



STATE OF NORTH CAROLINA

ROCKINGHAM COMMUNITY COLLEGE

WENTWORTH, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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, 2010

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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

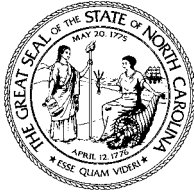
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Rockingham Community College Foundation, Inc., 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 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.

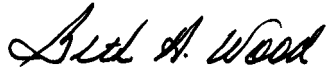
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rockingham Community College and its discretely presented component unit as of June 30, 2010, and the respective 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 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

March 9, 2011

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, 2010. Readers should consider this information in conjunction with the College's financial statements and related notes to the financial statements.

Overview of the Financial Statements

Rockingham Community College, along with all other colleges in the North Carolina Community College System, prepared its financial statements in accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The College's activities are considered a single business-type entity and are reported within a single column in the basic financial statements. The financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows.

The Statement of Net Assets reflects current and noncurrent assets and liabilities as well as net assets. The Statement of Revenues, Expenses, and Changes in Net Assets reflects the operating revenues and expenses of the College as well as nonoperating revenues and expenses. The financial activities of the College result in an increase or decrease in net assets during the fiscal year. The Statement of Cash Flows is prepared using the direct method and reflects the change in cash and cash equivalents during the fiscal year.

Condensed Statements of Net Assets

	2010	As Restated 2009	Change	% Change
Current Assets	\$ 1,892,456.47	\$ 1,746,866.61	\$ 145,589.86	8.33%
Noncurrent Capital Assets, Net	18,911,673.17	18,952,845.50	(41,172.33)	-0.22%
Other Noncurrent Assets	394,807.83	644,176.00	(249,368.17)	-38.71%
Total Assets	21,198,937.47	21,343,888.11	(144,950.64)	-0.68%
Current Liabilities	431,927.10	462,130.89	(30,203.79)	-6.54%
Noncurrent Liabilities	386,603.78	455,522.18	(68,918.40)	-15.13%
Total Liabilities	818,530.88	917,653.07	(99,122.19)	-10.80%
Invested in Capital Assets	18,911,673.17	18,952,845.50	(41,172.33)	-0.22%
Restricted Net Assets	945,367.62	1,207,538.35	(262,170.73)	-21.71%
Unrestricted	523,365.80	265,851.19	257,514.61	96.86%
Total Net Assets	\$ 20,380,406.59	\$ 20,426,235.04	\$ (45,828.45)	-0.22%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total net assets decreased by less than 1% from 2009 to 2010. Other noncurrent assets decreased 38.71% over the prior year largely due to a decrease in the amount due from the North Carolina Community College System for State Higher Education Bond-funded projects. Restricted net assets decreased by \$262,170.73. This was primarily due to the reduction in the amount due for bond-funded projects as discussed above. A significant enrollment increase in 2010 increased revenues from student-generated fees and other unrestricted sources, contributing to an increase in fund balances in unrestricted accounts.

