



STATE OF NORTH CAROLINA

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Beverly 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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

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

Beth A. Wood, CPA
State Auditor

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Office of the 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, 2011, 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, 4 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 Rowan-Cabarrus Community College Foundation, Inc., is based on the report of the other auditors.

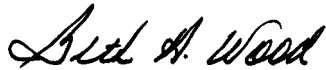
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



Beth A. Wood, CPA
State Auditor

March 21, 2012

ROWAN-CABARRUS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2011. 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, the 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 with assets classified as current or noncurrent. The second statement, the 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, and revenue and expenses are classified as operating or nonoperating. The final statement, the Statement of Cash Flows, presents the sources from which the College received cash and the uses for which cash was disbursed. The Statement of Cash Flows is presented in the direct method, with reconciliation between operating income (loss) and net cash provided (used) by operating activities. In this discussion, we will focus on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

Financial Highlights

The College continues to be impacted by the slow economy. However, construction projects are not immediately affected, and the changes from year to year resulting from construction projects can easily overshadow other important factors. Also, the weak economy, in addition to changes in the Pell grant award structure (Pell grants are now awarded throughout the academic year), resulted in significant increases in federal financial aid.

Statement of Net Assets

For the year ended June 30, 2011, the College's current assets decreased \$440,381.69 (4.86%), the noncurrent capital assets increased by \$1,163,190.58 (1.82%), and the other noncurrent assets decreased by \$210,772.92 (4.21%). Overall, total assets increased by \$512,035.97 (0.66%).

The majority of the increase in total assets was the result of increases in capital assets. The College added \$1,944,128.33 in depreciable machinery and equipment in 2011. The Building 400 project was completed in fiscal year 2011. As a result, \$7,647,567.92 was reclassified from construction in progress to buildings. The College also reclassified \$1,927,530.00 originally classified as buildings to land for the North Carolina Research Campus (NCRC)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

property leased in 2010. For more information about the College's capital asset holdings refer to Note 5 of the notes to the financial statements.

Liabilities

At June 30, 2011, the total liabilities for the College were \$25,922,796.72. As required by GASB, the College has classified the liabilities as current or 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 \$25,922,796.72 total liabilities, \$2,768,771.01 was current and \$23,154,025.71 was noncurrent. The current liabilities decreased \$461,065.35 (14.28%) from fiscal year 2010. Due to timing of when bills were received and paid, our accounts payable dropped approximately \$700,000.00. This decrease was offset by an increase in unearned revenue and the current portion of long-term debt (which includes the NCRC lease). Noncurrent liabilities decreased \$686,436.57 (2.88%) from fiscal year 2010. This decrease was primarily a result of payment on the North Carolina Research Campus (NCRC) capital lease throughout the fiscal year. Overall, the total liabilities decreased \$1,147,501.92 (4.24%) from the previous fiscal year.

The following is a comparison between the consolidated Statement of Net Assets for fiscal year ended (FYE) June 30, 2011, and fiscal year ended June 30, 2010.

	Condensed Statement of Net Assets		Increase/(Decrease)	
	FYE 2011	Unaudited FYE 2010	Dollar Change	Percent Change
ASSETS				
Current Assets	\$ 8,615,435.87	\$ 9,055,817.56	\$ (440,381.69)	(4.86) %
Noncurrent Assets				
Capital Assets, Net of Depreciation	65,095,113.30	63,931,922.72	1,163,190.58	1.82 %
Other	4,791,998.53	5,002,771.45	(210,772.92)	(4.21) %
Total Assets	<u>78,502,547.70</u>	<u>77,990,511.73</u>	<u>512,035.97</u>	0.66 %
LIABILITIES				
Current Liabilities	2,768,771.01	3,229,836.36	(461,065.35)	(14.28) %
Noncurrent Liabilities	23,154,025.71	23,840,462.28	(686,436.57)	(2.88) %
Total Liabilities	<u>25,922,796.72</u>	<u>27,070,298.64</u>	<u>(1,147,501.92)</u>	(4.24) %
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	42,106,569.77	40,374,203.82	1,732,365.95	4.29 %
Restricted	6,936,100.05	7,027,669.81	(91,569.76)	(1.30) %
Unrestricted	3,537,081.16	3,518,339.46	18,741.70	0.53 %
Total Net Assets	<u>\$ 52,579,750.98</u>	<u>\$ 50,920,213.09</u>	<u>\$ 1,659,537.89</u>	3.26 %

