STATE OF NORTH CAROLINA

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

Rowan-Cabarrus Community College

Salisbury, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2007

State Board of Community Colleges

The North Carolina Community College System

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Board of Trustees

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Robert Keeney, Vice President, Administrative Services and Chief Fiduciary Officer

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Rowan-Cabarrus Community College for the year ended June 30, 2007, 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.

Leslie W. Merritt, Jr.

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

May 19, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rowan-Cabarrus Community College
Salisbury, North Carolina

We have audited the accompanying basic financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Rowan-Cabarrus Community College Foundation, Inc., which represent 3 percent, 3 percent, and 0 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Rowan-Cabarrus Community College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Rowan-Cabarrus 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 opinion.

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 financial position of Rowan-Cabarrus Community College as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2008, on our consideration of the College's internal control over financial reporting

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

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

Leslie W. Merritt, Jr.

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

May 6, 2008

As prescribed by standards issued by the Governmental Accounting Standards Board (GASB), this Management's Discussion and Analysis section of Rowan-Cabarrus Community College's Annual Financial Report provides an overview of the College's financial position and activities during the fiscal year ended June 30, 2007. This section should be read in conjunction with the College's basic financial statements and notes to the financial statements.

The financial statements focus on the College as a whole. As such, 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. The basic financial statements consist of three statements. The first statement, Statement of Net Assets, shows, at a glance, the financial position of the College. Capital assets are presented in the same column as other resources. The Statement of Net Assets is presented in a "classified" format. This means that assets are classified by current or noncurrent. The second statement, Statement of Revenues, Expenses, and Changes in Net Assets, presents the revenues and expenses for the fiscal year. Again, all activity is presented in one column. Revenue and expenses are classified as operating or nonoperating. The final statement, Statement of Cash Flows, presents the sources from which the College received cash and uses for which cash was disbursed. The Cash Flow statement is presented in the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities. For the purpose of this discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

Financial Highlights

The following is a comparison between the consolidated Statement of Net Assets for fiscal year ended June 30, 2007, and fiscal year ended June 30, 2006.

Consolidated Statement of Net Assets

			Increase/(Decrease)	
	FYE 2007	**FYE 2006**	**Dollar Change**	**Percent Change**
ASSETS				
Current Assets	$ 6,811,085.62	$ 5,503,230.73	$ 1,307,854.89	23.77 %
Noncurrent Assets				
Capital	24,978,405.53	15,842,850.79	9,135,554.74	57.66 %
Other	5,019,964.87	2,129,995.04	2,889,969.83	135.68 %
Total Assets	36,809,456.02	23,476,076.56	13,333,379.46	56.80 %
LIABILITIES				
Current Liabilites	2,966,815.24	1,080,832.71	1,885,982.53	174.49 %
Noncurrent Liabilities	781,496.02	751,414.69	30,081.33	4.00 %
Total Liabilities	3,748,311.26	1,832,247.40	1,916,063.86	104.57 %
NET ASSETS				
Invested in Capital Assets	24,978,405.53	15,842,850.79	9,135,554.74	57.66 %
Restricted	6,340,443.79	3,304,289.47	3,036,154.32	91.89 %
Unrestricted	1,742,295.44	2,496,688.90	(754,393.46)	(30.22) %
Total Net Assets	$ 33,061,144.76	$ 21,643,829.16	$ 11,417,315.60	52.75 %

For the year ended June 30, 2007, the College's current assets increased $1,307,854.89. Approximately $1,000,000 of this increase is cash that is classified as a current asset because it will be used to pay current liabilities related to the construction of a new building on our South campus (Building 3000).

The $2,889,969.83 increase in other noncurrent assets is attributed to construction activity. Specifically, the $3,740,530.49 is recorded as restricted due from primary government, which represents the amount that the North Carolina Community College System Office owes the College for construction projects funded with State dollars. This receivable is based on approved projects, actual expenditures, and, if applicable, a cash flow model that was approved by the State. In FYE 2007, the College neared completion on the South Campus Building 3000 construction project funded, at least in part, by State funds. As a result, the amount of restricted due from primary government increased $3,608,377.56 over FYE 2006.

