STATE OF NORTH CAROLINA

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2009, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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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, 2009, 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 the Rowan-Cabarrus Community College Foundation Inc., which represent 3 percent, 3 percent, and 1 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. 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, 2009, 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.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2010 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

Beth A. Wood, CPA
State Auditor

May 20, 2010

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, 2009. 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

Throughout this discussion, a few recurring themes will be evident. The College was seriously impacted by the economic downturn that began in 2008. This did not immediately affect construction projects, and changes from year to year resulting from construction projects often overshadow everything else. Finally, with increased enrollment, federal and state financial aid increased dramatically, and in financial statement presentation, that also tends to overshadow economic realities faced by the College.

Statement of Net Assets

The following is a comparison between the condensed Statement of Net Assets for fiscal year ended June 30, 2009, and fiscal year ended June 30, 2008.

Condensed Statement of Net Assets

			Increase/(Decrease)	
	FYE 2009	FYE 2008	Dollar Change	Percent Change
ASSETS				
Current Assets	$ 8,639,996.79	$ 6,147,180.39	$ 2,492,816.40	40.55 %
Noncurrent Assets				
Capital	27,466,368.80	26,603,572.83	862,795.97	3.24 %
Other	8,348,050.84	9,312,020.17	(963,969.33)	(10.35) %
Total Assets	44,454,416.43	42,062,773.39	2,391,643.04	5.69 %
LIABILITIES				
Current Liabilites	2,720,449.45	1,713,499.45	1,006,950.00	58.77 %
Noncurrent Liabilities	782,440.14	726,390.98	56,049.16	7.72 %
Total Liabilities	3,502,889.59	2,439,890.43	1,062,999.16	43.57 %
NET ASSETS				
Invested in Capital Assets	27,466,368.80	26,603,572.83	862,795.97	3.24 %
Restricted	10,318,376.49	10,549,613.73	(231,237.24)	(2.19) %
Unrestricted	3,166,781.55	2,469,696.40	697,085.15	28.23 %
Total Net Assets	$ 40,951,526.84	$ 39,622,882.96	$ 1,328,643.88	3.35 %

For the year ended June 30, 2009, the College's current assets increased $2,492,816.40. This increase is a result of several factors. First, the College began the construction phase of a new building on its north campus (Building 400). As a result of this construction activity, and the reimbursement process that the College must follow, Rowan County owed the College $411,698.00 at June 30, 2009. This receivable is approximately $390,000.00 higher than the amount Rowan and Cabarrus counties owed the College for construction projects at June 30, 2008. A second factor is also directly related to the Building 400 construction activity. At June 30, 2009, the College had $997,530.00 in accounts payables related to Building 400. As required by reporting regulations, $997,530.00 of cash was reclassified from noncurrent to current to cover these accounts payable. This was approximately $800,000.00 more than the reclassification needed to cover construction related accounts payable for FYE 2008. Approximately $500,000.00 of the current assets increase is the result of two new program grants that were received in FYE 2009 but not yet expended. These were for the Machining program and the North Carolina Research Campus Aseptic Suite. Another $300,000.00 of the increase is from bookstore funds. Enrollment increases have caused higher bookstore sales and thus higher commissions. In addition, in FYE 2008, due to budget constraints, the College had to use approximately $117,000.00 in bookstore funds to cover some of the financial aid staff salaries. Luckily, in FYE 2009, this was not necessary.

Noncurrent capital assets increased by $862,795.97. Once again the largest factor in this increase is the construction activity related to Building 400. This activity added approximately $1,600,000 to capital assets as "construction in progress". This addition was offset some by the increase in depreciation, deletion of some assets, and a beginning balance restatement. For more information about the College's asset holdings refer to Note 5 of the Notes to the financial statements.

Other noncurrent assets decreased by $963,969.33. This decrease is also related to construction activity. The "Restricted Due from Primary Government" represents the amount that the North Carolina Community College System Office (NCCCSO) owes the College for construction projects funded, at least in part, by the State. This receivable is based on approved projects, actual expenditures and, where applicable, cash flow models that were approved by the State. Based on this method, in FYE 2008 the College reported a "Due From Primary Government" of $7,106,362.00. This amount included the receivable for Building 400. Because we have been reimbursed from the State throughout FYE 2009 for several of the construction projects, including Building 400, the amount that is reported as "Due From Primary Government" decreased by $694,000.00. The remaining difference relates to the reclassification of cash from noncurrent to current to cover construction accounts payable as described above.

