



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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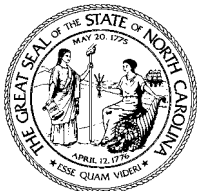
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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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AUDITOR'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 audit of Rockingham Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit 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 audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Rockingham Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Rockingham Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Rockingham Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'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.

Results - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

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

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rockingham Community College
Wentworth, North Carolina

We have audited the accompanying financial statements of Rockingham Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Rockingham Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Rockingham Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the report of the other auditors.

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. The financial statements of Rockingham Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rockingham Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Leslie W. Merritt, Jr.

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

April 8, 2005

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, 2004. Readers should consider this information in conjunction with the College's financial statements and related notes to the financial statements.

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 College's activities are considered a single business-type entity and are reported within a single column in the basic financial statements. The financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

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 the financial statements.

Condensed Statements of Net Assets

	2004	2003	Change	% Change
Assets:				
Current Assets	\$ 1,921,587	\$ 2,529,834	\$ (608,247)	(24.04) %
Noncurrent Capital Assets, Net	9,897,484	10,057,700	(160,216)	(1.59) %
Other Noncurrent Assets	1,628,638	266,520	1,362,118	511.08 %
Total Assets	13,447,709	12,854,054	593,655	4.62 %
Liabilities:				
Current Liabilities	522,274	405,177	117,097	28.90 %
Noncurrent Liabilities	353,197	264,513	88,684	33.53 %
Total Liabilities	875,471	669,690	205,781	30.73 %
Net Assets:				
Invested in Capital Assets	9,897,484	10,057,700	(160,216)	(1.59) %
Restricted - Nonexpendable	94,214	94,214		
Restricted - Expendable	1,895,790	600,799	1,294,991	215.54 %
Unrestricted	684,750	1,431,651	(746,901)	(52.17) %
Total Net Assets	\$ 12,572,238	\$ 12,184,364	\$ 387,874	3.18 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total current assets as of June 30, 2004, decreased by 24.04%, or \$608,247, when compared to June 30, 2003. This is largely due to the use of College cash resources to alleviate a loss of \$715,588 in State current funds during this fiscal year due to decreased initial State allocation and a reversion of 3% of that allocation. Total noncurrent assets increased 11.64% when compared to the prior year. The increase is primarily due to an increase in amounts due from primary government, which represents State bond funds due for the College's Lifelong Learning Center project that will be constructed in 2004-05.

Total current liabilities at June 30, 2004, increased 28.90% as compared to June 30, 2003. An increase in accounts payable of 23.19% and an increase in deferred revenue of 21.31% account for this increase. Accounts payable increased due to the State's cash restrictions for June while deferred revenue increased largely due to an increase in summer term enrollment fees paid in June. Total noncurrent liabilities increased by 33.53% due to an increase in the compensated absences liability resulting from the State award of 10 bonus days to some College employees in the prior year.

Total net assets increased from \$12,184,364 at June 30, 2003, to \$12,572,238 at June 30, 2004, an increase of 3.18%. This is due to the changes in assets and liabilities described above. The College's management does not consider the overall increase to have a significant impact on the College's financial situation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,656,556	\$ 1,635,895	\$ 20,661	1.26 %
Federal Grants and Contracts	2,064,372	1,662,552	401,820	24.17 %
Sales and Services, Net	1,136,570	944,080	192,490	20.39 %
Other Operating Revenues	74,466	101,332	(26,866)	(26.51) %
Total Revenues	4,931,964	4,343,859	588,105	13.54 %
Operating Expenses	16,120,971	14,858,272	1,262,699	8.50 %
Operating Loss	(11,189,007)	(10,514,413)	(674,594)	6.42 %
Nonoperating Revenues				
State Aid	6,564,607	6,977,719	(413,112)	(5.92) %
County Appropriations	1,884,477	1,757,523	126,954	7.22 %
Noncapital Grants and Gifts	1,011,744	832,890	178,854	21.47 %
Other Nonoperating Revenues	60,209	90,201	(29,992)	(33.25) %
Capital Grants and Gifts		459,774	(459,774)	(100.00) %
State Capital Aid	1,955,844	464,381	1,491,463	321.17 %
County Capital Appropriations	100,000	160,000	(60,000)	(37.50) %
Total Nonoperating and Other Revenues	11,576,881	10,742,488	834,393	7.77 %
Increase in Net Assets	387,874	228,075	159,799	70.06 %
Net Assets, July 1	12,184,364	11,956,289	228,075	1.91 %
Net Assets, June 30	<u>\$ 12,572,238</u>	<u>\$ 12,184,364</u>	<u>\$ 387,874</u>	3.18 %

Operating revenues increased by 13.54% in 2004 when compared to the year ended June 30, 2003. Federal grants and contracts revenue increased by 24.17% due to an increase in Pell Grants awarded in the past year while increased bookstore sales resulting from increased enrollment drove sales and services revenue up 20.39%.

