



STATE OF NORTH CAROLINA

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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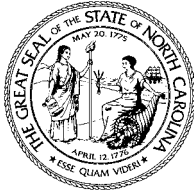
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, Rockingham Community College

We have completed a financial statement audit of Rockingham Community College for the year ended June 30, 2008, 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 disclosed certain deficiencies that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

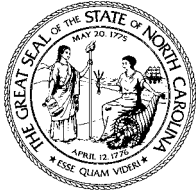
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	8
A-3 Statement of Cash Flows	9
Component Unit Exhibits	
B-1 Statement of Financial Position	11
B-2 Statement of Activities	12
Notes to the Financial Statements	13
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	29
AUDIT FINDINGS AND RESPONSES	33
ORDERING INFORMATION	37



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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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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 the Rockingham Community College Foundation, Inc., 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 this entity, 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 the 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, 2008, 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.

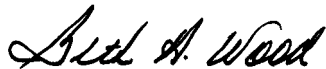
As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by*

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Employers for Postemployment Benefits Other Than Pensions, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2009, 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.



Beth A. Wood, CPA
State Auditor

June 15, 2009

**ROCKINGHAM COMMUNITY COLLEGE
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, 2008. 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 Governmental Accounting Standards Board (GASB) Statement No. 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 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.

Condensed Statements of Net Assets

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Current Assets	\$ 1,514,129.00	\$ 1,586,423.49	\$ (72,294.49)	(4.56) %
Noncurrent Capital Assets, Net	18,655,085.24	15,107,695.31	3,547,389.93	23.48 %
Other Noncurrent Assets	<u>790,468.13</u>	<u>1,212,609.67</u>	<u>(422,141.54)</u>	<u>(34.81) %</u>
Total Assets	20,959,682.37	17,906,728.47	3,052,953.90	17.05 %
Current Liabilities	458,204.78	723,435.19	(265,230.41)	(36.67) %
Noncurrent Liabilities	<u>429,449.78</u>	<u>372,205.64</u>	<u>57,244.14</u>	<u>15.38 %</u>
Total Liabilities	887,654.56	1,095,640.83	(207,986.27)	(18.98) %
Invested in Capital Assets	18,655,085.24	15,107,695.31	3,547,389.93	23.48 %
Restricted	1,310,304.97	1,722,719.22	(412,414.25)	(23.94) %
Unrestricted	<u>106,637.60</u>	<u>(19,326.89)</u>	<u>125,964.49</u>	<u>651.76 %</u>
Total Net Assets	<u>\$ 20,072,027.81</u>	<u>\$ 16,811,087.64</u>	<u>\$ 3,260,940.17</u>	<u>19.40 %</u>

Total assets increased \$3,052,953.90 or 17.05% from the prior year. Noncurrent capital assets increased 23.48% mainly due to a change in the estimate of useful lives of assets still in use. Other noncurrent assets decreased 34.81% over the prior year largely due to a decrease in the amount due from the State for Higher Education Bond projects. Current liabilities decreased 36.67% due to a correction in the reporting of unearned revenue from the previous

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

year's reporting of this liability. Noncurrent liabilities increased by more than 15% due to an increase in the dollar value of compensated absences payable at June 30, 2008. Total net assets increased by 19.40% from the prior year, of which the 23.48% increase in invested in capital assets is related to extending the useful lives of capital assets as previously mentioned. Restricted net assets decreased by nearly 23% mainly due to the completion of several College construction projects, and unrestricted net assets increased approximately 651% due to a correction in the reporting of unrestricted net assets previously reported as restricted.