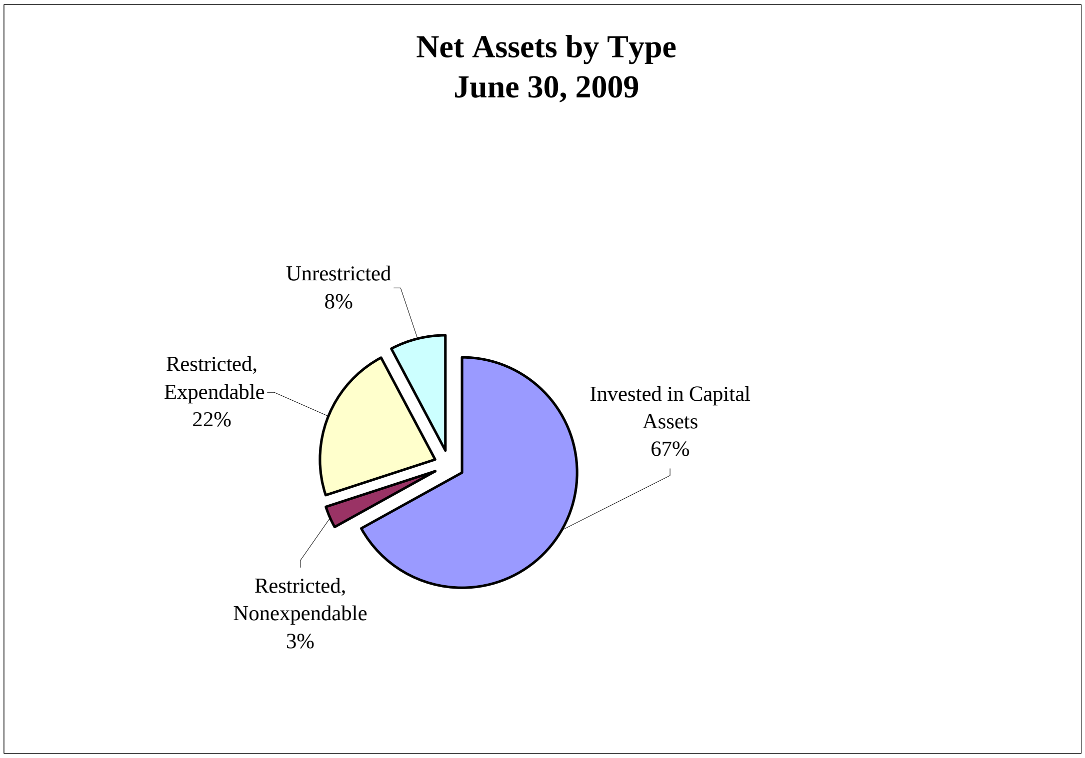
Overall total assets increased by $2,391,643.04.

Liabilities

At June 30, 2009, the total liabilities for the College were $3,502,889.59. 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 $3,502,889.59 total liabilities, $2,720,449.45 was current and $782,440.14 was noncurrent. The current liabilities increased $1,006,950.00 from FYE 2008. Noncurrent liabilities increased $56,049.16 from FYE 2008. Overall, the total liabilities increased $1,062,999.16 from the previous fiscal year. The majority of the increase in current liabilities relates to construction. In FYE 2009, the College began the construction phase of Building 400 on our North Campus. At June 30, there was approximately $997,000.00 of current liabilities (accounts payable and retainage payable) related to this project.

