



# STATE OF NORTH CAROLINA

**ROCKINGHAM COMMUNITY COLLEGE**

**WENTWORTH, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**ROCKINGHAM COMMUNITY COLLEGE**

**WENTWORTH, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

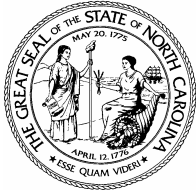
**BOARD OF TRUSTEES**

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**STEVEN W. WOODRUFF, VICE PRESIDENT FOR ADMINISTRATIVE SERVICES**



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

STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement and compliance audit of Rockingham Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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

May 15, 2007

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
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Internet  
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**INDEPENDENT AUDITOR'S REPORT**

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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Rockingham Community 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 represent 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 opinions, insofar as they relate to the amounts included for the discretely presented component unit, are 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 the 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 provide 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and 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)

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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.

*Leslie W. Merritt, Jr.*

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

March 26, 2007

**ROCKINGHAM COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2006. 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 Statements 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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 and the Statement of Revenues, Expenses, and Changes in Net Assets.

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.

**Condensed Statements of Net Assets**

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 1,661,112.91	\$ 2,004,390.48	\$ (343,277.57)	(17.13) %
Noncurrent Capital Assets, Net	11,770,201.87	10,707,888.31	1,062,313.56	9.92 %
Other Noncurrent Assets	<u>441,447.37</u>	<u>1,792,681.05</u>	<u>(1,351,233.68)</u>	<u>(75.38) %</u>
Total Assets	13,872,762.15	14,504,959.84	(632,197.69)	(4.36) %
Current Liabilities	730,368.82	1,034,864.18	(304,495.36)	(29.42) %
Noncurrent Liabilities	<u>484,013.26</u>	<u>345,553.03</u>	<u>138,460.23</u>	<u>40.07 %</u>
Total Liabilities	1,214,382.08	1,380,417.21	(166,035.13)	(12.03) %
Invested in Capital Assets	11,770,201.87	10,707,888.31	1,062,313.56	9.92 %
Restricted Net Assets	948,355.74	2,089,718.66	(1,141,362.92)	(54.62) %
Unrestricted	<u>(60,177.54)</u>	<u>326,935.66</u>	<u>(387,113.20)</u>	<u>(118.41) %</u>
Total Net Assets	<u>\$ 12,658,380.07</u>	<u>\$ 13,124,542.63</u>	<u>\$ (466,162.56)</u>	<u>(3.55) %</u>

Noncurrent capital assets increased 9.92% over the prior year largely due to construction or renovation of buildings as well as purchase of equipment. Restricted net assets decreased by more than 54% due to completion of the College's Bishopric Lifelong Learning Center project. Since it was a Higher Education Bond project, the amount due from primary government decreased as bills were paid and money was requested from the State. Other

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

noncurrent assets decreased 75.32% with the decrease in Restricted Due from Primary Government. This is the receivable account funded by the State through general obligation bonds for construction projects.

Total current liabilities at June 30, 2006, decreased 29.42% as compared to June 30, 2005. The College's accounts payable balance at June 30, 2006, decreased by \$243,263.34 as compared to June 30, 2005, to account for most of the decrease. Accounts payable had increased due to the State's cash restrictions in the previous fiscal year but were down significantly at June 30, 2006. Sufficient cash flow from the State allowed for timely payment of invoices during the year ended June 30, 2006.