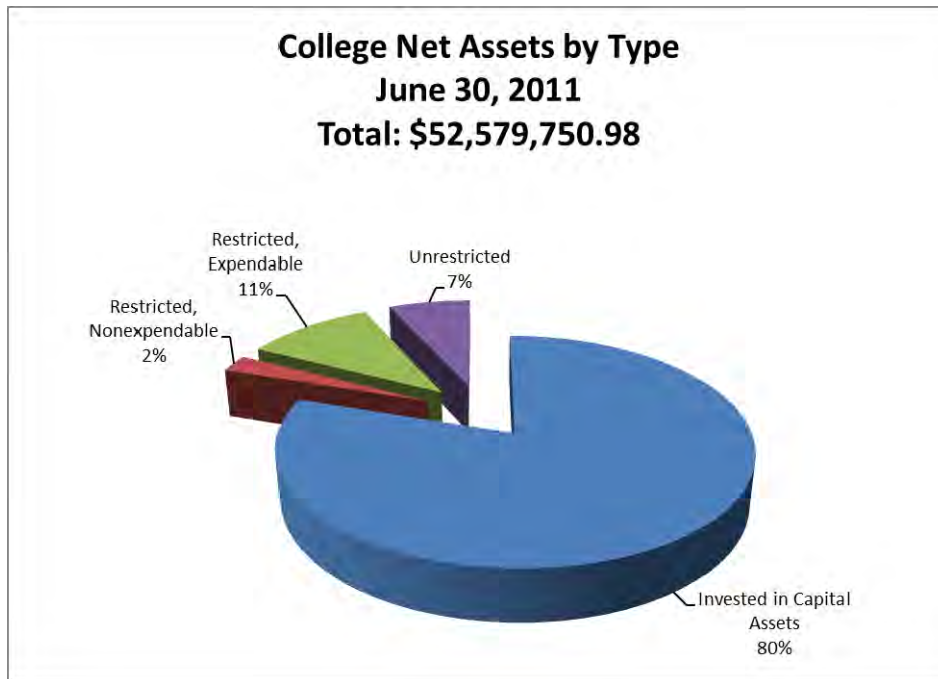
Net Assets

For the year ended June 30, 2011, the College's net assets increased by \$1,659,537.89 (3.26%) from \$50,920,213.09 at June 30, 2010, to \$52,579,750.98 at June 30, 2011. Net assets invested in capital assets increased \$1,732,365.95 (4.29%). Unrestricted and restricted

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

net assets saw minimal change. Unrestricted net assets increased by \$18,741.70 (0.53%). Restricted net assets decreased by \$91,569.76 (1.30%), which slightly offset the increase in net assets invested in capital assets.

The following graph depicts the classification of net assets, which totaled \$52,579,750.98 at June 30, 2011:



Revenues and Expenses

Total revenues, including operating and nonoperating revenues as well as capital contributions and other revenues, totaled \$63,641,128.12 for FYE 2011 as compared to \$57,311,347.53 for FYE 2010. This represents an increase of \$6,329,780.59 (11%). Given this increase in revenues and 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. Tuition and State aid provide funds for the operational and administrative needs of the College based on the number of student Full Time Equivalents (FTE) enrolled, based on the previous year's enrollment. 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.