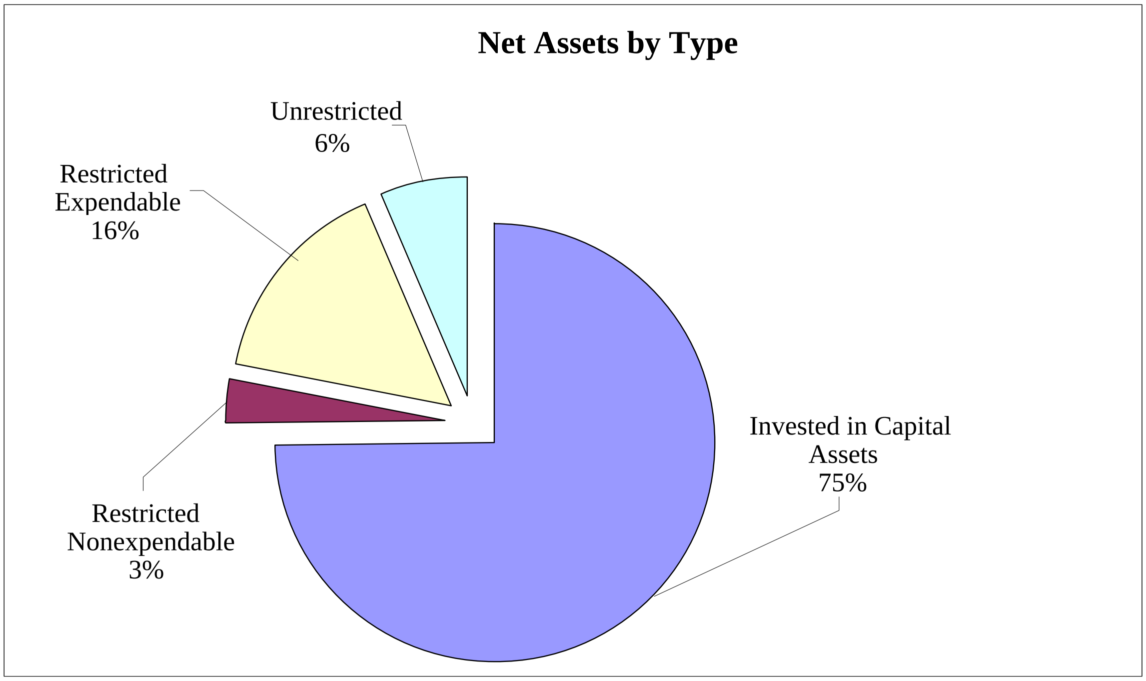
Liabilities

At June 30, 2007, the total liabilities for the College were $3,748,311.26. As required by GASB, the College has classified the liabilities between current and noncurrent.

Generally, current liabilities are liabilities that will be paid within one year, while noncurrent liabilities will not become due within one year. Of the $3,748,311.26 in total liabilities, $2,966,815.24 were current and $781,496.02 were noncurrent. The current liabilities increased $1,885,982.53 (174.49%) from FYE 2006. This increase is due primarily to an increase in accounts payable related to construction projects and lack of State funds at the end of the year to pay all invoices.

Net Assets

The following graph depicts the allocation of net assets at June 30, 2007:



For the year ended June 30, 2007, the College's net assets increased by $11,417,315.60 from $21,643,829.16 at June 30, 2006, to $33,061,144.76 at June 30, 2007. Invested in capital net assets increased $9,135,554.74 due to a $6,498,223.70 increase in construction in progress, mostly related to the South Campus Building 3000 construction project. In addition, the net asset beginning balance restatements increased $2,806,898.84 due to a reevaluation of useful lives of capital assets. This contributed to the invested in capital assets increase at year-end.

Restricted net assets increased $3,036,154.32 primarily due to a $3,608,377.56 increase in restricted due from primary government for funds owed the College on State funded construction projects. These increases were slightly offset by a decrease in unrestricted net assets of $754,393.46. This decrease is due to the College's use of unrestricted funds to cover State expenses due to a shortfall in the State budget. In addition, the College had an increase in operating expenses of $3,662,267.74.

It is important to note that State appropriations do not carry over from one year to the next. Therefore, net assets will never be increased due to a surplus of State appropriations.