Net Assets

The following graph depicts the allocation of net assets at June 30, 2009:



For the year ended June 30, 2009, the College's net assets increased by $1,328,643.88 from $39,622,882.96 at June 30, 2008, to $40,951,526.84 at June 30, 2009. Net assets invested in capital assets increased $862,795.97. This was a result of construction in progress (related primarily to Building 400) and new asset additions, offset against depreciation increases, the deletion of some assets, and a beginning balance restatement, as previously mentioned for the change in noncurrent capital assets. Unrestricted net assets increased by $697,085.15. This increase is mainly due to the fact that in FYE 2008 the College was forced to use unrestricted funds to cover expenses that are normally covered with State funds. This situation arose due to an extremely tight budget in the FYE 2008. For example, as mentioned above in the current asset section, in FYE 2008 approximately $117,000.00 of bookstore funds was used to cover salary for financial aid staff. In FYE 2009 no salaries were covered from bookstore funds. In addition, due to enrollment growth, bookstore sales increased quite a bit which caused our commissions to increase. For FYE 2009, our fund balance in bookstore increased by approximately $300,000.00. In addition, our fund balance in vending operations increased by $20,000.00 approximately. The fund balances in the self-supporting accounts (both continuing education and curriculum) increased by approximately $100,000.00 due to enrollment growth.

These increases were slightly offset by a decrease in restricted net assets.

Revenues and Expenses

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

	FYE 2009	FYE 2008 (as Restated)	Increase/(Decrease) Dollar Change	Increase/(Decrease) Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,888,236.37	$ 3,362,789.39	$ 525,446.98	15.63 %
Sales and Services, Net	706,755.32	632,366.32	74,389.00	11.76 %
Other Operating Revenues	8,520.20	5,825.94	2,694.26	46.25 %
Total Operating Revenues	4,603,511.89	4,000,981.65	602,530.24	15.06 %
Operating Expenses:				
Personal Services	27,859,808.71	26,173,200.45	1,686,608.26	6.44 %
Supplies and Materials	2,159,949.30	3,196,116.79	(1,036,167.49)	(32.42) %
Services	2,807,733.95	2,954,630.64	(146,896.69)	(4.97) %
Scholarships and Fellowships	8,329,788.96	5,341,873.19	2,987,915.77	55.93 %
Utilities	698,106.81	673,402.06	24,704.75	3.67 %
Depreciation	971,025.25	944,123.33	26,901.92	2.85 %
Less Operating Expenses	42,826,412.98	39,283,346.46	3,543,066.52	9.02 %
Operating Loss	(38,222,901.09)	(35,282,364.81)	(2,940,536.28)	8.33 %
Nonoperating Revenues (Expenses):				
State Aid	22,085,718.94	21,647,055.54	438,663.40	2.03 %
County Appropriations	3,420,820.64	3,464,844.04	(44,023.40)	(1.27) %
Noncapital Grants and Gifts	11,834,728.15	8,280,523.56	3,554,204.59	42.92 %
Investment Income	285,315.68	394,543.76	(109,228.08)	(27.68) %
Other Nonoperating Revenues (Expenses)	(50,388.72)	16,105.50	(66,494.22)	412.87 %
Net Nonoperating Revenues	37,576,194.69	33,803,072.40	3,773,122.29	11.16 %
Loss Before Other Revenues	(646,706.40)	(1,479,292.41)	832,586.01	(56.28) %
Capital Contributions and Other Revenues				
State Capital Aid	797,938.28	6,813,112.05	(6,015,173.77)	(88.29) %
County Capital Appropriations	1,142,572.00	1,118,596.56	23,975.44	2.14 %
Capital Grants	250,000.00	100,000.00	150,000.00	150.00 %
Additions to Endowments	2,040.00	9,322.00	(7,282.00)	(78.12) %
Total Capital Contributions and Other Revenues	2,192,550.28	8,041,030.61	(5,848,480.33)	(72.73) %
Increase in Net Assets	1,545,843.88	6,561,738.20	(5,015,894.32)	(76.44) %
Net Assets, Beginning of Year	39,622,882.96	33,449,835.26	6,173,047.70	18.45 %
Restatement of Net Assets (Note 17)	(217,200.00)	(388,690.50)	171,490.50	(44.12) %
Net Assets, End of Year	$ 40,951,526.84	$ 39,622,882.96	$ 1,328,643.88	3.35 %

Total net revenues, including operating and net nonoperating revenues as well as capital contributions and other revenues, totaled $44,372,256.86 for FYE 2009 as compared to $45,845,084.66 for FYE 2008. This represents a decrease of $1,472,827.80.