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

	2010	As Restated 2009	Change	% Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,701,744.48	\$ 1,568,463.94	\$ 133,280.54	8.50%
Sales and Services, Net	1,038,073.70	1,136,446.00	(98,372.30)	-8.66%
Other Operating Revenues	127,853.59	97,878.72	29,974.87	30.62%
Total Operating Revenues	2,867,671.77	2,802,788.66	64,883.11	2.31%
Operating Expenses				
Salaries and Benefits	12,425,722.39	12,708,498.54	(282,776.15)	-2.23%
Supplies and Materials	2,970,584.19	2,133,153.62	837,430.57	39.26%
Services	1,256,302.01	1,548,373.18	(292,071.17)	-18.86%
Scholarships and Fellowships	3,441,814.16	2,216,385.41	1,225,428.75	55.29%
Utilities	487,175.95	455,824.28	31,351.67	6.88%
Depreciation	514,407.87	454,352.91	60,054.96	13.22%
Total Operating Expenses	21,096,006.57	19,516,587.94	1,579,418.63	8.09%
Operating Loss	(18,228,334.80)	(16,713,799.28)	(1,514,535.52)	9.06%
Nonoperating Revenues				
State Aid	8,556,925.72	9,164,269.90	(607,344.18)	-6.63%
County Appropriations	2,101,430.00	2,076,430.00	25,000.00	1.20%
Noncapital Grants and Gifts	6,669,789.69	4,901,369.65	1,768,420.04	36.08%
Other Nonoperating Revenues	15,668.83	27,130.91	(11,462.08)	-42.25%
Nonoperating Revenues	17,343,814.24	16,169,200.46	1,174,613.78	7.26%
Loss Before Other Revenues	(884,520.56)	(544,598.82)	(339,921.74)	62.42%
State Capital Aid	463,709.61	260,539.32	203,170.29	77.98%
County Capital Aid	225,000.00	200,000.00	25,000.00	12.50%
Capital Grants and Gifts	146,283.15	436,766.73	(290,483.58)	-66.51%
Additions to Endowments	3,699.35	1,500.00	2,199.35	146.62%
Increase (Decrease) in Net Assets	(45,828.45)	354,207.23	(400,035.68)	-112.94%
Net Assets, July 1	20,426,235.04	20,072,027.81	354,207.23	1.76%
Net Assets, June 30	\$ 20,380,406.59	\$ 20,426,235.04	\$ (45,828.45)	-0.22%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total net assets decreased by less than 1% overall. However, there were some categories of revenues and expenses that experienced material variances from 2008-2009 to 2009-2010. The largest variance was in the area of noncapital grants and gifts, which increased by \$1,768,420.04 due primarily to a large increase in federal student financial aid. The increase in federal student financial aid was a direct result of increased federal award amounts and the College's 18% enrollment increase in 2009-2010. The combination of increased federal financial aid awards and increased enrollment also resulted in a 55.29% increase, or \$1,225,428.75, in expenditures for scholarships and fellowships. Another significant variance is reflected in capital grants and gifts, which decreased by \$290,483.58. This was due to the decrease in availability of the Higher Education Bond funds.

The College received \$607,344.18 less in State aid in 2009-2010 than in the previous year. This was due to mandatory reversions to the State and to decreased federal stimulus funding. The College did see an increase in State capital aid of \$203,170.29 or 77.98%. The State's governor issued an executive order in 2008-2009 that restricted capital spending. Without that restriction in 2009-2010, the College's revenues from State capital aid increased. The College increased noncapital spending as well, as evidenced by the 39.26% increase in expenditures for supplies and materials. This was the result of increased spending in response to enrollment increases as well as plant repairs and renovations. Other fluctuations in the Statement of Revenues, Expenses, and Changes in Net Assets are considered insignificant and the end result was that net assets decreased by less than 1% as mentioned previously.

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 2004-2005, the College reverted 1.75% of its appropriation, or \$136,793. Then the College reverted 1.5% of its 2005-2006 State appropriation, totaling \$107,406. In 2006-2007, the College reverted 1% of its allotment, or \$78,814. During 2007-2008, no reversions were required although a portion of the College's appropriation was withheld through cash flow restrictions. Then, in 2008-2009, the College reverted 4% of its State appropriation in addition to cash flow restrictions implemented as a result of an executive order from the Governor. The trend of reversions continued in 2009-2010 when the College reverted 3% of its budget allocation. For 2010-2011, the College has been asked to hold 2% of its budget for possible reversion, in addition to a management flexibility cut that has already reduced the College's budget by nearly 3%.

Capital Asset Activity

Capital assets totaled \$18,911,673.17 at June 30, 2010, net of accumulated depreciation. The prior year's net capital assets totaled \$18,952,845.50; thus a decrease of \$41,172.33, which is less than 1%, occurred. The College considers this to be a nominal decrease that resulted from depreciation exceeding the dollar amount of acquisitions in 2009-2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

The College experienced a 17% increase in enrollment in the Spring 2009 semester as compared to the prior year. While an enrollment increase of that size normally results in a greater State appropriation in the subsequent year, the required reversions discussed above will offset any potential funding increase. The increase in enrollment continued for the Fall 2009 semester as the College experienced a 20% increase when compared to Fall 2008. The College's enrollment remained steady for the Spring 2010 and Fall 2010 semesters.

Equipment funding continues to be a challenge, specifically when addressing the College's technological needs. However, for 2010-2011, the entire North Carolina Community College system was allotted additional equipment dollars. The College's 2010-2011 equipment budget is \$692,709, an increase of \$254,549 over the amount allotted in 2009-2010. This additional allotment will enable the College to procure state of the art instructional equipment and enhance technology throughout the campus.