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

	<u>2006</u>	<u>2005</u>	<u>Change</u>	<u>% Change</u>
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 1,673,244.24	\$ 1,800,398.13	\$ (127,153.89)	(7.06) %
Federal Grants and Contracts	1,689,162.00	1,817,244.27	(128,082.27)	(7.05) %
Sales and Services, Net	1,086,920.58	1,092,705.44	(5,784.86)	(0.53) %
Other Operating Revenues	<u>85,236.00</u>	<u>61,280.01</u>	<u>23,955.99</u>	39.09 %
Total Revenues	4,534,562.82	4,771,627.85	(237,065.03)	(4.97) %
Operating Expenses	<u>17,898,377.23</u>	<u>17,443,731.08</u>	<u>454,646.15</u>	2.61 %
Operating Loss	(13,363,814.41)	(12,672,103.23)	(691,711.18)	5.46 %
<b>Nonoperating Revenues (Expenses)</b>				
State Aid	8,040,632.43	7,974,844.44	65,787.99	0.82 %
County Appropriations	1,947,157.00	1,908,977.00	38,180.00	2.00 %
Noncapital Grants and Gifts	1,694,819.05	1,375,630.13	319,188.92	23.20 %
Other Nonoperating Revenues	66,338.36	61,256.95	5,081.41	8.30 %
Additions to Endowments	1,000.00		1,000.00	100.00 %
Other Nonoperating Expenses	(72,700.46)		(72,700.46)	100.00 %
Capital Grants	200,300.00		200,300.00	100.00 %
State Capital Aid	445,008.80	1,678,801.63	(1,233,792.83)	(73.49) %
County Capital Appropriations	<u>575,096.67</u>	<u>100,000.00</u>	<u>475,096.67</u>	475.10 %
Total Nonoperating and Other Revenues	12,897,651.85	13,099,510.15	(201,858.30)	(1.54) %
Increase (Decrease) in Net Assets	(466,162.56)	427,406.92	(893,569.48)	(209.07) %
Net Assets, July 1	<u>13,124,542.63</u>	<u>12,697,135.71</u>	<u>427,406.92</u>	3.37 %
Net Assets, June 30	<u>\$ 12,658,380.07</u>	<u>\$ 13,124,542.63</u>	<u>\$ (466,162.56)</u>	(3.55) %

Total Revenues for 2005-06 were \$17,504,915.13, a decrease of \$366,222.87, or 2.95%, from 2004-05. This decrease is due to a normal fluctuation in State capital aid (primarily Higher Education Bond Fund revenue) received during this timeframe.



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

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Operating expenses and nonoperating revenues remained constant. However, within nonoperating revenues, county capital appropriations increased significantly due to additional appropriation granted by Rockingham County for the Bishopric Lifelong Learning Center (BLLC). State capital aid decreased by more than 73.49% due to the majority of the BLLC expenses being paid in the prior fiscal year. Noncapital grants and gifts increased by more than 23% due to additional grants revenue during the period.

### **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 2002-03, 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.

In 2004-05, the College reverted 1.75% of its appropriation, or \$136,793. Most recently, the College reverted 1.5% of its 2005-06 State appropriation, totaling \$107,406. The College expects this trend of reversions to continue in 2006-07 due to a decrease in tuition receipts system-wide.

### **Capital Asset Activity**

Capital assets totaled \$11,770,201.87 at June 30, 2006, net of accumulated depreciation. The prior year net capital asset total was \$10,707,888.31; thus an increase of \$1,062,313.56 or 9.9% occurred. Construction in progress on the new Bishopric Lifelong Learning Center primarily accounted for the difference.

### **Economic Factors and Next Year's Budget**

The College's FTE enrollment decreased by 4.0% in the Fall 2005 (compared to Fall 2004) and declined 4.2% in the Spring 2006, (compared to Spring 2005). The overall impact of these drops in enrollment is not likely to affect future State appropriations unless the trend continues in 2006-07.

One of the biggest challenges for next several years will be equipment funding, especially with regard to increasing technological needs. The community colleges no longer receive House Bill 275 supplemental funding for equipment and now have to rely on the regular State allotment, although the legislature did provide some additional equipment funding in the

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

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2006 session. The College did receive a \$340,000 appropriation from Rockingham County to equip the new Bishopric Lifelong Learning Center in 2005-06.

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 several 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, 2006**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 567,871.41
Restricted Cash and Cash Equivalents	518,989.85
Restricted Short-Term Investments	160,602.68
Receivables, Net (Note 3)	188,515.14
Due from State of North Carolina Component Units	1,228.00
Inventories	218,679.09
Notes Receivable, Net (Note 3)	5,226.74
	<hr/>
Total Current Assets	1,661,112.91

Noncurrent Assets:

Restricted Cash and Cash Equivalents	235,550.87
Restricted Due from Primary Government	204,148.09
Notes Receivable	1,748.41
Capital Assets - Nondepreciable (Note 4)	3,433,924.38
Capital Assets - Depreciable, Net (Note 4)	8,336,277.49
	<hr/>
Total Noncurrent Assets	12,211,649.24

Total Assets

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13,872,762.15

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	381,820.98
Deferred Revenue	306,442.20
Funds Held for Others	3,482.83
Long-Term Liabilities - Current Portion (Note 6)	38,622.81
	<hr/>
Total Current Liabilities	730,368.82