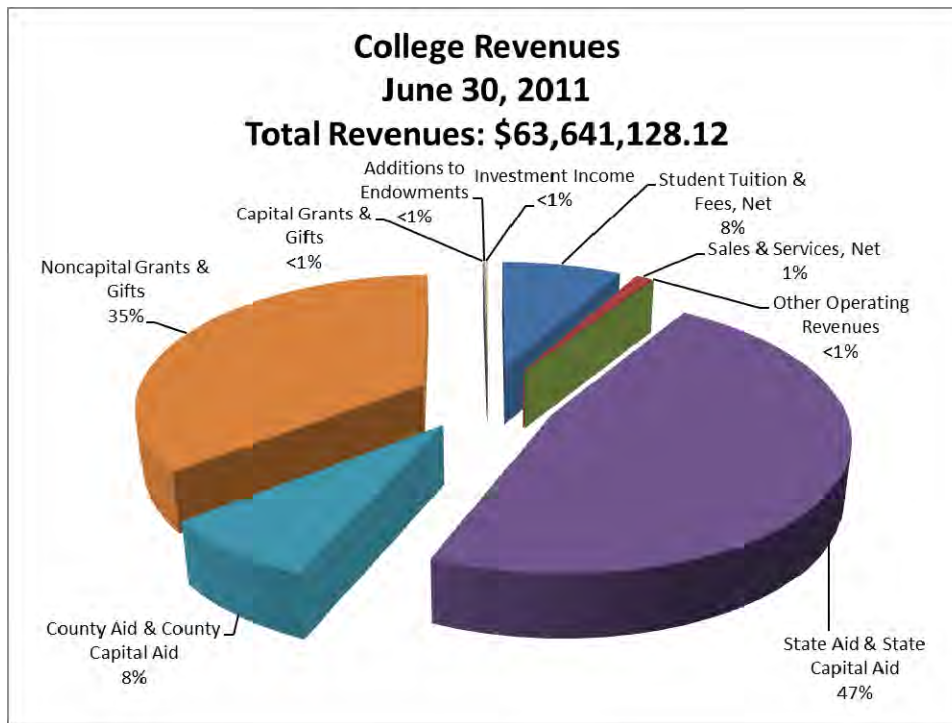
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	FYE 2011	Unaudited FYE 2010	Increase/(Decrease)	
			Dollar Change	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 5,027,491.68	\$ 5,366,441.40	\$ (338,949.72)	(6.32) %
Sales and Services, Net	692,357.71	821,324.81	(128,967.10)	(15.70) %
Other Operating Revenues	3,663.36	9,988.08	(6,324.72)	(63.32) %
Total Operating Revenues	5,723,512.75	6,197,754.29	(474,241.54)	(7.65) %
Operating Expenses:				
Salaries and Benefits	30,032,938.94	27,638,217.97	2,394,720.97	8.66 %
Supplies and Materials	5,163,486.44	4,373,088.67	790,397.77	18.07 %
Services	8,349,610.90	3,829,039.46	4,520,571.44	118.06 %
Scholarships and Fellowships	14,558,757.50	13,272,596.55	1,286,160.95	9.69 %
Utilities	963,302.56	770,867.90	192,434.66	27.96 %
Depreciation	1,213,965.10	708,654.92	505,310.18	71.31 %
Total Operating Expenses	60,282,061.44	50,592,465.47	9,689,595.97	19.15 %
Operating Loss	(54,558,548.69)	(44,394,711.18)	(10,163,837.51)	22.89 %
Nonoperating Revenues (Expenses)				
State Aid	26,616,968.81	23,043,202.20	3,573,766.61	15.51 %
County Appropriations	3,750,234.88	3,549,336.00	200,898.88	5.66 %
Noncapital Grants and Gifts	22,612,482.96	18,616,813.70	3,995,669.26	21.46 %
Investment Income, Net	91,284.46	152,911.80	(61,627.34)	(40.30) %
Other Nonoperating Revenues (Expenses)	(1,699,528.79)	(157,259.46)	(1,542,269.33)	980.72 %
Net Nonoperating Revenues	51,371,442.32	45,205,004.24	6,166,438.08	13.64 %
Loss Before Other Revenues	(3,187,106.37)	810,293.06	(3,997,399.43)	(493.33) %
Capital Contributions and Other Revenues				
State Capital Aid	3,538,345.29	2,021,669.39	1,516,675.90	75.02 %
County Capital Appropriations	1,228,328.97	2,673,805.13	(1,445,476.16)	(54.06) %
Capital Grants and Gifts	8,970.00	1,012,000.00	(1,003,030.00)	(99.11) %
Additions to Endowments	71,000.00	43,855.02	27,144.98	61.90 %
Total Capital Contributions and Other Revenues	4,846,644.26	5,751,329.54	(904,685.28)	(15.73) %
Increase in Net Assets	1,659,537.89	6,561,622.60	(4,902,084.71)	(74.71) %
Net Assets, Beginning of Year	50,920,213.09	44,358,590.49	6,561,622.60	14.79 %
Net Assets, End of Year	\$ 52,579,750.98	\$ 50,920,213.09	\$ 1,659,537.89	3.26 %