As the State's economic recovery continues to struggle, the College must plan for potential budget cuts in future years. This presents a challenge to the College as it provides services to a record number of students.

Rockingham Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,102,918.69
Restricted Cash and Cash Equivalents	249,455.85
Receivables, Net (Note 4)	264,933.90
Due from State of North Carolina Component Units	30,000.00
Inventories	240,367.03
Notes Receivable, Net (Note 4)	4,781.00

Total Current Assets	<u>1,892,456.47</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	194,039.82
Restricted Due from Primary Government	200,768.01
Capital Assets - Nondepreciable (Note 5)	1,718,465.11
Capital Assets - Depreciable, Net (Note 5)	<u>17,193,208.06</u>

Total Noncurrent Assets	<u>19,306,481.00</u>
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Total Assets	<u>21,198,937.47</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	288,802.35
Due to Primary Government	1,093.45
Unearned Revenue	45,251.03
Funds Held for Others	2,294.23
Long-Term Liabilities - Current Portion (Note 7)	<u>94,486.04</u>

Total Current Liabilities	<u>431,927.10</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>386,603.78</u>
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Total Noncurrent Liabilities	<u>386,603.78</u>
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Total Liabilities	<u>818,530.88</u>
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Rockingham Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets	\$ 18,911,673.17
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	131,918.15
Expendable:	
Scholarships and Fellowships	34,626.77
Loans	29,859.86
Capital Projects	533,457.94
Instructional Support	135,412.59
Student Support	41,117.69
Other	38,974.62
Unrestricted	<u>523,365.80</u>
Total Net Assets	<u><u>\$ 20,380,406.59</u></u>

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,701,744.48
Sales and Services, Net (Note 9)	1,038,073.70
Other Operating Revenues	<u>127,853.59</u>
Total Operating Revenues	<u>2,867,671.77</u>

EXPENSES

Operating Expenses:

Salaries and Benefits	12,425,722.39
Supplies and Materials	2,970,584.19
Services	1,256,302.01
Scholarships and Fellowships	3,441,814.16
Utilities	487,175.95
Depreciation	<u>514,407.87</u>
Total Operating Expenses	<u>21,096,006.57</u>
Operating Loss	<u>(18,228,334.80)</u>

NONOPERATING REVENUES

State Aid	8,556,925.72
County Appropriations	2,101,430.00
Noncapital Grants - Federal Student Financial Aid	4,963,217.59
Noncapital Grants	1,663,007.10
Noncapital Gifts	43,565.00
Investment Income	14,770.82
Other Nonoperating Revenues	<u>898.01</u>
Nonoperating Revenues	<u>17,343,814.24</u>
Loss Before Other Revenues	(884,520.56)

State Capital Aid	463,709.61
County Capital Aid	225,000.00
Capital Grants	136,283.15
Capital Gifts	10,000.00
Additions to Endowments	<u>3,699.35</u>
Decrease in Net Assets	(45,828.45)

NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 16)	<u>20,426,235.04</u>
Net Assets, June 30, 2010	<u>\$ 20,380,406.59</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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,883,329.76
Payments to Employees and Fringe Benefits	(12,461,712.02)
Payments to Vendors and Suppliers	(4,704,519.29)
Payments for Scholarships and Fellowships	(3,441,814.16)
Loans Issued to Students	(8,922.00)
Collection of Loans to Students	7,954.06
Other Payments	(3,607.64)
	<hr/>
Net Cash Used by Operating Activities	(17,729,291.29)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,556,925.72
County Appropriations	2,101,430.00
Noncapital Grants - Federal Student Financial Aid	4,961,290.48
Noncapital Grants Received	1,663,007.10
Noncapital Gifts and Endowments Received	47,264.35
	<hr/>
Net Cash Provided by Noncapital Financing Activities	17,329,917.65

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

State Capital Aid Received	767,611.17
County Capital Aid	225,000.00
Capital Grants Received	136,283.15
Acquisition and Construction of Capital Assets	(468,974.05)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	659,920.27

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	40,885.00
Investment Income	14,914.30
	<hr/>
Net Cash Provided by Investing Activities	55,799.30

Net Increase in Cash and Cash Equivalents	316,345.93
Cash and Cash Equivalents, July 1, 2009	1,230,068.43
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 1,546,414.36