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	484,013.26
	<hr/>

Total Liabilities

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1,214,382.08

**NET ASSETS**

Invested in Capital Assets	11,770,201.87
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	96,213.80
Expendable:	
Loans	30,168.51
Capital Projects	523,407.48
Other	298,565.95
Unrestricted	(60,177.54)
	<hr/>
Total Net Assets	\$ 12,658,380.07

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, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,673,244.24
Federal Grants and Contracts	1,689,162.00
Sales and Services, Net (Note 8)	1,086,920.58
Other Operating Revenues	<u>85,236.00</u>
Total Operating Revenues	<u>4,534,562.82</u>

**EXPENSES**

Operating Expenses:	
Personal Services	11,819,254.95
Supplies and Materials	2,306,234.70
Services	1,509,576.31
Scholarships and Fellowships	1,160,079.61
Utilities	398,076.10
Depreciation	<u>705,155.56</u>
Total Operating Expenses	<u>17,898,377.23</u>
Operating Loss	<u>(13,363,814.41)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,040,632.43
County Appropriations	1,947,157.00
Noncapital Grants	1,624,892.13
Noncapital Gifts	69,926.92
Investment Income, Net	66,338.36
Other Nonoperating Expenses	<u>(72,700.46)</u>
Net Nonoperating Revenues	<u>11,676,246.38</u>
Loss Before Other Revenues	(1,687,568.03)
State Capital Aid	445,008.80
County Capital Appropriations	575,096.67
Capital Grants	200,300.00
Additions to Endowments	<u>1,000.00</u>
Decrease in Net Assets	(466,162.56)

**NET ASSETS**

Net Assets, July 1, 2005	<u>13,124,542.63</u>
Net Assets, June 30, 2006	<u>\$ 12,658,380.07</u>

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, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 4,604,021.84
Payments to Employees and Fringe Benefits	(11,692,873.09)
Payments to Vendors and Suppliers	(4,510,065.55)
Payments for Scholarships and Fellowships	(1,160,079.61)
Loans Issued to Students	(17,646.99)
Collection of Loans to Students	20,875.29
Other Receipts	3,384.59
	<hr/>
Net Cash Used by Operating Activities	(12,752,383.52)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,040,632.43
County Appropriations	1,947,157.00
Noncapital Grants Received	1,612,952.88
Noncapital Gifts and Endowments Received	70,926.92
	<hr/>
Cash Provided by Noncapital Financing Activities	11,671,669.23

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

State Capital Aid Received	1,950,723.63
County Capital Appropriations	575,096.67
Capital Grants Received	200,300.00
Acquisition and Construction of Capital Assets	(1,755,157.50)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	970,962.80

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	65,851.36
Purchase of Investments and Related Fees	(33,914.75)
	<hr/>
Net Cash Provided by Investing Activities	31,936.61

Net Decrease in Cash and Cash Equivalents	(77,814.88)
Cash and Cash Equivalents, July 1, 2005	1,400,227.01
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 1,322,412.13

**Rockingham Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**

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

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

Operating Loss	\$ (13,363,814.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	705,155.56
Provision for Uncollectible Loans and Write-Offs	(1,092.81)
Miscellaneous Nonoperating Income	8,449.54
Changes in Assets and Liabilities:	
Receivables, Net	69,459.02
Inventories	(6,133.22)
Notes Receivable, Net	3,228.30
Accounts Payable and Accrued Liabilities	(254,986.22)
Funds Held for Others	(5,064.95)
Compensated Absences	92,415.67
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (12,752,383.52)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 567,871.41
Restricted Cash and Cash Equivalents	518,989.85
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	235,550.87
	<hr/>
Total Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 1,322,412.13</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 12,311.62
Increase in Receivables Related to Nonoperating Income	1,715.00

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, 2006**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$	436,041
Certificates of Deposit		432,905
Promises Receivable - Civic Center Campaign (Net of Allowance for Uncollectibles of \$10,900)		3,318,125
Accrued Interest Receivable		28,106
Fixtures		406
Less Accumulated Depreciation		(406)
Special Collections		111,335
Marketable Investments - at Fair Value		8,441,606
Nonmarketable Investments - at Cost		700
		<hr/>
Total Assets	\$	<u>12,768,818</u>