Revenues and Expenses

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

			Increase/(Decrease)	
	FYE 2007	FYE 2006	Dollar Change	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,206,591.89	$ 3,408,174.59	$ (201,582.70)	(5.91) %
Grants and Contracts	5,433,547.52	5,958,522.52	(524,975.00)	(8.81) %
Sales and Services, Net	543,384.73	512,775.70	30,609.03	5.97 %
Other Operating Revenues	7,354.25	23,255.24	(15,900.99)	(68.38) %
Total Operating Revenues	9,190,878.39	9,902,728.05	(711,849.66)	(7.19) %
Less Operating Expenses	37,430,776.19	33,768,508.45	3,662,267.74	10.85 %
Operating Loss	(28,239,897.80)	(23,865,780.40)	(4,374,117.40)	18.33 %
Nonoperating Revenues:				
State Aid	21,272,376.80	18,647,865.76	2,624,511.04	14.07 %
County Appropriations	3,187,376.00	2,814,383.00	372,993.00	13.25 %
Noncapital Grants and Gifts	834,118.08	1,170,931.61	(336,813.53)	(28.76) %
Investment Income	320,894.91	206,517.16	114,377.75	55.38 %
Other Nonoperating Expenses	(368,458.00)	(4,344.37)	(364,113.63)	8381.28 %
Total Nonoperating Revenues	25,246,307.79	22,835,353.16	2,410,954.63	10.56 %
Loss Before Other Revenues	(2,993,590.01)	(1,030,427.24)	(1,963,162.77)	190.52 %
Captial Contributions and Other Revenues				
State Capital Aid	7,951,705.09	1,010,500.21	6,941,204.88	686.91 %
County Capital Appropriations	3,573,148.68	260,578.00	3,312,570.68	1272.24 %
Capital Grants and Gifts		357,780.34	(357,780.34)	(100.00) %
Additions to Endowments	79,153.00	58,367.00	20,786.00	35.61 %
Total Captial Contributions and Other Revenues	11,604,006.77	1,687,225.55	9,916,781.22	587.76 %
Increase in Net Assets	8,610,416.76	656,798.31	7,953,618.45	1210.97 %
Net Assets, Beginning of Year	21,643,829.16	20,987,030.85	656,798.31	3.13 %
Restatement of Net Assets (Note 15)	2,806,898.84		2,806,898.84	100.00 %
Net Assets, End of Year	$ 33,061,144.76	$ 21,643,829.16	$ 11,417,315.60	52.75 %

Rowan-Cabarrus Community College is a State supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss primarily funded by State and county appropriations and other nonoperating revenues.

Total net revenues, including operating and nonoperating revenues as well as capital contributions and other revenues, totaled $46,041,192.95 for FYE 2007 as compared to $34,425,306.76 for FYE 2006. This represents an increase of $11,615,886.19.

Given the large operating loss, it is important to understand how the College is funded. The College receives appropriations from the State and from Rowan and Cabarrus counties. The State provides funds for the instructional and administrative needs of the College based on enrollment as measured in student Full Time Equivalent (FTE). Funding is provided based on the previous year's FTE which includes both tuition (in operating revenue) and State Aid (in nonoperating revenue). Because most of the State appropriation is recognized as nonoperating revenue, large losses are expected every year. Rowan and Cabarrus counties provide funds for the operation and maintenance of facilities in their respective counties.

Operating Revenue

In FYE 2007 enrollment declined at the College. As a result, tuition revenues decreased by $201,582.70. Furthermore, the decline in enrollment directly impacted the number of students receiving Pell grants and other Federal Financial Aid. The number of Pell recipients decreased by 182, resulting in $324,494.85 less Pell awards. These two factors make up most of the decrease in operating revenue.

Nonoperating Revenue

In FYE 2007, the College received $29,224,081.89 in State aid and State capital aid, which represents 63.47% of the total net revenues. This represents a $9,565,715.92 increase over the State aid (current and capital) received in FYE 2006. However, the operational funding (basic formula allocation from the State) actually decreased by $234,479 (1%) between FYE 2006 and FYE 2007. This decrease is a result of a 6.4% decline in FTE between FYE 2005 and FYE 2006. The reason the decline in funding is less than the decline in FTE relates to an increase in the amount paid per FTE between FYE 2006 and FYE 2007. The end result was that the College had less State funds to operate its recurring instructional programs. Thus the College had to use some unrestricted Institutional funds to cover the shortfall (This was mentioned above in the Net Assets section as well). The College began planning for 2007-08 by identifying cost savings to address the expected shortfall. The good news is that this shortfall appears to be short-lived. Early indications for FTE in Fall 2007 (the basis of funding for 2008-09) show an approximate 15% increase. This may mean more money for 2007-08 in the form of "Enrollment Growth" funding. In addition, it will certainly mean an increase in funding for 2008-09.