Rockingham Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (18,228,334.80)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	514,407.87
Provision for Uncollectible Loans and Write-Offs	(647.01)
Miscellaneous Nonoperating Income	898.01
Changes in Assets and Liabilities:	
Receivables, Net	28,652.69
Inventories	50,083.57
Notes Receivable, Net	(967.94)
Accounts Payable and Accrued Liabilities	(34,632.32)
Due to Primary Government	(431.82)
Unearned Revenue	(12,994.70)
Funds Held for Others	(4,505.65)
Compensated Absences	(40,819.19)
Net Cash Used by Operating Activities	<u><u>\$ (17,729,291.29)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,102,918.69
Restricted Cash and Cash Equivalents	249,455.85
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>194,039.82</u>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 1,546,414.36</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 10,000.00
Increase in Receivables Related to Nonoperating Income	1,927.11

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, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	2,684,149
Certificates of Deposit		1,226,621
Accrued Interest Receivable		3,155
Promises Receivable - Civic Center Campaign		273,610
Land Held for Resale - Civic Center Campaign		25,000
Special Collections		111,335
Marketable Investments - at Fair Value		9,285,761
Nonmarketable Investments - at Cost		700
		<hr/>
Total Assets		13,610,331

NET ASSETS

Unrestricted		5,656,940
Temporarily Restricted		4,099,743
Permanently Restricted		3,853,648
		<hr/>
Total Net Assets	\$	13,610,331

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, 2010

Exhibit B-2

**CHANGES IN UNRESTRICTED NET ASSETS, REVENUES,
GAINS AND OTHER SUPPORT**

Contributions	\$ 130,303
Endowment and Other Investment Income	704,923
	<hr/>
Total Gains and Other Support	835,226
Net Assets Released from Restrictions	303,258
	<hr/>
Total	1,138,484
	<hr/>

EXPENSES

Program Expenses:	
Scholarships	69,323
Investment Fees	34,235
Approved Projects	341,774
Other Expenses	4,405
Fundraising Expenses Remitted to College:	
Civic Center Capital Campaign Expenses	136,430
Civic Center Capital Campaign Pledges Allowance	55,900
	<hr/>
Total Expenses	642,067
	<hr/>
Increase in Unrestricted Net Assets	496,417
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	52,111
Civic Center Campaign Contributions	9,822
Endowment and Other Investment Income	117,346
	<hr/>
Total	179,279
Net Assets Released from Restrictions	(303,258)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(123,979)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	130,961
Endowment and Other Investment Income	33,526
	<hr/>
Increase in Permanently Restricted Net Assets	164,487
	<hr/>
Increase in Net Assets	536,925
Net Assets, July 1, 2009	13,073,406
	<hr/>
Net Assets, June 30, 2010	\$ 13,610,331
	<hr/>

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

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ROCKINGHAM COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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

Discretely Presented Component Unit - Rockingham Community College Foundation, Inc. (Foundation) is a 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 Foundation 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from the 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, 2010, the Foundation distributed \$545,543.98 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts and deposits held by the State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables 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.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at cost using the retail inventory method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

funding is transactional based within the departmental management system in place at the College.

- L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

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 cash equivalents includes cash on hand totaling \$7,700.00, and deposits in private financial institutions with a carrying value of \$671,598.99 and a bank balance of \$730,950.70.

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, 2010, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$867,115.37 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$ 7,700.00
Carrying Amount of Deposits with Private Financial Institutions	671,598.99
Investments in the Short-Term Investment Fund	<u>867,115.37</u>
Total Deposits and Investments	<u>\$ 1,546,414.36</u>
Current:	
Cash and Cash Equivalents	\$ 1,102,918.69
Restricted Cash and Cash Equivalents	249,455.85
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>194,039.82</u>
Total	<u>\$ 1,546,414.36</u>

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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) 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, 2010, consisted of the following:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Fair Value
Temporary Investments	\$ 383,715.00
Equities	4,950,375.00
Corporate Bonds - Nonconvertible	3,941,328.00
Other Trust Fund Investment	10,343.00
Total Marketable Investments	\$ 9,285,761.00