Operating expenses increased by 6.41 % primarily due to increased expenditures in student financial aid programs, which rose 26.80% when compared to June 30, 2003.

Nonoperating revenues experienced a 7.77% change. State capital aid increased 321.17% due to increased bond fund revenues in anticipation of construction of the Lifelong Learning Center. County capital appropriations and other capital grants decreased due to completion of several campus construction and renovation projects.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

However, the College is aware that the State of North Carolina is experiencing a period of slower growth than in the past. In 2002-03, the College was asked to revert \$169,324 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.

This scenario occurred in 2003-04 as well. The College's initial appropriation was \$510,202 less than the prior year's because of State cutbacks and the College's enrollment in 2002-03. In addition, the College reverted 3.00% of its appropriation, which amounted to \$205,386 for a total decrease of \$715,588.

Capital Asset Activity

Capital assets totaled \$9,897,484 at June 30, 2004, net of accumulated depreciation. The prior year net capital asset total was \$10,057,700; thus a decrease of \$160,216 or 1.59% occurred. Depreciation exceeded the amount of new capital assets acquired to account for the decrease.

Economic Factors and Next Year's Budget

The College's FTE enrollment increased by 9.2% in the Fall 2003 (compared to Fall 2002) and by nearly 18% in the Spring 2004, (compared to Spring 2003). This resulted in additional enrollment growth dollars for the College in the 2004-05 budget and was a major reason the College's appropriation increased of \$980,725 over the 2003-04 appropriation.

The College continues to realize an increase in enrollment, which is up nearly 6% for Fall 2004. The College hopes that this trend will continue in the Spring 2005 term and will result in additional State appropriation in 2005-06.

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, scheduled for completion in Summer 2005.

Additional challenges include the continued implementation of the new administrative computing system and the impact of local and State economic conditions. The administrative system conversion will require significant human and fiscal resources over the next few years as the software is phased in. State and local economic conditions are improving but the county's unemployment rate continues to be one of the highest in the State.

Rockingham Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,146,756.49
Restricted Cash and Cash Equivalents	309,495.41
Receivables, Net (Note 3)	276,813.95
Inventories	177,811.10
Notes Receivable, Net (Note 3)	10,710.01
	<hr/>
Total Current Assets	1,921,586.96

Noncurrent Assets:

Restricted Cash and Cash Equivalents	79,003.52
Restricted Due from Primary Government	1,547,316.47
Notes Receivable, Net (Note 3)	2,318.93
Capital Assets - Nondepreciable (Note 4)	1,237,865.96
Capital Assets - Depreciable, Net (Note 4)	8,659,617.67
	<hr/>
Total Noncurrent Assets	11,526,122.55
	<hr/>
Total Assets	13,447,709.51

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	239,760.27
Deferred Revenue	236,661.42
Funds Held for Others	6,652.38
Long-Term Liabilities - Current Portion (Note 6)	39,200.46
	<hr/>
Total Current Liabilities	522,274.53

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	353,196.54
	<hr/>
Total Liabilities	875,471.07

NET ASSETS

Invested in Capital Assets	9,897,483.63
Restricted for:	
Nonexpendable:	
Other	94,213.80
Expendable:	
Scholarships and Fellowships	4,300.13
Loans	30,308.28
Capital Projects	1,781,707.33
Other	79,475.26
Unrestricted	684,750.01
	<hr/>
Total Net Assets	\$ 12,572,238.44

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, 2004

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,656,555.66
Federal Grants and Contracts	2,064,372.04
Sales and Services, Net (Note 8)	1,136,569.67
Other Operating Revenues	74,466.24
	<hr/>
Total Operating Revenues	4,931,963.61
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	10,368,552.93
Supplies and Materials	1,840,342.76
Services	1,375,191.72
Scholarships and Fellowships	1,515,103.67
Utilities	392,910.06
Depreciation	628,869.95
	<hr/>
Total Operating Expenses	16,120,971.09
	<hr/>
Operating Loss	(11,189,007.48)
	<hr/>

NONOPERATING REVENUES

State Aid	6,564,606.67
County Appropriations	1,884,477.00
Noncapital Grants	971,508.72
Noncapital Gifts	40,235.25
Investment Income, Net	56,489.28
Other Nonoperating Revenues	3,720.25
	<hr/>
Total Nonoperating Revenues	9,521,037.17
	<hr/>
Loss Before Other Revenues	(1,667,970.31)
	<hr/>
State Capital Aid	1,955,844.24
County Capital Appropriations	100,000.00
	<hr/>
Increase in Net Assets	387,873.93

NET ASSETS

Net Assets, July 1, 2003	<hr/>
	12,184,364.51
Net Assets, June 30, 2004	\$ <hr/> <hr/>
	12,572,238.44

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, 2004

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 1,146,756.49
Restricted Cash and Cash Equivalents	<u>388,498.93</u>

Total Cash and Cash Equivalents - June 30, 2004	<u><u>\$ 1,535,255.42</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 1,285,729.26
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The accompanying notes to the financial statements are an integral part of this statement.

