4,550.88
Net Nonoperating Revenues		9,658,333.35
Loss Before Other Revenues, Expenses, Gains, and Losses		(856,079.62)
State Capital Aid		464,380.58
County Capital Appropriations		160,000.00
Capital Grants		459,774.00
Increase in Net Assets		228,074.96
NET ASSETS		
Net Assets, July 1, 2002 as Restated (Note 15)		11,956,289.55
Net Assets, June 30, 2003	\$	12,184,364.51
The accompanying notes to the financial statements are an integral part of this statement.		

Rockingham Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	4,349,120.67
Payments to Employees and Fringe Benefits		(9,370,523.98)
Payments to Vendors and Suppliers		(3,582,415.10)
Payments for Scholarships and Fellowships		(1,189,652.72)
Loans Issued to Students		(18,031.88)
Collection of Loans to Students		25,294.40
Other Payments		(2,598.27)
Net Cash Used by Operating Activities		<u>(9,788,806.88)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,977,719.55
County Appropriations		1,757,523.00
Noncapital Grants Received		613,984.14
Noncapital Gifts and Endowments Received		58,275.39
Net Cash Provided by Noncapital Financing Activities		<u>9,407,502.08</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		392,313.92
County Capital Appropriations		160,000.00
Capital Grants Received		459,774.00
Acquisition and Construction of Capital Assets		(808,173.07)
Net Cash Provided by Capital and Related Financing Activities		<u>203,914.85</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		87,962.42
Net Cash Provided by Investing Activities		<u>87,962.42</u>
Net Decrease in Cash and Cash Equivalents		(89,427.53)
Cash and Cash Equivalents, July 1, 2002		2,287,460.04
Cash and Cash Equivalents, June 30, 2003	\$	<u>2,198,032.51</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(10,514,412.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		663,639.14
Provision for Uncollectible Loans and Write-Offs		(4,008.83)
Miscellaneous Nonoperating Income		4,550.88
Changes in Assets and Liabilities:		
Receivables, Net		10,614.21
Inventories		16,709.86
Notes Receivable, Net		7,262.52
Accounts Payable and Accrued Liabilities		31,141.12
Funds Held for Others		(7,321.06)
Compensated Absences		3,018.25
Net Cash Used by Operating Activities	\$	<u>(9,788,806.88)</u>

Rockingham Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	1,435,362.78
Restricted Cash and Cash Equivalents		762,669.73
Total Cash and Cash Equivalents - June 30, 2003	\$	2,198,032.51
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	\$	72,066.66
The accompanying notes to the financial statements are an integral part of this statement.		

[This Page Left Blank Intentionally]

ROCKINGHAM COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Rockingham Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges 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, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies are stated at the lower of cost or market value using the first-in, first-out method. Merchandise for resale is valued 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 in excess of \$5,000.00 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.
- H. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

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

Invested in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Assets – 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- M. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicles purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certificates of deposit. At year-end, cash on hand was \$7,200.00. The carrying amount of cash on deposit was \$2,190,832.52 and the bank balance was \$2,736,364.64.

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.

Cash on deposit at year-end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 1,792,151.39	\$ 1,935,151.39
Cash on Deposit with Private Financial Institutions	<u>398,681.13</u>	<u>801,213.25</u>
	<u>\$ 2,190,832.52</u>	<u>\$ 2,736,364.64</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Cash and Investment Pool 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.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, \$233,993.91 of the bank balance was covered by federal depository insurance and \$567,219.34 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 86,295.86	\$ 0.00	\$ 86,295.86
Accounts	60,309.03	7,430.61	52,878.42
Intergovernmental	21,634.41		21,634.41
Investment Earnings	5,979.09		5,979.09
	<u>\$ 174,218.39</u>	<u>\$ 7,430.61</u>	<u>\$ 166,787.78</u>
Notes Receivables:			
Notes Receivable - Current			
Institutional Student Loan Programs	<u>\$ 21,694.05</u>	<u>\$ 12,618.60</u>	<u>\$ 9,075.45</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 8,164.91	\$ 4,042.45	\$ 4,122.46
Institutional Student Loan Programs	<u>809.91</u>		<u>809.91</u>
	<u>\$ 8,974.82</u>	<u>\$ 4,042.45</u>	<u>\$ 4,932.37</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2002	Increases	Balance June 30, 2003
Capital Assets, Non-Depreciable:			
Land	\$ 233,859.50	\$ 0.00	\$ 233,859.50
Construction in Progress	221,804.26	682,862.63	904,666.89
Total Capital Assets, Nondepreciable	455,663.76	682,862.63	1,138,526.39
Capital Assets, Depreciable:			
Buildings	15,791,890.00		15,791,890.00
Machinery and Equipment	1,869,352.37	125,310.44	1,994,662.81
General Infrastructure	625,011.00		625,011.00
Total Capital Assets, Depreciable	18,286,253.37	125,310.44	18,411,563.81
Less Accumulated Depreciation:			
Buildings	7,312,546.45	446,906.40	7,759,452.85
Machinery and Equipment	1,296,198.32	178,267.46	1,474,465.78
General Infrastructure	220,006.80	38,465.28	258,472.08
Total Accumulated Depreciation	8,828,751.57	663,639.14	9,492,390.71
Total Capital Assets, Depreciable, Net	9,457,501.80	(538,328.70)	8,919,173.10
Capital Assets, Net	\$ 9,913,165.56	\$ 144,533.93	\$ 10,057,699.49

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 114,249.31
Accrued Payroll	79,791.58
Intergovernmental Payables	588.74
Total Accounts Payable and Accrued Liabilities	\$ 194,629.63