Given the large operating loss, it is important to understand how the College is funded. 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 is offset by state and county appropriations, federal financial aid grants and other nonoperating revenues. The College receives appropriations from the State and from Rowan and Cabarrus Counties. 'State Aid' provides funds for the operational and administrative needs of the College based on the number of student Full Time Equivalents (FTE) enrolled in the prior year. Funding is provided based on the previous year's FTE.

Rowan and Cabarrus Counties provide funds for the operation and maintenance of facilities in their respective counties. Although the College is reliant on these sources of funding by design, they are considered nonoperating revenues for financial reporting purposes. Large operating losses are, therefore, expected every year.

Operating Revenue

In FYE 2009, student enrollment increased dramatically at the College. There was a 13.4% increase in students between FYE 2008 and FYE 2009. The total number of students increased from 5,018 in FYE 2008 to 5,692 in FYE 2009. As a result, tuition revenues increased by $525,446.98. As noted above, there is no expectation that these operating revenues will fund the operations of the College. Rather these should be considered in conjunction with nonoperating revenues, discussed in the following section.

Net Nonoperating Revenue

For FYE 2009, Federal and State grants and contracts for student financial aid is shown as nonoperating revenue. In prior years these grants and contracts were reported in the operating revenue section. The change was based on a reporting change for the State of North Carolina, of which the College is a component unit. We have reclassified the Federal and State grants and contracts revenue to nonoperating for FYE 2008 in order to maintain comparability in the statements shown above. After making this reclassification, the net nonoperating revenue for FYE 2009 is $3,773,122.29 more than FYE 2008. Over 90% of this increase is due to the increase in financial aid awards which naturally followed the increase in enrollment discussed above. Pell grants are by far the largest financial aid source. The number of Pell recipients increased by 613 students from FYE 2008 to FYE 2009. In addition, the maximum award amount per student per year increased by $421.00. These factors combined to increase Pell grant revenue by approximately $2.5 million.

More important to the operations of the College is State Aid. In FYE 2009, the College received $22,085,718.94 in State Aid, which represents a slight 2.03% increase from FYE 2008. Although student enrollment was up by 13.4%, State Aid increased by only 2.03%. This shortage of funding resulted in large part from the economic downturn and it was consistent with funding reductions for other colleges and state agencies. The difficulty posed by the funding shortage was exacerbated by the way in which the cuts were achieved. Planned and orderly cuts were taken early in the year, but in the second half of the fiscal year, drastic restrictions were imposed at the state level and all but the most critical spending was prohibited. Consequently, many necessary expenditures were deferred to the 2009-10 fiscal year with no promise of adequate funding in that year. In order to address the likely shortfall, the College took steps to cut ongoing costs, including discontinuing over 20 staff and faculty positions.