Rockingham Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	249,822
Certificates of Deposit		401,430
Marketable Investments-at fair value		7,209,975
Nonmarketable Investments-at cost		700
Accrued Interest Receivable		36,623
Special collections		42,835
		<hr/>
Total Assets		7,941,385
		<hr/>

NET ASSETS

Unrestricted		5,490,095
Temporarily Restricted		428,377
Permanently Restricted		2,022,913
		<hr/>
Total Net Assets	\$	7,941,385
		<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

Rockingham Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 531,924
Endowment and Other Investment Income	513,232
	<hr/>
Total Unrestricted Revenues and Gains	1,045,156
	<hr/>
Total Net Assets Released from Restrictions	114,000
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	1,159,156
	<hr/>
Expenses and Losses:	
Scholarships	83,457
Investment Fees	35,178
Approved Projects	277,701
Other Expenses	1,514
	<hr/>
Total Expenses	397,850
	<hr/>
Increase in Unrestricted Net Assets	761,306
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	45,373
Endowment and Other Investment Income	38,923
Net Assets Released from Restrictions:	(114,000)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(29,704)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	153,106
Endowment and Other Investment Income	10,821
	<hr/>
Increase in Permanently Restricted Net Assets	163,927
	<hr/>
Increase in Net Assets	895,529
	<hr/>
Net Assets at Beginning of Year	7,045,856
	<hr/>
Net Assets at End of Year	\$ 7,941,385
	<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

ROCKINGHAM COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component units are discretely presented in the financial statements. Discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Units – Rockingham Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as discretely presented component unit based on the nature and significance of its relationship to the College.

The Rockingham Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 36 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of The Rockingham Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$337,651.58 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Rockingham Community College Foundation, Inc., Post Office Box 38, Wentworth, North Carolina 27375-0038.

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 provider's conditions have been satisfied. 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 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 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use.

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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$11,200.00. The carrying amount of cash on deposit was \$1,524,055.42 and the bank balance was \$1,721,750.82.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 1,098,169.32	\$ 1,055,320.13
Cash on Deposit with Private Financial Institutions	425,886.10	666,430.69
	<u>\$ 1,524,055.42</u>	<u>\$ 1,721,750.82</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 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 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, 2004, \$200,000.01 of the bank balance was covered by federal depository insurance, \$466,430.68 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, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 197,664.31	\$ 0.00	\$ 197,664.31
Accounts	47,935.01	7,430.61	40,504.40
Intergovernmental	35,483.30		35,483.30
Investment Earnings	3,161.94		3,161.94
Total Current Receivables	\$ 284,244.56	\$ 7,430.61	\$ 276,813.95
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 19,608.36	\$ 8,898.35	\$ 10,710.01
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 6,116.50	\$ 4,042.45	\$ 2,074.05
Institutional Student Loan Programs	244.88		244.88
Total Notes Receivable - Noncurrent	\$ 6,361.38	\$ 4,042.45	\$ 2,318.93

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 233,859.50	\$ 0.00	\$ 0.00	\$ 233,859.50
Construction in Progress	904,666.89	(249,000.05)	348,339.62	1,004,006.46
Total Capital Assets, Nondepreciable	1,138,526.39	(249,000.05)	348,339.62	1,237,865.96
Capital Assets, Depreciable:				
Buildings	15,791,890.00	249,000.05		16,040,890.05
Machinery and Equipment	1,994,662.81		120,314.47	2,114,977.28
General Infrastructure	625,011.00			625,011.00
Total Capital Assets, Depreciable	18,411,563.81	249,000.05	120,314.47	18,780,878.33
Less Accumulated Depreciation:				
Buildings	7,759,452.85		405,399.74	8,164,852.59
Machinery and Equipment	1,474,465.78		185,967.09	1,660,432.87
General Infrastructure	258,472.08		37,503.12	295,975.20
Total Accumulated Depreciation	9,492,390.71		628,869.95	10,121,260.66
Total Capital Assets, Depreciable, Net	8,919,173.10	249,000.05	(508,555.48)	8,659,617.67
Capital Assets, Net	\$ 10,057,699.49	\$ 0.00	\$ (160,215.86)	\$ 9,897,483.63

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 104,486.82
Accrued Payroll	133,845.67
Intergovernmental Payables	1,427.78
Total Accounts Payable and Accrued Liabilities	\$ 239,760.27

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 270,125.17	\$ 471,544.87	\$ 349,273.04	\$ 392,397.00	\$ 39,200.46