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

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,531,474.76	\$ 1,735,001.97	\$ (203,527.21)	(11.73) %
Federal Grants and Contracts	1,881,818.20	1,623,332.44	258,485.76	15.92 %
Sales and Services, Net	1,135,933.77	1,183,482.68	(47,548.91)	(4.02) %
Other Operating Revenues	<u>97,728.72</u>	<u>81,012.65</u>	<u>16,716.07</u>	<u>20.63 %</u>
Total Operating Revenues	4,646,955.45	4,622,829.74	24,125.71	0.52 %
Operating Expenses				
Personal Services	12,765,147.95	12,437,180.52	327,967.43	2.64 %
Supplies and Materials	2,386,423.99	1,935,826.11	450,597.88	23.28 %
Services	1,620,758.09	1,494,290.67	126,467.42	8.46 %
Scholarships and Fellowships	1,228,297.22	1,071,527.86	156,769.36	14.63 %
Utilities	444,026.54	413,285.03	30,741.51	7.44 %
Depreciation	<u>465,556.11</u>	<u>578,414.77</u>	<u>(112,858.66)</u>	<u>(19.51) %</u>
Total Operating Expenses	<u>18,910,209.90</u>	<u>17,930,524.96</u>	<u>979,684.94</u>	<u>5.46 %</u>
Operating Loss	(14,263,254.45)	(13,307,695.22)	(955,559.23)	7.18 %
Nonoperating Revenues				
State Aid	9,402,254.00	8,921,085.75	481,168.25	5.39 %
County Appropriations	2,040,718.00	2,000,704.00	40,014.00	2.00 %
Noncapital Grants and Gifts	1,725,092.48	1,524,661.89	200,430.59	13.15 %
Investment Income	45,127.93	80,352.66	(35,224.73)	(43.84) %
Other Nonoperating Revenues	<u>5,296.19</u>	<u>9,405.27</u>	<u>(4,109.08)</u>	<u>(43.69) %</u>
Total Nonoperating Revenues	<u>13,218,488.60</u>	<u>12,536,209.57</u>	<u>682,279.03</u>	<u>5.44 %</u>
Loss Before Other Revenues	(1,044,765.85)	(771,485.65)	(273,280.20)	35.42 %
Capital Contributions	1,026,639.96	1,999,187.31	(972,547.35)	(48.65) %
Additions to Endowments	<u>1,500.00</u>	<u>29,005.00</u>	<u>(27,505.00)</u>	<u>(94.83) %</u>
Total Other Revenues	<u>1,028,139.96</u>	<u>2,028,192.31</u>	<u>(1,000,052.35)</u>	<u>(49.31) %</u>
Increase (Decrease) in Net Assets	(16,625.89)	1,256,706.66	(1,273,332.55)	(101.32) %
Net Assets, July 1	16,811,087.64	12,658,380.07	4,152,707.57	32.81 %
Restatement of Net Assets (Note 17)	<u>3,277,566.06</u>	<u>2,896,000.91</u>	<u>381,565.15</u>	<u>13.18 %</u>
Net Assets, June 30	<u>\$ 20,072,027.81</u>	<u>\$ 16,811,087.64</u>	<u>\$ 3,260,940.17</u>	<u>19.40 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total revenues for 2007-08 were \$18,893,584.01, a decrease of \$293,647.61 or 1.53% from 2006-07. The largest decrease in revenues was in the area of State Capital Aid, which decreased by \$1,104,479.65, primarily due to a decrease in the amount of capital expenditures resulting from Higher Education Bond proceeds. On the other hand, State Aid revenues increased by \$481,168.25 to help offset the decrease. Other changes in revenues and expenses were insignificant or the result of normal fluctuations (student tuition, federal grants).

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, with the exception of its capital assets.

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 and then the College reverted 1.5% of its 2005-06 State appropriation, totaling \$107,406. In 2006-07, the College reverted 1% of its allotment, or \$78,814. During the most recent fiscal year, no reversions were required although a portion of the College's appropriation was withheld through cash flow restrictions. The College expects this trend of reversions to continue in 2008-09 due to a decrease in tuition receipts system-wide. In fact, the College has been asked to revert 3% of its budget allocation for this purpose. The State has also implemented additional cash management measures which may increase this percentage.

Capital Asset Activity

Capital assets totaled \$18,655,085.24 at June 30, 2008, net of accumulated depreciation. The prior year's net capital assets totaled \$15,107,695.31, which represents an increase of \$3,547,389.93 and includes a restatement of \$3,069,054.98 for the correction of errors in estimate of useful lives of capital assets upon implementation of GASB Statements Nos. 34 and 35; thus, an increase of \$478,334.95 remains. The College considers this remaining amount to be a nominal increase based on routine purchases and construction activity during 2007-08. For more information regarding the College's asset holdings, refer to Note 5 of the Notes to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

The College's FTE enrollment did not experience a material change and thus there will be little impact on future State appropriations.

One of the biggest challenges for the 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.

An additional challenge is the implementation of the Rockingham County Early College High School as the College will need to find space for 400 high school students over the next five years. Rockingham County is experiencing a significant unemployment rate and that may impact positively on enrollment over the next few years.