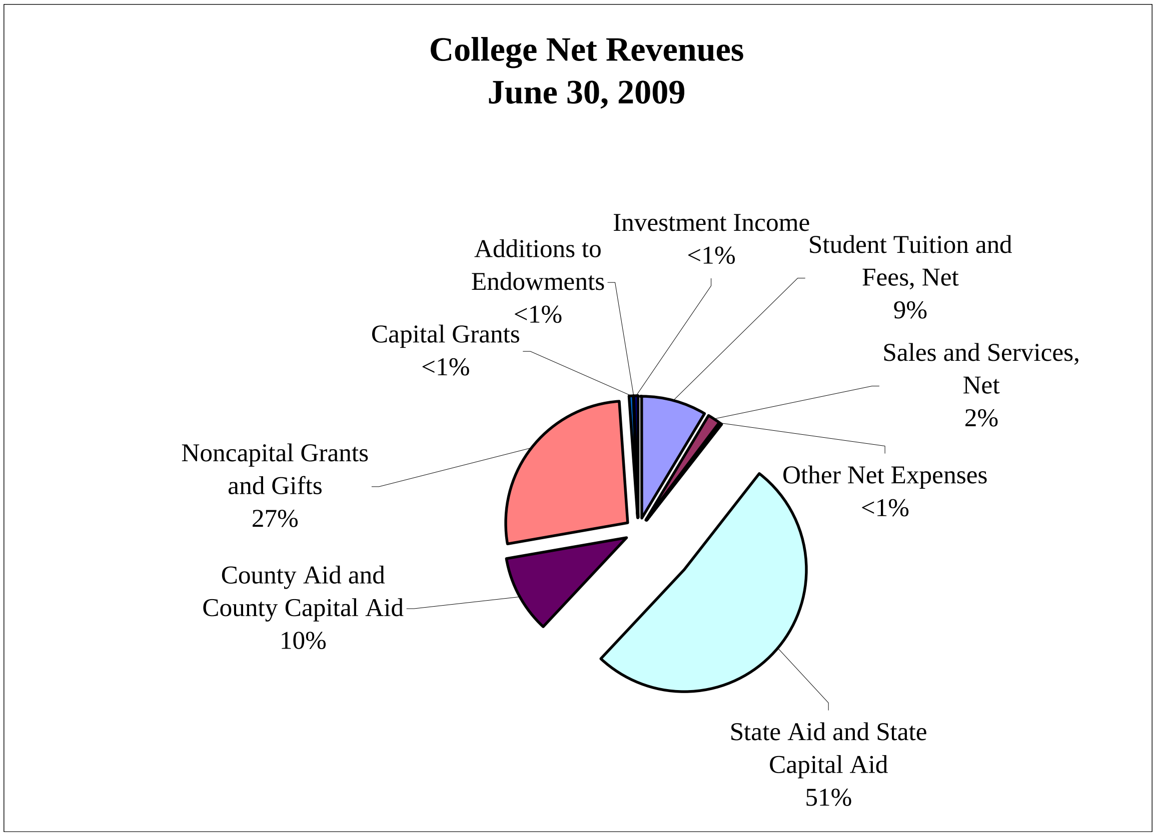
Capital Contributions and Other Revenues

State Capital Aid decreased by $6,015,173.77 between FYE 2008 and FYE 2009. One factor for this decrease is the fact that the State Capital Aid for equipment decreased by approximately $1,210,000.00, again due to the State's funding shortfall. However, the main reason for this decrease is due to construction projects. The College is required to recognize

State appropriations based on a cash flow model used by the State. Under these requirements, the College did not recognize any State Capital Aid for construction projects in FYE 2009. In FYE 2008, however, the College reported $3,871,665.00 in State Capital Aid even though the project (Building 400) was still in the design phase.

The appropriations for Rowan and Cabarrus Counties (current and capital) totaled $4,563,392.64, which represents 10% of total net revenues. This amount represents a small $20,047.96 decrease from FYE 2008, which also relates to the economic downturn. In FYE 2009 Cabarrus County actually required a reversion of funds from agencies funded by the county. The College reverted $53,714.00 (2.9%) of Cabarrus County general appropriations.

The graph below shows the various components of the College's net revenues, which totaled $44,372,256.86 for the fiscal year ended June 30, 2009:



Operating Expenses

Operating expenses increased by $3,543,066.52. Virtually this entire increase was expenditures for scholarships and fellowships. The causes for increases in student financial aid funding were discussed previously as related to net nonoperating revenue. Thus, despite a 13.4% increase in enrollment, college operating and nonoperating expenditures remained at the same level as the previous year. This was only possible because of severe cuts in spending, as evidenced by the decrease in supplies and materials expenses, that were not sustainable without significant reductions in staffing. We believe that the staffing cuts taken in the last quarter of the fiscal year will be adequate for the coming year.

Financial Commitments

At June 30, 2009, the College was in the construction phase of a new building project, Building 400. At June 30, 2009, the College had a commitment of $165,190.30 for the design contract on this project. There were also commitments of $4,402,266.42 on the general contract and $49,874.50 on the special inspections contract. This project is being funded by State and Rowan County funds on a reimbursement basis. Also, the College continued with the renovation of Buildings 1000 and 2000 on South Campus. This project is being funded by State funds on a reimbursement basis. At June 30, 2009, the College had commitments of $77,196.12 on the general contract and $4,375.00 on the design contract. In addition, the College began the design phase for renovation of labs in Building 600. At June 30, 2009, the College had a commitment of $31,200.00 on the design contract for this project. This project is being funded by State and grant funds. These overall capital construction commitments totaled $4,730,102.34.