As mentioned above, the total State appropriations increased over $9.5 million between FYE 2006 and FYE 2007. The large increase is primarily due two factors. First, as discussed above, the College had two large construction projects where State Appropriations were required to be recognized based on a cash flow model used by the State. The first project is the South Campus Building 3000. For FYE 2007, we recorded State appropriation revenue of $3,887,995 for the State portion of the project. In FYE 2006, only $114,034 of State appropriation revenue was recognized for this project. The second construction project is the North Campus building 400. While the College had only incurred minor expenses on this project as of June 30, 2007, the State had recorded the project via the cash flow model and the College was required to report

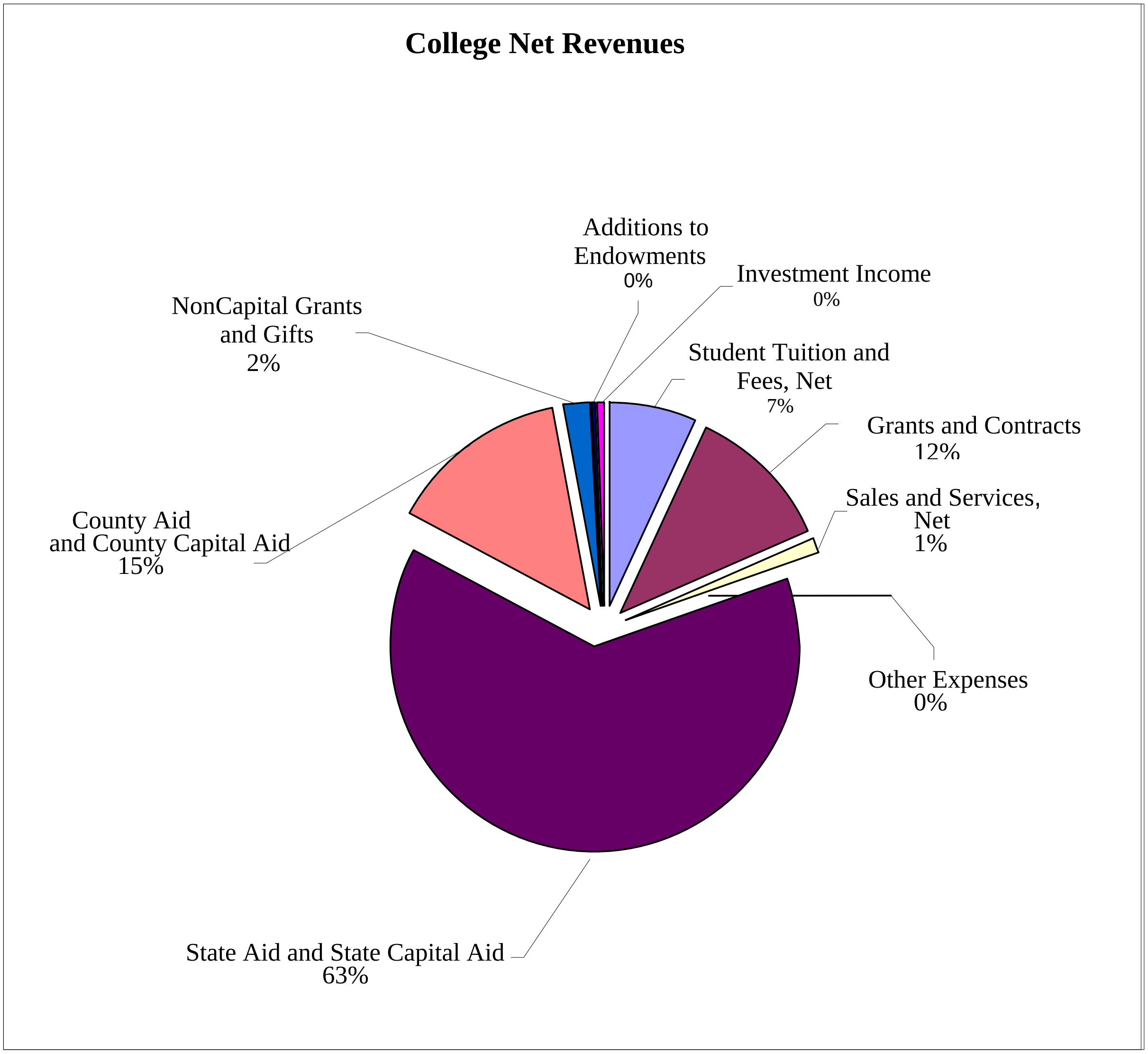
$1,335,464 in State appropriation revenue. (This same amount is recorded as a "Due from Primary Government" - see discussion in the asset section above). Other similar changes in smaller construction projects accounted for an additional $1,477,000 increase in State appropriations, while regular State Capital appropriations increased approximately $354,718. The second major factor in the overall State appropriation increase stems from a new initiative entered into by RCCC at the North Carolina Research Campus (NCRC). The NCRC will be a state of the art biotechnology center in Kannapolis, NC. RCCC will have a presence on the NCRC campus and provide training for students wishing to enter into the biotechnology field. As RCCC began to "ramp up" for this endeavor, $957,242 was spent for a project that did not exist in FYE 2006. These expenditures were funded by State appropriations.