Rockingham Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 554,397.14
Restricted Cash and Cash Equivalents	357,330.47
Short-Term Investments	127,484.18
Receivables, Net (Note 4)	190,469.46
Inventories	280,931.08
Notes Receivable, Net (Note 4)	<u>3,516.67</u>

Total Current Assets	<u>1,514,129.00</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	175,911.94
Restricted Due from Primary Government	614,556.19
Capital Assets - Nondepreciable (Note 5)	1,139,834.13
Capital Assets - Depreciable, Net (Note 5)	<u>17,515,251.11</u>

Total Noncurrent Assets	<u>19,445,553.37</u>
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Total Assets	<u>20,959,682.37</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	341,866.40
Unearned Revenue	46,827.64
Funds Held for Others	2,716.26
Long-Term Liabilities - Current Portion (Note 7)	<u>66,794.48</u>

Total Current Liabilities	<u>458,204.78</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>429,449.78</u>
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Total Liabilities	<u>887,654.56</u>
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NET ASSETS

Invested in Capital Assets	18,655,085.24
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	126,718.80
Expendable:	
Scholarships and Fellowships	115,077.35
Loans	30,422.01
Capital Projects	845,436.88
Instructional Support	144,238.87
Student Support	17,708.04
Other	30,703.02

Unrestricted	<u>106,637.60</u>
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Total Net Assets	<u>\$ 20,072,027.81</u>
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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, 2008***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 1,531,474.76
Federal Grants and Contracts	1,881,818.20
Sales and Services, Net (Note 9)	1,135,933.77
Other Operating Revenues	<u>97,728.72</u>
Total Operating Revenues	<u>4,646,955.45</u>

EXPENSES

Operating Expenses:	
Personal Services	12,765,147.95
Supplies and Materials	2,386,423.99
Services	1,620,758.09
Scholarships and Fellowships	1,228,297.22
Utilities	444,026.54
Depreciation	<u>465,556.11</u>
Total Operating Expenses	<u>18,910,209.90</u>
Operating Loss	<u>(14,263,254.45)</u>

NONOPERATING REVENUES

State Aid	9,402,254.00
County Appropriations	2,040,718.00
Noncapital Grants	1,674,752.48
Noncapital Gifts	50,340.00
Investment Income	45,127.93
Other Nonoperating Revenues	<u>5,296.19</u>
Nonoperating Revenues	<u>13,218,488.60</u>
Loss Before Other Revenues	(1,044,765.85)
State Capital Aid	660,625.31
County Capital Aid	56,014.65
Capital Grants	310,000.00
Additions to Endowments	<u>1,500.00</u>
Decrease in Net Assets	(16,625.89)

NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 17)	<u>20,088,653.70</u>
Net Assets, June 30, 2008	<u>\$ 20,072,027.81</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, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,710,678.96
Payments to Employees and Fringe Benefits	(12,763,260.66)
Payments to Vendors and Suppliers	(4,529,258.38)
Payments for Scholarships and Fellowships	(1,228,297.22)
Loans Issued to Students	(7,823.00)
Collection of Loans to Students	9,569.89
Other Receipts	2,725.90
	<hr/>
Net Cash Used by Operating Activities	(13,805,664.51)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,402,254.00
County Appropriations	2,040,718.00
Noncapital Grants Received	1,683,528.25
Noncapital Gifts and Endowments Received	51,840.00
	<hr/>
Cash Provided by Noncapital Financing Activities	13,178,340.25

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,067,923.77
County Capital Aid	56,014.65
Capital Grants Received	310,000.00
Proceeds from Insurance on Capital Assets	5,296.19
Acquisition and Construction of Capital Assets	(943,891.06)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	495,343.55

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	74,996.82
Investment Income	45,602.94
Purchase of Investments and Related Fees	(10,000.00)
	<hr/>
Net Cash Provided by Investing Activities	110,599.76

Net Decrease in Cash and Cash Equivalents	(21,380.95)
Cash and Cash Equivalents, July 1, 2007	1,109,020.50
	<hr/>
Cash and Cash Equivalents, June 30, 2008	\$ 1,087,639.55

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (14,263,254.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	465,556.11
Provision for Uncollectible Loans and Write-Offs	(160.73)
Changes in Assets and Liabilities:	
Receivables, Net	67,005.82
Inventories	(77,082.96)
Notes Receivable, Net	1,746.89
Accounts Payable and Accrued Liabilities	(18,282.01)
Unearned Revenue	(3,282.31)
Funds Held for Others	2,725.90
Compensated Absences	19,363.23
	<hr/>
Net Cash Used by Operating Activities	\$ (13,805,664.51)