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 267,106.92	\$ 242,528.54	\$ 239,510.29	\$ 270,125.17	\$ 5,613.37

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 6,372.36
2005	<u>4,779.27</u>
Total Minimum Lease Payments	<u><u>\$ 11,151.63</u></u>

Rental expense for all operating leases during the year was \$14,162.81.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 2,080,206.23</u>	<u>\$ 444,311.44</u>	<u>\$ 1,635,894.79</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 811,401.89	\$ 239,244.62	\$ 572,157.27
Sales and Services of Educational and Related Activities	<u>371,922.86</u>		<u>371,922.86</u>
Total Sales and Services	<u>\$ 1,183,324.75</u>	<u>\$ 239,244.62</u>	<u>\$ 944,080.13</u>
Nonoperating - Noncapital Gifts	<u>\$ 58,275.39</u>	<u>\$ 0.00</u>	<u>\$ 58,275.39</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	\$ 5,529,733.42	\$ 770,701.82	\$ 310,535.38	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,610,970.62
Public Service	53,759.18	2,025.36	92,473.20				148,257.74
Academic Support	602,915.22	87,843.25	54,326.92				745,085.39
Student Services	670,028.80	14,754.22	11,318.16				696,101.18
Institutional Support	1,860,719.86	320,867.40	476,235.61				2,657,822.87
Operations and Maintenance of Plant	541,781.93	106,479.97	233,718.66		372,270.52		1,254,251.08
Student Financial Aid				1,194,833.35			1,194,833.35
Auxiliary Enterprises	88,854.38	666,596.46	131,859.76				887,310.60
Depreciation						663,639.14	663,639.14
Total Operating Expenses	\$ 9,347,792.79	\$ 1,969,268.48	\$ 1,310,467.69	\$ 1,194,833.35	\$ 372,270.52	\$ 663,639.14	\$ 14,858,271.97

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$8,042,332.91, of which \$6,603,746.11 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$396,225.31 and \$0.00, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$132,577.93, and \$341,249.96, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Supplemental Retirement Income Plans - 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 \$65,002.00 for the year ended June 30, 2003.

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 \$86,889.52 for the year ended June 30, 2003.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$155,118.05. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$34,324.23. 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.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

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. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds through a policy with a private insurance company.

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

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$82,462.00 and on other purchases were \$167,639.66 at June 30, 2003.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$4,023,394.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - ROCKINGHAM COMMUNITY COLLEGE FOUNDATION, INC.

The Rockingham Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$332,090.03 for the year ended June 30, 2003.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

July 1, 2002 Net Assets as previously reported	\$ 13,018,401.06
Reserve for Receivables	(246,996.75)
Construction in Progress	<u>(815,114.76)</u>
July 1, 2002 Net Assets as Restated	<u>\$ 11,956,289.55</u>

Rockingham Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Lifelong Learning Center - 1079	Mar 2001	\$ 2,400,291.00	\$ 10,000.00	\$ 2,410,291.00	\$ 88,687.50	3.68%	Jan 2005
Classroom/Storage Building at ESTC - 1080	Mar 2001	239,000.00	10,000.00	249,000.00	248,053.01	99.62%	Oct 2003
Spring 2001 Renovations - 1156	Nov 2000	165,000.00		165,000.00	35,815.60	21.71%	May 2004
Summer 2001 Renovations - 1191	Mar 2001	112,500.00	50,000.00	162,500.00	145,640.59	89.62%	Sep 2003
Fall 2001 Renovations - 1217	Aug 2001	86,700.00		86,700.00	24,470.90	28.22%	Oct 2003
Spring 2002 Renovations - 1218	Jan 2002	70,000.00	379,000.00	449,000.00	361,999.29	80.62%	Sep 2003
Fall 2002 Renovations - 1306	Jun 2003	118,000.00		118,000.00			Mar 2004
<i>Projects Pending Approval by the State Board</i>							
Summer 2002 Renovations	May 2002	125,000.00		125,000.00			
Spring 2003 Renovations	Apr 2003	136,000.00		136,000.00			
Spring 2004 Renovations	Mar 2004	210,000.00		210,000.00			
Summer 2004 Renovations	Apr 2004	100,000.00		100,000.00			
Summer 2005 Renovations	Apr 2005	1,054,150.00		1,054,150.00			
Total All Projects		\$ 4,816,641.00	\$ 449,000.00	\$ 5,265,641.00	\$ 904,666.89		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System.

The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

[This Page Left Blank Intentionally]

DISTRIBUTION OF REVIEW REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Mr. H. Martin Lancaster
Dr. Robert C. Keys
Mr. Steven W. Woodruff

Mr. S. Jack Webster

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System
President, Rockingham Community College
Vice President for Administrative Services
Rockingham Community College
Chairman, Board of Trustees
Rockingham Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Patrick J. Ballantine
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Wilbur P. Gulley
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Stephen M. Metcalf
Senator Anthony E. Rand
Senator Eric M. Reeves
Senator Robert A. Rucho
Senator R. C. Soles, Jr.
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Richard T. Morgan, Co-Chair
Representative Martha B. Alexander
Representative Rex L. Baker
Representative Bobby H. Barbee, Sr.
Representative Harold J. Brubaker
Representative Debbie A. Clary
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative W. Robert Grady
Representative Joe Hackney
Representative Julia C. Howard
Representative Joe L. Kiser
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Wilma M. Sherrill
Representative Thomas E. Wright

Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

May 11, 2004

ORDERING INFORMATION

Copies of this report 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

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647