The appropriations for Rowan and Cabarrus counties (current and capital) totaled $6,760,524.68 and represents 14.68% of total net revenues. This amount represents a $3,685,563.68 increase over FYE 2006. This increase was due primarily to increased County funding of the South Campus Building 3000 construction project.

Operating Expenses

Operating expenses increased by $3,662,267.74. Personal services expenses increased by $2,822,466.80 due to a 6% State raise given to faculty and staff. Merit, expansion of duties, and degree completion raises were also awarded in addition to the State raises. Approximately $588,000.00 was spent for salaries for the North Carolina Research Campus (NCRC), which was a new expense for FYE 2007. Supplies and materials expenses increased by $714,997.92 (26.53%) due to increased spending for the NCRC.

The following graph shows the various components of the College's net revenue, which totaled $46,041,192.95 for the fiscal year ended June 30, 2007:



At June 30, 2007 the College was nearing the completion of the construction phase of the South Campus Building 3000 project. The total commitment for these contracts is $450,130.08. This project is being funded by State and Cabarrus County funds on a reimbursement basis.

There are currently no other known facts, decisions or conditions, which will have a significant effect on the financial position (net assets) or results of operations (revenues, expenses and changes in net assets).

Rowan-Cabarrus Community College
Statement of Net Assets
June 30, 2007 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 3,654,881.27
Restricted Cash and Cash Equivalents	2,312,468.28
Receivables, Net (Note 4)	659,146.31
Inventories	179,808.21
Notes Receivable, Net (Note 4)	4,781.55
Total Current Assets	6,811,085.62
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,279,434.38
Restricted Due from Primary Government	3,740,530.49
Capital Assets - Nondepreciable (Note 5)	7,422,838.58
Capital Assets - Depreciable, Net (Note 5)	17,555,566.95
Total Noncurrent Assets	29,998,370.40
Total Assets	36,809,456.02
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	2,701,043.87
Funds Held for Others	162,621.68
Long-Term Liabilities - Current Portion (Note 7)	103,149.69
Total Current Liabilities	2,966,815.24
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	781,496.02
Total Liabilities	3,748,311.26
NET ASSETS	
Invested in Capital Assets	24,978,405.53
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,062,347.93
Instructional Programs	9,000.00
Faculty and Staff Professional Development	56,450.25
Expendable:	
Scholarships and Fellowships	293,915.28
Loans	18,006.55
Capital Projects	4,014,194.99
Instructional Programs	602,587.97
Faculty and Staff Professional Development	29,032.74
Student Support	29,643.75
Grants	177,124.78
Other	48,139.55
Unrestricted	1,742,295.44
Total Net Assets	$ 33,061,144.76