Rockingham Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 554,397.14
Restricted Cash and Cash Equivalents	357,330.47
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>175,911.94</u>
Total Cash and Cash Equivalents - June 30, 2008	<u><u>\$ 1,087,639.55</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 15,587.41
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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, 2008

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 1,981,453
Certificates of Deposit	1,164,457
Promises Receivable - Civic Center Campaign	1,502,000
Accrued Interest Receivable	16,280
Fixtures	406
Less Accumulated Depreciation	(406)
Special Collections	111,335
Marketable Investments - at Fair Value	9,519,328
Nonmarketable Investments - at Cost	700
	<hr/>
Total Assets	14,295,553
	<hr/>

NET ASSETS

Unrestricted	6,389,265
Temporarily Restricted	4,371,240
Permanently Restricted	3,535,048
	<hr/>
Total Net Assets	\$ 14,295,553
	<hr/> <hr/>

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

Rockingham Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2008

Exhibit B-2

UNRESTRICTED NET ASSETS, REVENUES,

GAINS AND OTHER SUPPORT

Contributions	\$ 344,743
Endowment and Other Investment Losses	(117,429)
	<hr/>
Total Gains and Other Support	227,314
Net Assets Released from Restrictions	524,968
	<hr/>
Total	752,282
	<hr/>

EXPENSES

Program Expenses:	
Scholarships	89,825
Investment Fees	45,270
Approved Projects	413,849
Other Expenses	1,966
Fundraising Expenses Remitted to College:	
Civic Center Capital Campaign Expenses	312,146
	<hr/>
Total Expenses	863,056
	<hr/>
Decrease in Unrestricted Net Assets	(110,774)
	<hr/>

TEMPORARILY RESTRICTED NET ASSETS

Contributions	116,683
Civic Center Campaign Contributions	83,771
Endowment and Other Investment Income	138,413
	<hr/>
Total	338,867
Net Assets Released from Restrictions	(524,968)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(186,101)
	<hr/>

PERMANENTLY RESTRICTED NET ASSETS

Contributions	168,638
Endowment and Other Investment Income	25,817
	<hr/>
Increase in Permanently Restricted Net Assets	194,455
	<hr/>

Decrease in Net Assets	(102,420)
Net Assets, July 1, 2007	14,397,973
	<hr/>
Net Assets, June 30, 2008	\$ 14,295,553
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The accompanying notes to the financial statements are an integral part of this statement.

ROCKINGHAM COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Unit – Rockingham Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to 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 Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the Foundation distributed \$806,249.50 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Rockingham Community College Foundation, Inc., Post Office Box 38, Wentworth, NC 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 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. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or an estimated amount determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net decrease 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 method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 75 years for buildings, and 5 to 25 years for equipment.
- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$11,200.00, and deposits in private financial institutions with a carrying value of \$239,897.25, and a bank balance of \$369,066.83.

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, 2008, 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, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$836,542.30, which represents the College's equity position in the State Treasurer's Short-Term Investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 2.9 years as of June 30, 2008. 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.

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

Investments

Investment Type	<u>Fair Value</u>
Mutual Funds	<u>\$ 127,484.18</u>

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	\$ 11,200.00
Carrying Amount of Deposits with Private Financial Institutions	239,897.25
Investments in the Short-Term Investment Fund	836,542.30
Other Investments	<u>127,484.18</u>
Total Deposits and Investments	<u><u>\$ 1,215,123.73</u></u>
Current:	
Cash and Cash Equivalents	\$ 554,397.14
Restricted Cash and Cash Equivalents	357,330.47
Short-Term Investments	127,484.18
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>175,911.94</u>
Total	<u><u>\$ 1,215,123.73</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component Unit – Investments of the College’s discretely presented component unit, 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 Foundation’s marketable investments, stated at fair value at June 30, 2008, consisted of the following:

	Fair Value
Investment Type	
Temporary Investments	\$ 817,459
Equities	3,104,394
U.S. Governments and Agencies	957,040
Corporate Bonds - Nonconvertible	913,053
Mutual Funds	3,727,382
	<hr/>
Total Marketable Investments	\$ 9,519,328