In May 2009 the College entered into a lease agreement with Castle and Cooke to lease a new building on the North Carolina Research Campus in Kannapolis, NC. This lease commits the College to annual lease payments of $2,200,185.00 for a period of 20 years, beginning on completion and acceptance of the building by the College, which is expected to be in June 2010. This lease expense is being supported by a special legislative appropriation that has been passed into law. The lease does have a provision that allows the College to terminate the lease if the funding no longer exists and the College has made an effort to find alternative funding sources. In this unlikely situation, the College would still be obligated for 120 days (4 months) worth of lease expense while searching for alternative funding.

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, 2009 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,633,723.11
Restricted Cash and Cash Equivalents		2,885,126.68
Receivables, Net (Note 4)		933,862.54
Inventories		182,296.24
Notes Receivable, Net (Note 4)		4,988.22
Total Current Assets		8,639,996.79
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,936,000.31
Restricted Due from Primary Government		6,412,050.53
Capital Assets - Nondepreciable (Note 5)		3,347,977.08
Capital Assets - Depreciable, Net (Note 5)		24,118,391.72
Total Noncurrent Assets		35,814,419.64
Total Assets		44,454,416.43
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,945,224.64
Unearned Revenue		384,865.14
Funds Held for Others		293,949.83
Long-Term Liabilities - Current Portion (Note 7)		96,409.84
Total Current Liabilities		2,720,449.45
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		782,440.14
Total Liabilities		3,502,889.59
NET ASSETS		
Invested in Capital Assets		27,466,368.80
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,126,351.83
Instructional Programs		9,000.00
Faculty and Staff Professional Development		56,450.25
Expendable:		
Scholarships and Fellowships		279,749.68
Loans		18,803.42
Capital Projects		7,302,587.04
Instructional Programs		828,952.85
Faculty and Staff Professional Development		26,484.71
Student Support		86,781.01
Grants		499,708.20
Other		83,507.50
Unrestricted		3,166,781.55
Total Net Assets	$	40,951,526.84

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, 2009

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	3,888,236.37
Sales and Services, Net (Note 9)		706,755.32
Other Operating Revenues		8,520.20
Total Operating Revenues		4,603,511.89
EXPENSES		
Operating Expenses:		
Personal Services		27,859,808.71
Supplies and Materials		2,159,949.30
Services		2,807,733.95
Scholarships and Fellowships		8,329,788.96
Utilities		698,106.81
Depreciation		971,025.25
Total Operating Expenses		42,826,412.98
Operating Loss		(38,222,901.09)
NONOPERATING REVENUES (EXPENSES)		
State Aid		21,101,505.79
State Aid - Federal Recovery Funds		984,213.15
County Appropriations		3,420,820.64
Noncapital Grants - Federal Student Financial Aid		8,711,025.70
Noncapital Grants		2,967,319.48
Noncapital Gifts		156,382.97
Investment Income		285,315.68
Other Nonoperating Expenses		(50,388.72)
Net Nonoperating Revenues		37,576,194.69
Loss Before Other Revenues		(646,706.40)
State Capital Aid		797,938.28
County Capital Aid		1,142,572.00
Capital Grants		250,000.00
Additions to Endowments		2,040.00
Increase in Net Assets		1,545,843.88
NET ASSETS		
Net Assets, July 1, 2008 as Restated (Note 17)		39,405,682.96
Net Assets, June 30, 2009	$	40,951,526.84