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

Rowan-Cabarrus Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2007

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	3,206,591.89
Federal Grants and Contracts		4,998,875.25
State and Local Grants and Contracts		434,672.27
Sales and Services, Net (Note 9)		543,384.73
Other Operating Revenues		7,354.25
Total Operating Revenues		9,190,878.39
EXPENSES		
Operating Expenses:		
Personal Services		25,781,356.59
Supplies and Materials		3,410,268.74
Services		2,808,522.79
Scholarships and Fellowships		4,116,594.19
Utilities		588,639.66
Depreciation		725,394.22
Total Operating Expenses		37,430,776.19
Operating Loss		(28,239,897.80)
NONOPERATING REVENUES (EXPENSES)		
State Aid		21,272,376.80
County Appropriations		3,187,376.00
Noncapital Grants		662,971.85
Noncapital Gifts		171,146.23
Investment Income		320,894.91
Other Nonoperating Expenses		(368,458.00)
Net Nonoperating Revenues		25,246,307.79
Loss Before Other Revenues		(2,993,590.01)
State Capital Aid		7,951,705.09
County Capital Aid		3,573,148.68
Additions to Endowments		79,153.00
Increase in Net Assets		8,610,416.76
NET ASSETS		
Net Assets, July 1, 2006, as Restated (Note 15)		24,450,728.00
Net Assets, June 30, 2007	$	33,061,144.76

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

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 9,175,721.03
Payments to Employees and Fringe Benefits	(25,251,122.01)
Payments to Vendors and Suppliers	(6,527,175.41)
Payments for Scholarships and Fellowships	(4,152,545.86)
Loans Issued to Students	(3,915.50)
Collection of Loans from Students	5,578.99
Other Receipts	34,829.13
Net Cash Used by Operating Activities	(26,718,629.63)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	21,272,376.80
County Appropriations	3,187,376.00
Noncapital Grants Received	662,971.85
Noncapital Gifts and Endowments Received	300,299.23
Cash Provided by Noncapital Financing Activities	25,423,023.88
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	4,343,327.53
County Capital Aid	3,280,053.45
Acquisition and Construction of Capital Assets	(5,944,896.70)
Net Cash Provided by Capital and Related Financing Activities	1,678,484.28
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	320,894.91
Net Increase in Cash and Cash Equivalents	703,773.44
Cash and Cash Equivalents, July 1, 2006	6,543,010.49
Cash and Cash Equivalents, June 30, 2007	$ 7,246,783.93
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (28,239,897.80)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	725,394.22
Provision for Uncollectible Loans and Write-Offs	34.00
Miscellaneous Nonoperating Expense	(368,458.00)
Changes in Assets and Liabilities:	
Receivables, Net	337,947.96
Inventories	18,142.55
Notes Receivable, Net	1,297.00
Accounts Payable and Accrued Liabilities	758,262.05
Funds Held for Others	14,596.63
Compensated Absences	34,051.76
Net Cash Used by Operating Activities	$ (26,718,629.63)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,654,881.27
Restricted Cash and Cash Equivalents		2,312,468.28
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,279,434.38
Total Cash and Cash Equivalents - June 30, 2007	$	7,246,783.93

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	1,109,153.42
Increase in Receivables Related to Nonoperating Income		3,901,472.79

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Rowan-Cabarrus 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 one component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College.

Blended Component Unit - Although legally separate, Rowan-Cabarrus Community College Foundation, Inc., is reported as if it was part of the College. The Foundation is governed by a board that consists of no fewer than seven and no more than twenty members as determined by the Board of Trustees of Rowan-Cabarrus Community College. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Rowan-Cabarrus Community College Board of Trustees and the Foundation's sole purpose is to benefit Rowan-Cabarrus Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, P.O. Box 1595, Salisbury, NC 28145-1595, or by calling (704) 216-3472. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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.

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. All receivables are recorded net of estimated uncollectible amounts.

F. Inventories - Inventories, consisting of expendable supplies and postage, are valued at cost using last invoice cost method.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight–line method over the estimated useful lives of the assets, generally 10 to 50 years for general infrastructure, 50 years for buildings, and 5 to 25 years for equipment.

H. Restricted Assets - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

I. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 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.