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College’s endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College’s endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2008, net appreciation of \$8,576.87 was available to be spent for restricted purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 163,688.22	\$ 58,335.35	\$ 105,352.87
Accounts	70,807.99	722.77	70,085.22
Intergovernmental	11,862.34		11,862.34
Investment Earnings	3,169.03		3,169.03
Total Current Receivables	\$ 249,527.58	\$ 59,058.12	\$ 190,469.46
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 10,064.88	\$ 6,548.21	\$ 3,516.67
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 714.32	\$ 714.32	\$ 0.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 650,164.02	\$ 0.00	\$ 0.00	\$ 650,164.02
Construction in Progress	3,493,676.63	596,750.38	3,600,756.90	489,670.11
Total Capital Assets, Nondepreciable	4,143,840.65	596,750.38	3,600,756.90	1,139,834.13
Capital Assets, Depreciable:				
Buildings	16,275,019.99	3,226,210.90		19,501,230.89
Machinery and Equipment	2,641,070.35	253,331.43	109,371.62	2,785,030.16
General Infrastructure	1,124,544.68	468,355.25		1,592,899.93
Total Capital Assets, Depreciable	20,040,635.02	3,947,897.58	109,371.62	23,879,160.98
Less Accumulated Depreciation:				
Buildings	4,882,886.30	284,459.30		5,167,345.60
Machinery and Equipment	970,113.85	152,346.34	109,371.62	1,013,088.57
General Infrastructure	154,725.23	28,750.47		183,475.70
Total Accumulated Depreciation	6,007,725.38	465,556.11	109,371.62	6,363,909.87
Total Capital Assets, Depreciable, Net	14,032,909.64	3,482,341.47		17,515,251.11
Capital Assets, Net	\$ 18,176,750.29	\$ 4,079,091.85	\$ 3,600,756.90	\$ 18,655,085.24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 120,985.72
Accrued Payroll	220,880.68
Total Accounts Payable and Accrued Liabilities	\$ 341,866.40

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	\$ 476,881.03	\$ 377,910.17	\$ 358,546.94	\$ 496,244.26	\$ 66,794.48

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$25,420.81.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 2,276,719.87	\$ 713,735.42	\$ 31,509.69	\$ 1,531,474.76
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,006,007.58	\$ 311,897.69	\$ 1,880.83	\$ 692,229.06
Sales and Services of Education and Related Activities	444,360.71		656.00	443,704.71
Total Sales and Services	\$ 1,450,368.29	\$ 311,897.69	\$ 2,536.83	\$ 1,135,933.77

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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	\$ 6,856,914.69	\$ 752,037.10	\$ 396,564.72	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,005,516.51
Public Service	51,956.60	4,159.10	26,244.05				82,359.75
Academic Support	1,179,451.32	92,283.10	71,003.20				1,342,737.62
Student Services	896,924.72	98,755.44	128,455.33				1,124,135.49
Institutional Support	2,466,406.42	336,121.10	725,871.94				3,528,399.46
Operations and Maintenance of Plant	700,823.60	256,608.38	230,398.75		444,026.54		1,631,857.27
Student Financial Aid			4,815.00	1,228,297.22			1,233,112.22
Auxiliary Enterprises	612,670.60	846,459.77	37,405.10				1,496,535.47
Depreciation						465,556.11	465,556.11
Total Operating Expenses	\$ 12,765,147.95	\$ 2,386,423.99	\$ 1,620,758.09	\$ 1,228,297.22	\$ 444,026.54	\$ 465,556.11	\$ 18,910,209.90

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members

For the current fiscal year, the College had a total payroll of \$10,479,140.30, of which \$8,786,779.09 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$267,996.76 and \$527,207.40, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$267,996.76, \$227,865.51, and \$187,562.84, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> 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 \$59,820.00 for the year ended June 30, 2008.

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 \$53,788.52 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$360,257.94, \$325,522.16, and \$304,589.23, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$45,691.25, \$44,545.14, and \$41,680.63, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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 \$1,000,000 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence with a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$75,000 deductible and a 10% participation in each loss above the 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$386,202.30 at June 30, 2008.

NOTE 15 - RELATED PARTY TRANSACTIONS

Transactions with Board of Trustees Member – The Trustees of Rockingham Community College constitute the local administrative board of the institution and are delegated certain powers and duties as per G.S. 115D-20. A private business partly owned by a member of the College's board of trustees was the low bidder on five construction/renovation projects during the 2007-2008 year and was paid a total of \$362,816.80.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 17 - NET ASSET RESTATEMENTS

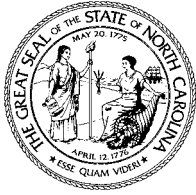
As of July 1, 2007, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 16,811,087.64
Restatements:	
Error in Establishing Useful Lives of Capital Assets	3,069,054.98
Error in Unearned Revenue Recognition	<u>208,511.08</u>
July 1, 2007 Net Assets as Restated	<u>\$ 20,088,653.70</u>

NOTE 18 - SUBSEQUENT EVENT

Component Unit – Fair Value of Marketable Investments

The fair market value of investments held by the Rockingham Community College Foundation, Inc., a component unit of the College, declined in value from \$9,519,328 at June 30, 2008 to \$7,621,252 at February 28, 2009 as a result of the recent instability in the domestic and international financial markets. This represents a 20% decline in value.