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, 2009 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,554,468.53
Payments to Employees and Fringe Benefits	(27,777,055.07)
Payments to Vendors and Suppliers	(5,848,179.13)
Payments for Scholarships and Fellowships	(8,299,749.98)
Loans Issued to Students	(6,063.47)
Collection of Loans to Students	5,156.80
Other Receipts	116,679.56
Net Cash Used by Operating Activities	(37,254,742.76)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid	21,101,505.79
State Aid - Federal Recovery Funds	984,213.15
County Appropriations	3,420,820.64
Noncapital Grants - Federal Student Financial Aid	8,711,025.70
Noncapital Grants Received	3,017,940.37
Noncapital Gifts and Endowments Received	168,922.97
Cash Provided by Noncapital Financing Activities	37,404,428.62
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,492,249.79
County Capital Aid	757,008.10
Capital Grants Received	250,000.00
Acquisition and Construction of Capital Assets	(1,268,891.42)
Net Cash Provided by Capital and Related Financing Activities	1,230,366.47
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	285,328.70
Net Increase in Cash and Cash Equivalents	1,665,381.03
Cash and Cash Equivalents, July 1, 2008	7,789,469.07
Cash and Cash Equivalents, June 30, 2009	$ 9,454,850.10

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (38,222,901.09)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	971,025.25
Miscellaneous Nonoperating Income	17,874.62
Changes in Assets and Liabilities:	
Receivables, Net	(174,479.04)
Inventories	(57,961.85)
Notes Receivable, Net	(906.67)
Accounts Payable and Accrued Liabilities	(63,121.56)
Unearned Revenue	155,474.66
Funds Held for Others	98,804.94
Compensated Absences	21,447.98
Net Cash Used by Operating Activities	$ (37,254,742.76)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 4,633,723.11
Restricted Cash and Cash Equivalents	2,885,126.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,936,000.31
Total Cash and Cash Equivalents - June 30, 2009	$ 9,454,850.10

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 1,051,859.08
Increase in Receivables Related to Nonoperating Income	385,563.90
Capital Asset Write-Offs	190,465.40

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

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. 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's 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 - The Rowan-Cabarrus Community College Foundation Inc. 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, 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 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 the 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated 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 - 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.

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 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.

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 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 operation 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 $205,795.74 and a bank balance of $533,757.06.

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, 2009, 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $9,246,449.36, 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "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, 2009, net appreciation of $74,256.63 was available to be spent, of which $48,041.94 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 675,371.93	$ 355,473.76	$ 319,898.17
Accounts	42.10		42.10
Intergovernmental	586,671.05		586,671.05
Private Grantors	27,251.22		27,251.22
Total Current Receivables	$ 1,289,336.30	$ 355,473.76	$ 933,862.54
Current Notes Receivable:			
Institutional Student Loan Programs	$ 10,046.30	$ 5,058.08	$ 4,988.22

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 671,498.76	$ 0.00	$ 0.00	$ 671,498.76
Construction in Progress	867,151.99	1,847,986.33	38,660.00	2,676,478.32
Total Capital Assets, Nondepreciable	1,538,650.75	1,847,986.33	38,660.00	3,347,977.08
Capital Assets, Depreciable:				
Buildings	28,633,320.64	69,447.00		28,702,767.64
Machinery and Equipment	4,409,043.80	240,511.23	190,465.40	4,459,089.63
General Infrastructure	1,791,996.20			1,791,996.20
Total Capital Assets, Depreciable	34,834,360.64	309,958.23	190,465.40	34,953,853.47
Less Accumulated Depreciation for:				
Buildings	7,722,483.57	543,404.32		8,265,887.89
Machinery and Equipment	1,825,339.98	376,041.36	122,202.06	2,079,179.28
General Infrastructure	438,815.01	51,579.57		490,394.58
Total Accumulated Depreciation	9,986,638.56	971,025.25	122,202.06	10,835,461.75
Total Capital Assets, Depreciable, Net	24,847,722.08	(661,067.02)	68,263.34	24,118,391.72
Capital Assets, Net	$ 26,386,372.83	$ 1,186,919.31	$ 106,923.34	$ 27,466,368.80

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	$ 1,099,499.51
Accrued Payroll	786,039.14
Contract Retainage	59,685.99
Total Accounts Payable and Accrued Liabilities	$ 1,945,224.64

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	$ 857,402.00	$ 596,521.82	$ 575,073.84	$ 878,849.98	$ 96,409.84

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for equipment and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 545,127.84
2011	319,951.05
2012	245,020.20
2013	239,630.20
2014	41,200.08
Total Minimum Lease Payments	$ 1,390,929.37

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	$ 544,011.32
Contingent Rentals	1,417.98
Total Rental Expense	$ 545,429.30