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, 2010, net appreciation of \$2,428.73 was available to be spent.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 278,820.88	\$ 89,082.04	\$ 189,738.84
Accounts	65,633.51	1,067.98	64,565.53
Intergovernmental	9,566.00		9,566.00
Investment Earnings	1,063.53		1,063.53
Total Current Receivables	\$ 355,083.92	\$ 90,150.02	\$ 264,933.90
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 11,696.91	\$ 6,915.91	\$ 4,781.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 650,164.02	\$ 0.00	\$ 0.00	\$ 650,164.02
Construction in Progress	932,999.94	148,683.15	13,382.00	1,068,301.09
Total Capital Assets, Nondepreciable	1,583,163.96	148,683.15	13,382.00	1,718,465.11
Capital Assets, Depreciable:				
Buildings	19,671,290.10			19,671,290.10
Machinery and Equipment	2,866,914.21	215,190.08	75,905.52	3,006,198.77
General Infrastructure	1,611,899.93	122,744.31		1,734,644.24
Total Capital Assets, Depreciable	24,150,104.24	337,934.39	75,905.52	24,412,133.11
Less Accumulated Depreciation for:				
Buildings	5,455,660.65	290,173.44		5,745,834.09
Machinery and Equipment	1,110,612.28	191,993.21	75,905.52	1,226,699.97
General Infrastructure	214,149.77	32,241.22		246,390.99
Total Accumulated Depreciation	6,780,422.70	514,407.87	75,905.52	7,218,925.05
Total Capital Assets, Depreciable, Net	17,369,681.54	(176,473.48)		17,193,208.06
Capital Assets, Net	\$ 18,952,845.50	\$ (27,790.33)	\$ 13,382.00	\$ 18,911,673.17

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 77,289.05
Accrued Payroll	211,513.30
Total Accounts Payable and Accrued Liabilities	\$ 288,802.35

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 521,909.01	\$ 396,383.02	\$ 437,202.21	\$ 481,089.82	\$ 94,486.04

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$19,579.13.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 3,219,233.07</u>	<u>\$ 1,496,400.06</u>	<u>\$ 21,088.53</u>	<u>\$ 1,701,744.48</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,473,983.66	\$ 781,112.03	\$ (36.26)	\$ 692,907.89
Sales and Services of Education and Related Activities	<u>345,387.81</u>		<u>222.00</u>	<u>345,165.81</u>
Total Sales and Services	<u>\$ 1,819,371.47</u>	<u>\$ 781,112.03</u>	<u>\$ 185.74</u>	<u>\$ 1,038,073.70</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,765,600.55	\$ 739,549.44	\$ 233,132.67	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,738,282.66
Public Service	53,575.63	1,849.91	44,951.96				100,377.50
Academic Support	1,163,760.02	62,396.12	89,635.91				1,315,792.05
Student Services	917,531.08	64,868.61	125,508.54				1,107,908.23
Institutional Support	2,491,592.10	312,390.78	468,671.61				3,272,654.49
Operations and Maintenance of Plant	643,761.17	466,763.47	236,353.11		487,175.95		1,834,053.70
Student Financial Aid				3,441,814.16			3,441,814.16
Auxiliary Enterprises	389,901.84	1,322,765.86	58,048.21				1,770,715.91
Depreciation						514,407.87	514,407.87
Total Operating Expenses	<u>\$ 12,425,722.39</u>	<u>\$ 2,970,584.19</u>	<u>\$ 1,256,302.01</u>	<u>\$ 3,441,814.16</u>	<u>\$ 487,175.95</u>	<u>\$ 514,407.87</u>	<u>\$ 21,096,006.57</u>

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$10,140,090.32, of which \$8,242,629.49 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$294,263.92 and \$494,558.39, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$294,263.92, \$293,327.36, and \$267,996.76, 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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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. The voluntary contributions by employees amounted to \$38,619.00 for the year ended June 30, 2010.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$55,120.00 for the year ended June 30, 2010.

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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, 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.

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

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$370,918.33, \$357,929.27,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and \$360,257.94, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$42,861.67, \$45,395.90, and \$45,691.25, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds through a policy with a private insurance company.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

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 \$5,457.48.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 20,489,725.83
Restatement: To Correct Error in Classification of Building Repair Costs from Capitalized Construction in Progress To Expensed.	<u>(63,490.79)</u>
July 1, 2009 Net Assets as Restated	<u><u>\$ 20,426,235.04</u></u>

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Rockingham Community College
Wentworth, North Carolina

We have audited the financial statements of Rockingham Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 9, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 opinions 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

March 9, 2011

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