**NET ASSETS**

Unrestricted	\$	5,707,984
Temporarily Restricted		4,126,323
Permanently Restricted		2,934,511
		<hr/>
Total Net Assets	\$	<u>12,768,818</u>

**Rockingham Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

**Exhibit B-2**

**UNRESTRICTED NET ASSETS, REVENUES,**

**GAINS AND OTHER SUPPORT**

Contributions	\$ 116,798
Endowment and Other Investment Income	346,870

Total Gains and Other Support	463,668
Net Assets Released from Restrictions	205,786

Total	669,454
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**EXPENSES**

Program Expenses:	
Scholarships	50,605
Investment Fees	40,471
Approved Projects	545,305
Other Expenses	1,828
Fundraising Expenses Remitted to College:	
Civic Center Capital Campaign Expenses	120,085

Total Expenses	758,294
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Decrease in Unrestricted Net Assets	(88,840)
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**TEMPORARILY RESTRICTED NET ASSETS**

Contributions	152,035
Civic Center Campaign Contributions	3,623,630
Endowment and Other Investment Income	61,940

Total	3,837,605
Net Assets Released from Restrictions	(205,786)

Increase in Temporarily Restricted Net Assets	3,631,819
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**PERMANENTLY RESTRICTED NET ASSETS**

Contributions	605,504
Endowment and Other Investment Income	33,892

Increase in Permanently Restricted Net Assets	639,396
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Increase in Net Assets	4,182,375
Net Assets, July 1, 2005	8,586,443

Net Assets, June 30, 2006	\$ 12,768,818
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**ROCKINGHAM COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 unit is discretely presented in the financial statements. The discretely presented component unit’s financial data is 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 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 difference in its reporting model, as described below.

The Rockingham Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (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, 2006, the Foundation distributed \$704,309.52 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 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 fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** – This classification includes mutual funds. Investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase in the fair value of investments is recognized as a component of investment income.
- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. 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.
- H. 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 25 years for general infrastructure, 25 to 40 years for buildings, and 2 to 25 years for equipment.

- I. 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.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

**L. 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.

**M. 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’

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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benefit. 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.

- N. 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.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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cash equivalents includes cash on hand totaling \$11,200.00, and deposits in private financial institutions with a carrying value of \$328,978.00 and a bank balance of \$446,369.23.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

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

At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$982,234.13, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Investments of the College's component unit, the Rockingham Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type for the College's investments.

### *Investments*

<b>Investment Type</b>	<u>Fair Value</u>
Other Securities	
Mutual Funds	\$ 160,602.68

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 11,200.00
Carrying Amount of Deposits with Private Financial Institutions	328,978.00
Investments in the Short Term Investment Fund	982,234.13
Other Investments	<u>160,602.68</u>
<b>Total Deposits and Investments</b>	<u><u>\$ 1,483,014.81</u></u>
Current:	
Cash and Cash Equivalents	\$ 567,871.41
Restricted Cash and Cash Equivalents	518,989.85
Restricted Short-Term Investments	160,602.68
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>235,550.87</u>
<b>Total</b>	<u><u>\$ 1,483,014.81</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Component Unit** – Investments of the College’s discretely presented component unit, the Rockingham Community College Foundation, Inc., are subject to and restricted by G.S. 36B “Uniform Management of Institutional Funds Act” (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following analysis of investments by type is presented at fair value of the investments held by the fiscal agent at June 30, 2006:

	Cost	Fair Value	Carrying Value
Temporary Investments	\$ 380,481.00	\$ 380,481.00	\$ 380,481.00
Equities	2,314,999.00	2,643,602.00	2,643,602.00
U.S. Governments & Agencies	923,200.00	948,717.00	948,717.00
Corporate Bonds - Nonconvertible	893,786.00	915,259.00	915,259.00
Other Fixed Income	3,466,794.00	3,553,547.00	3,553,547.00
Total Investments	\$ 7,979,260.00	\$ 8,441,606.00	\$ 8,441,606.00

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 142,122.94	\$ 35,977.51	\$ 106,145.43
Accounts	62,641.62	1,404.29	61,237.33
Intergovernmental	17,912.66		17,912.66
Investment Earnings	3,219.72		3,219.72
<b>Total Current Receivables</b>	\$ 225,896.94	\$ 37,381.80	\$ 188,515.14
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 13,300.86	\$ 8,074.12	\$ 5,226.74