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 15, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in

**INDEPENDENT AUDITOR'S REPORT
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internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 1 to be a material weakness.

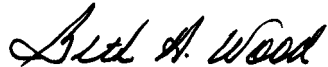
Compliance and Other Matters

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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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



Beth A. Wood, CPA
State Auditor

June 15, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Rockingham Community College contained material misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

- a. The College's capital assets were understated by a total of \$3,165,173.20. The various errors within the capital asset accounts and note to the financial statements that contributed to the capital asset misstatements were as follows:
 - 1) The College did not reevaluate its capital assets that were fully depreciated or were approaching the end of their useful lives. At the auditor's request, a reevaluation was performed and it was determined that accumulated depreciation was overstated by \$3,238,604.81. The beginning balance was overstated \$3,069,054.98 representing the prior year's accumulated depreciation and current year depreciation was overstated \$169,549.83.
 - 2) Construction-in-progress was overstated by \$777,495.60, while supplies and materials expense, buildings capital assets, and general infrastructure capital assets were understated by \$73,431.61, \$523,767.50, and \$180,296.49, respectively, due to noncapital transactions and completed projects being reported in the construction-in-progress account at year-end.
 - 3) Buildings were overstated by \$186,865.51 and general infrastructure was understated by the same amount due to the incorrect classification of these assets.
- b. The College did not properly record its unearned revenue liability at year-end, as well as in the prior year. This resulted in a \$216,442.25 overstatement of unearned revenue, a \$7,931.17 understatement of noncapital grants revenue, and a \$208,511.08 understatement of restricted beginning net assets.
- c. The College incorrectly reported a fund internally restricted by the College's board of trustees as restricted. Thus, unrestricted net assets were understated by \$127,508.96 and restricted net assets were overstated by the same amount. The related current short-term investments and current unrestricted cash were understated by \$127,484.18 and \$24.78, respectively, while current restricted short-term investments and current restricted cash were overstated by the same amounts.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements.

College's Response:

1. Deficiencies in Financial Reporting

a. Understatement of capital assets

- 1) The college concurs with the financial statement changes recommended. The college agreed to change the accounting policy regarding the estimated useful lives of material assets. Buildings and related renovations were reclassified from 50-year property to 75-year property. This resulted in \$2,824,456.65 of the \$3,165,176.20 understatement, or 89.2%.
- 2) The college concurs with the financial statement changes recommended. The college did not capitalize smaller, completed renovation projects since the overall projects were incomplete. In the future, the college will capitalize all projects as they are completed.
- 3) The college concurs with the financial statement changes recommended. The college originally included the parking lot expense for its newest building in the buildings category but it should have been classified as infrastructure.

b. Reporting of unearned revenue – The college concurs with the financial statement changes recommended. The college will properly classify revenue from noncapital grants in the future.

c. Reporting of fund internally restricted by college – The college concurs with the financial statement changes recommended. The college will properly classify these funds as unrestricted in the future.

2. LACK OF SEGREGATION OF DUTIES

The College has not adequately segregated incompatible job functions among employees. As a result, there was an increased risk of error or misappropriation.

An employee had full access to all screens in both the financial and human resources modules of the accounting system and also prepares journal entries and bank reconciliations for the Short-Term Investment Fund. Further, there was no documented evidence of management's review and approval of the monthly journal entries or bank reconciliations during the audit period. Prudent internal control principles require that duties be segregated such that employees can prevent or detect errors or fraud in the normal course of performing their duties.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Recommendation: The College should improve internal control over system access to ensure personnel are granted only the necessary system access to perform their job duties. In addition, the College should establish a process that includes the review and approval of monthly journal entries and bank reconciliations by management.

College's Response: The college has adequate segregation of duties among job functions and has implemented many instances of mitigating controls where, due to limited personnel, optimal segregation of duties is not possible. One employee did have full access rights to the financial and human resources modules of the college's administrative computing system at the time of the audit. Since that time, the college has restricted such access to the screens that are necessary for job performance and the college will continue to monitor such access. In addition, management will approve all journal entries and the reconciliation of the Short-Term Investment Fund on a monthly basis. This process has already been implemented.

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