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

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

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that 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. **Internal Sales Activities** - The Copy Center is the only institutional auxiliary operation that provides goods and services to College departments. All internal sales activities to College departments from this auxiliary operation have been eliminated in the accompanying financial statements. This elimination is recorded by removing the revenue and expense in the auxiliary operations and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

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 $2,605.00, and deposits in private financial institutions with a carrying value of $97,635.13 and a bank balance of $236,766.58.

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, 2007, 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.

At June 30, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $7,146,543.80, 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, 2007. 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.

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, 2007, net appreciation of $86,340.05 was available to be spent, of which $54,111.80 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 528,520.44	$ 388,690.50	$ 139,829.94
Accounts	6,811.71		6,811.71
Intergovernmental	510,530.14		510,530.14
Interest on Loans	1,974.52		1,974.52
Total Current Receivables	$ 1,047,836.81	$ 388,690.50	$ 659,146.31
Current Notes Receivable:			
Institutional Student Loan Programs	$ 10,860.53	$ 6,078.98	$ 4,781.55

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 671,498.76	$ 0.00	$ 0.00	$ 671,498.76
Construction in Progress	417,503.91	6,498,223.70	164,387.79	6,751,339.82
Total Capital Assets, Nondepreciable	1,089,002.67	6,498,223.70	164,387.79	7,422,838.58
Capital Assets, Depreciable:				
Buildings	21,273,831.09	186,548.88		21,460,379.97
Machinery and Equipment	2,997,708.79	511,012.93	45,629.57	3,463,092.15
General Infrastructure	1,769,343.80	22,652.40		1,791,996.20
Total Capital Assets, Depreciable	26,040,883.68	720,214.21	45,629.57	26,715,468.32
Less Accumulated Depreciation:				
Buildings	6,709,999.97	428,547.46		7,138,547.43
Machinery and Equipment	1,389,554.21	261,369.58	45,629.57	1,605,294.22
General Infrastructure	380,582.54	35,477.18		416,059.72
Total Accumulated Depreciation	8,480,136.72	725,394.22	45,629.57	9,159,901.37
Total Capital Assets, Depreciable, Net	17,560,746.96	(5,180.01)		17,555,566.95
Capital Assets, Net	$ 18,649,749.63	$ 6,493,043.69	$ 164,387.79	$ 24,978,405.53

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 1,354,118.86
Accrued Payroll	1,141,147.02
Contract Retainage	205,777.99
Total Accounts Payable and Accrued Liabilities	$ 2,701,043.87

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	$ 850,593.95	$ 720,038.26	$ 685,986.50	$ 884,645.71	$ 103,149.69

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	$ 561,514.43
2009	398,662.15
2010	395,698.34
2011	179,048.09
Total Minimum Lease Payments	$ 1,534,923.01

The following schedule presents the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Amount
Minimum Rentals	$ 559,578.71
Contingent Rentals	8,370.39
Total Rental Expense	$ 567,949.10

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 4,644,631.05	$ 0.00	$ 1,438,039.16	$ 3,206,591.89
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commissions	$ 240,210.76	$ 0.00	$ 0.00	$ 240,210.76
Vending Commissions	14,830.20			14,830.20
Childcare	196,674.57			196,674.57
Copy Center	460,882.41	460,882.41		
Other	575.50			575.50
Sales and Services of Education and Related Activities	91,093.70			91,093.70
Total Sales and Services	$ 1,004,267.14	$ 460,882.41	$ 0.00	$ 543,384.73

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	$ 16,578,749.49	$ 1,189,704.92	$ 947,934.63	$ 0.00	$ 0.00	$ 0.00	$ 18,716,389.04
Academic Support	2,686,334.66	148,398.97	102,788.28				2,937,521.91
Student Services	1,648,073.99	242,303.74	32,633.32				1,923,011.05
Institutional Support	4,007,186.37	250,355.54	1,122,878.35		247,404.97		5,627,825.23
Operations and Maintenance of Plant	653,448.99	1,527,720.79	361,046.89		341,234.69		2,883,451.36
Student Financial Aid			18,586.91	4,116,594.19			4,135,181.10
Auxiliary Enterprises	207,563.09	51,784.78	222,654.41				482,002.28
Depreciation						725,394.22	725,394.22
Total Operating Expenses	$ 25,781,356.59	$ 3,410,268.74	$ 2,808,522.79	$ 4,116,594.19	$ 588,639.66	$ 725,394.22	$ 37,430,776.19

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $21,374,596.69, of which $16,109,878.37 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $966,592.70 and $428,522.76, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $428,522.76, $343,653.19, and $276,809.63, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $20,252.00 for the year ended June 30, 2007.