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 4,779.27

Rental expense for all operating leases during the year was \$18,660.40.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,232,715.55	\$ 576,159.89	\$ 1,656,555.66
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 1,014,530.40	\$ 258,854.44	\$ 755,675.96
Sales and Services of Education and Related Activities	380,893.71		380,893.71
Total Sales and Services	\$ 1,395,424.11	\$ 258,854.44	\$ 1,136,569.67

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	\$ 5,665,245.95	\$ 634,964.82	\$ 311,640.57	\$ 5,445.71	\$ 0.00	\$ 0.00	\$ 6,617,297.05
Public Service	57,356.21	2,847.05	55,990.10				116,193.36
Academic Support	887,161.71	90,345.97	60,501.82				1,038,009.50
Student Services	710,350.09	44,089.75	116,490.60				870,930.44
Institutional Support	2,011,700.79	146,534.32	552,109.24	1,365.42			2,711,709.77
Operations and Maintenance of Plant	599,568.87	104,632.63	241,005.61		392,910.06		1,338,117.17
Student Financial Aid			4,396.70	1,508,292.54			1,512,689.24
Auxiliary Enterprises	437,169.31	816,928.22	33,057.08				1,287,154.61
Depreciation						628,869.95	628,869.95
Total Operating Expenses	\$ 10,368,552.93	\$ 1,840,342.76	\$ 1,375,191.72	\$ 1,515,103.67	\$ 392,910.06	\$ 628,869.95	\$ 16,120,971.09

NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,671,977.53, of which \$7,121,706.50 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$427,302.61 and \$15,667.75, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$15,667.15, \$0.00, and \$132,577.93, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.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 \$70,709.00 for the year ended June 30, 2004.

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 \$82,834.52 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$227,894.61. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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.

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. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$97,100.63 and on other purchases were \$89,677.62 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 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 were authorized for issuance 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 of \$2,410,370.00 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

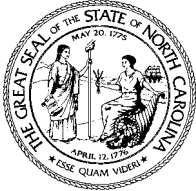
Rockingham Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Projects Approved by the State Board									
Lifelong Learning Center - 1079	Mar 2001	Feb 2003	\$ 2,400,291.00	\$ 110,000.00	\$ 2,510,291.00	\$ 159,163.00	6.34%	Jan 2005	Oct 2005
Classroom/Storage Building at ESTC - 1080	Mar 2001	Sep 2002	239,000.00	10,000.00	249,000.00	249,000.05	100.00%	Oct 2003	May 2004
Spring 2001 Renovations - 1156	Nov 2000	May 2001	165,000.00		165,000.00	35,815.60	21.71%	May 2004	Dec 2004
Summer 2001 Renovations - 1191	Mar 2001	Sep 2001	112,500.00	50,000.00	162,500.00	153,499.56	94.46%	Sep 2003	Aug 2004
Fall 2001 Renovations - 1217	Aug 2001	Oct 2002	86,700.00		86,700.00	24,470.90	28.22%	Oct 2003	Nov 2004
Spring 2002 Renovations - 1218	Jan 2002	Oct 2002	70,000.00	379,000.00	449,000.00	449,000.00	100.00%	Sep 2003	May 2004
Fall 2002 Renovations - 1306	Jun 2003	Dec 2003	243,000.00		243,000.00	182,057.40	74.92%	Mar 2004	Oct 2004
Spring 2004 Renovations - 1382	Mar 2004	Oct 2004	346,000.00		346,000.00				May 2005
Projects Pending Approval by the State Board									
Summer 2004 Renovations	Apr 2004	Oct 2004	100,000.00		100,000.00				Feb 2005
Summer 2005 Renovations	Apr 2005	Jul 2005	1,054,150.00		1,054,150.00				Jun 2006
Total All Projects			\$ 4,816,641.00	\$ 549,000.00	\$ 5,365,641.00	\$ 1,253,006.51			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.

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

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

Board of Trustees
Rockingham Community College
Wentworth, North Carolina

We have audited the financial statements of Rockingham Community College, a component unit of the State of North Carolina, and its discretely presented component units, as of and for the year ended June 30, 2004, which collectively comprise the Rockingham Community College's basic financial statements, and have issued our report thereon dated April 8, 2005. We did not audit the financial statements of Rockingham Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Rockingham Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of Rockingham Community College Foundation, Inc., the discretely presented component unit, was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Rockingham Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

**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)**

might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie Merritt, Jr., CPA, CFP
State Auditor

April 8, 2005

DISTRIBUTION OF AUDIT 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	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Robert C. Keys	President, Rockingham Community College
Mr. Steven W. Woodruff	Vice President for Administrative Services Rockingham Community College
	Chairman, Board of Trustees Rockingham Community College
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June 8, 2005

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