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 233,859.50	\$ 0.00	\$ 0.00	\$ 233,859.50
Construction in Progress	<u>1,816,858.96</u>	<u>1,567,693.36</u>	<u>184,487.44</u>	<u>3,200,064.88</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>2,050,718.46</u>	<u>1,567,693.36</u>	<u>184,487.44</u>	<u>3,433,924.38</u>
Capital Assets, Depreciable:				
Buildings	16,179,978.64	95,041.35		16,275,019.99
Machinery and Equipment	2,249,901.92	238,688.17		2,488,590.09
General Infrastructure	<u>1,074,011.00</u>	<u>50,533.68</u>		<u>1,124,544.68</u>
Total Capital Assets, Depreciable	<u>19,503,891.56</u>	<u>384,263.20</u>		<u>19,888,154.76</u>
Less Accumulated Depreciation:				
Buildings	8,611,085.96	455,275.10		9,066,361.06
Machinery and Equipment	1,883,164.07	180,879.92		2,064,043.99
General Infrastructure	<u>352,471.68</u>	<u>69,000.54</u>		<u>421,472.22</u>
Total Accumulated Depreciation	<u>10,846,721.71</u>	<u>705,155.56</u>		<u>11,551,877.27</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>8,657,169.85</u>	<u>(320,892.36)</u>		<u>8,336,277.49</u>
<b>Capital Assets, Net</b>	<u>\$ 10,707,888.31</u>	<u>\$ 1,246,801.00</u>	<u>\$ 184,487.44</u>	<u>\$ 11,770,201.87</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 112,817.19
Accrued Payroll	195,185.79
Contract Retainage	<u>73,818.00</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 381,820.98</u>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	<u>\$ 430,220.40</u>	<u>\$ 452,596.68</u>	<u>\$ 360,181.01</u>	<u>\$ 522,636.07</u>	<u>\$ 38,622.81</u>

## 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, 2006:

Fiscal Year	Amount
2007	\$ 6,384.12
2008	4,256.08
Total Minimum Lease Payments	\$ 10,640.20

Rental expense for all operating leases during the year was \$27,345.56.

### NOTE 8 - REVENUES

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

	Gross Revenues	Scholarship Discounts	Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 2,190,099.02	\$ 509,137.03	\$ 7,717.75	\$ 1,673,244.24
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 947,712.73	\$ 265,069.05	\$ 595.11	\$ 682,048.57
Sales and Services of Education and Related Activities	404,872.01			404,872.01
<b>Total Sales and Services</b>	\$ 1,352,584.74	\$ 265,069.05	\$ 595.11	\$ 1,086,920.58

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,336,449.67	\$ 968,482.12	\$ 376,468.91	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,681,400.70
Public Service	44,978.75	10,056.91	43,813.99				98,849.65
Academic Support	1,040,040.21	80,018.19	68,586.38				1,188,644.78
Student Services	841,641.77	48,507.66	114,646.62				1,004,796.05
Institutional Support	2,376,080.92	297,733.03	665,101.39				3,338,915.34
Oper/Maint of Plant	646,496.19	110,467.59	188,968.07		398,076.10		1,344,007.95
Student Financial Aid			3,948.13	1,160,079.61			1,164,027.74
Auxiliary Enterprises	533,567.44	790,969.20	48,042.82				1,372,579.46
Depreciation						705,155.56	705,155.56
<b>Total Operating Expenses</b>	\$ 11,819,254.95	\$ 2,306,234.70	\$ 1,509,576.31	\$ 1,160,079.61	\$ 398,076.10	\$ 705,155.56	\$ 17,898,377.23

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 10 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers’ and State Employees’ Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$9,632,529.78, of which \$8,015,506.05 was covered under the Teachers’ and State Employees’ Retirement System. Total employee and employer contributions for pension benefits for the year were \$480,930.81 and \$187,562.84, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$187,562.84, \$167,828.91, and \$15,667.15, 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 \$62,358.00 for the year ended June 30, 2006.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$63,986.52 for the year ended June 30, 2006.

### 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$304,589.23. 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$41,680.63. 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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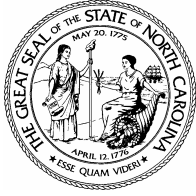
whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

### NOTE 13 - 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 \$185,076.03 at June 30, 2006.



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

STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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

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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 unit, as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 26, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Rockingham Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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 that 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.

**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)**

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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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

March 26, 2007



## **ORDERING INFORMATION**

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