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 $354,718.92 for the year ended June 30, 2007.

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 $63,229.76 for the year ended June 30, 2007.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $612,175.38. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $83,771.37. 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 $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

During the year ended June 30, 1995, the College board of trustees voted to establish a self-insured reserve fund by transferring $125,000.00 from the Construction Fund. These funds are to be used for liability claims against the College, which are not covered by insurance. The reserve fund had a balance of $154,096.52 at June 30, 2007**.**

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $75,000 deductible. Losses from county and institutional fund paid employees are covered by contracts with private insurance companies.

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 AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $450,130.08 and on other purchases were $416,938.81 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

	Amount
July 1, 2006, Net Assets as Previously Reported	$ 21,643,829.16
Correct Errors in Establishing Useful Lives of Capital Assets	2,806,898.84
July 1, 2006, Net Assets as Restated	$ 24,450,728.00

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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
Rowan-Cabarrus Community College
Salisbury, North Carolina

We have audited the financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2007, and have issued our report thereon dated May 6, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Rowan-Cabarrus Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Rowan-Cabarrus Community College Foundation, Inc., 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 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 the findings 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, we believe that none of the significant deficiencies described above is 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.

This report is intended solely for the information and use of management of the College, the Board of Trustees, 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.

Leslie W. Merritt, Jr.

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

May 6, 2008

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. FINANCIAL STATEMENT PRESENTATION

The June 30, 2007, financial statements prepared by Rowan-Cabarrus Community College contained material misstatements that were corrected as a result of our audit.

During our audit of the June 30, 2007, financial statements, we noted the following misstatements:

a. The College did not properly record an allowance for doubtful accounts for student accounts receivables. This resulted in a $388,691 overstatement of receivables and nonoperating revenues.

b. The College overstated current cash and cash equivalent and understated current restricted cash and cash equivalents by $222,783 due to interfund borrowing activity.

Recommendation: The College should implement effective controls to ensure the completeness and accuracy of the financial statements and to ensure that the financial statements are reviewed and misstatements and presentation errors are detected and corrected prior to submission of the statements and related notes to the Office of State Controller.

College's Response:

a. Rowan-Cabarrus Community College concurs with the finding. Although we have not recorded an allowance for doubtful accounts for student accounts receivable in the past, we acknowledge that proper financial statement presentation requires that an allowance be recorded. As noted, the error was corrected for the year ended June 30, 2007. This was done through an analysis of the students' accounts receivable, reviewing account balances by type and by age. A similar analysis will be done each year to adjust the allowance account to a reasonable estimate at June 30 of each year.

b. Rowan-Cabarrus Community College concurs with the finding. Again, while we have not made such a reclassification entry in the past, we acknowledge that it would present the financial statements more fairly. We have documented the change and will include the audit adjustment and support in our planning file for FYE 2008's financial statements to ensure that a similar analysis of restricted funds cash is made, and a reclassification done if necessary, in FYE 2008 and every year thereafter.

2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College allowed information system access rights inconsistent with adequate internal controls to prevent error or misappropriation. We identified six employees who had system access rights inconsistent with their job duties. In each of these instances the employees previously had responsibilities requiring such access; however, upon termination of those duties, the system access remained. Prudent internal control principles require that users be given access to the specific computer resources needed for their job duties.

Recommendation: The College should improve internal control over computer system access to ensure only authorized personnel are granted the necessary system access to perform their job duties.

College's Response: Rowan-Cabarrus Community College concurs with the finding. While every effort is made to ensure that employees only have access rights that are consistent with their job duties, we acknowledge that when job duties changed, there were times when access rights to certain mnemonics were not removed. The information technology area is implementing a new system for assigning rights to employees. This new system will involve assigning rights based on roles and responsibilities, allowing groups of people performing the same duties to be given the same access. This new format will make it easier to add or remove access rights when a person's job duties change. The College will continue to explore other ways to ensure that access rights stay consistent with job duties.

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