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 6,287,900.28	$ 0.00	$ 2,389,082.60	$ 10,581.31	$ 3,888,236.37
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	$ 375,904.73	$ 0.00	$ 0.00	$ 0.00	$ 375,904.73
Vending Commissions	29,365.31				29,365.31
Childcare	204,505.19				204,505.19
Copy Center	418,406.60	418,406.60			
Other	881.69				881.69
Sales and Services of Education and Related Activities	96,098.40				96,098.40
Total Sales and Services	$ 1,125,161.92	$ 418,406.60	$ 0.00	$ 0.00	$ 706,755.32

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	$ 17,477,743.99	$ 1,650,343.29	$ 756,811.15	$ 0.00	$ 0.00	$ 0.00	$ 19,884,898.43
Academic Support	3,380,279.33	107,178.38	139,647.64				3,627,105.35
Student Services	1,919,837.32	89,315.11	72,063.53				2,081,215.96
Institutional Support	4,138,123.37	205,338.50	1,096,470.17		351,935.38		5,791,867.42
Operations and Maintenance of Plant	664,631.39	75,450.63	444,513.52		346,171.43		1,530,766.97
Student Financial Aid		8.32	30,036.72	8,305,450.38			8,335,495.42
Auxiliary Enterprises	279,193.31	32,315.07	268,191.22	24,338.58			604,038.18
Depreciation						971,025.25	971,025.25
Total Operating Expenses	$ 27,859,808.71	$ 2,159,949.30	$ 2,807,733.95	$ 8,329,788.96	$ 698,106.81	$ 971,025.25	$ 42,826,412.98

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 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $23,325,751.23, of which $17,451,412.48 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $586,367.46 and $1,047,084.75, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $586,367.46, $519,658.59, and $428,522.76, 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.ncosc.net/ 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. 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 $16,080.00 for the year ended June 30, 2009.

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 $377,873.92 for the year ended June 30, 2009.

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 $25,646.00 for the year ended June 30, 2009. This plan was discontinued effective January 1, 2009. Therefore, all voluntary contributions were made between July 1, 2008 and December 31, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *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 in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $715,507.91, $698,557.45, and $612,175.38, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "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 in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $90,747.34, $88,597.53, and $83,771.37, 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 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.

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 $161,100.13 at June 30, 2009.

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. Losses from county and institutional fund paid employees are covered by contracts with private insurance companies.

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 College entirely from county or institutional funds.

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 AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $4,730,102.34 and on other purchases were $455,134.36 at June 30, 2009.

B. Lease Commitment - The College entered into a twenty year lease agreement with Castle and Cooke, North Carolina Research Campus Properties 5, LLC, a Delaware limited liability company, on May 7, 2009. Under the agreement, Castle and Cooke will construct and lease a building of approximately 62,333 rentable square feet to the College to be used for vocational and technical education and training. The total minimum lease payments for the term of the lease at the time of signing are $47,003,695.20, and payment on the lease is expected to begin in June 2010. This obligation is to be funded by a special legislative appropriation that has been passed into law.

NOTE 15 - RELATED PARTY

Lease Agreement with Board Member's Business Affiliate - The Trustees of Rowan-Cabarrus Community College constitute the local administrative board of the institution and are delegated certain powers and duties as stipulated in *North Carolina General Statute* 115D-20. During the year, Rowan-Cabarrus Community College entered into a lease agreement with a board member's business affiliate for the lease of a new building on the North Carolina Research Campus in Kannapolis, NC that is not expected to begin until June 2010. For more information about the College's lease commitment refer to Note 14 of the Notes to the Financial Statements.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide.*

NOTE 17 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported were restated as follows:

	Amount
July 1, 2008 Net Assets as Previously Reported	$ 39,622,882.96
Restatement: To Correct Prior Repair and Maintenance Expenses That Were Capitalized in Error	(217,200.00)
July 1, 2008 Net Assets as Restated	$ 39,405,682.96

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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

Board of Trustees
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, 2009, and have issued our report thereon dated May 20, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

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

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

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.

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 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 internal control that might be 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

Beth A. Wood, CPA
State Auditor

May 20, 2010

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647