The following graph shows the various components of the College's revenues, which totaled \$63,641,128.12 for the fiscal year ended June 30, 2011:

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Operating Revenue

In FYE 2011, total student FTE increased a minimal 1.1%, going from 7,898 to 7,990. The tuition rates, established by the State Legislature, increased by \$6.50 per credit hour for in-state students and \$7.20 per credit hour for out-of-state students from the prior year. Despite these factors, student tuition and fees actually decreased by \$338,949.72 (6.32%). This decrease is a result of the increased financial aid received by students. As students received more financial aid, the amount used to pay tuition and fees had to be subtracted from the student tuition revenue line as required by GASB Statement 34/35. In FYE 2010-11 this “tuition discounting” increased by approximately \$2.2 million. The net result was a reduction in the amount reported in the student tuition and fees revenue. Sales and services revenue decreased by approximately \$129,000 in FYE 2011 as well. This entire decrease is related to the fact that the College discontinued offering a childcare center effective July 1, 2010; therefore, there were no revenues for FYE 2011.

As noted above, there is no expectation that these operating revenues will adequately fund the operations of the College. Rather these should be considered in conjunction with nonoperating revenues, discussed in the following section.

Nonoperating Revenue

Pell grants are by far the largest financial aid source. These funds are included in the “Noncapital Grants and Gifts” line, which increased by approximately \$4 million. The number of Pell recipients increased by 921 students from FYE 2010 to FYE 2011. In addition, the maximum award amount per student per year increased by \$200.00, going from \$5,350.00 to \$5,550.00. Finally, the federal government introduced year-round Pell grants

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

which the College implemented in FYE 2011. These factors combined to increase Pell grant revenue by approximately \$4 million.

While Pell grants and other financial aid are important to the College and its students, enabling many who could not otherwise afford college to enroll, there is little impact on the College's operations in the year in which the awards are made. Financial aid awards fund tuition, fees and living expenses for students.

State Funding, Operating and Nonoperating

The State appropriation that funds most college operations is made up of tuition and State aid combined. Tuition is pooled at the State level and funds a portion of the current State appropriation, but the College's share of that appropriation is based on enrollment in the previous year. Increases in tuition resulting from increased enrollment are generally offset by a reduction in State aid so that the total remains the same.

In FYE 2011, the College was funded based on the enrollment in FYE 2010 which increased by 23.3% over FYE 2009. In FYE 2011, tuition and fees decreased to \$5,027,491.68 (6.32%), as explained above in the "Operating Revenue" section. The College received \$26,616,968.81 in State aid, an increase of \$3,573,766.61 (15.51%) from FYE 2010. The funding increase is less than the funded FTE increase due to continued budget cuts in the form of "Management Flexibility Reductions" (3.7%), and reversions (2%).

The outlook for the coming year is not as good, as the funding formula will be based on the lower enrollment in FYE 2011, and enrollment may continue to decline or stay at its current level.

Capital Contributions and Other Revenues

State capital aid increased by \$1,516,675.90 (75.02%) between FYE 2010 and FYE 2011. This is due primarily to the transfer of current expense to capital to cover increased capital expenditures during FYE 2011.

The appropriations from Rowan and Cabarrus counties (current and capital) totaled \$4,978,563.85, which represents 7.82% of total net revenues. This amount represents a \$1,244,577.28 decrease from FYE 2010. This is due to less construction activity in FYE 2011. County construction reimbursements are recorded as county capital aid. As construction of Building 400 wrapped up in FYE 2011, reimbursements from Rowan County decreased significantly compared to FYE 2010.

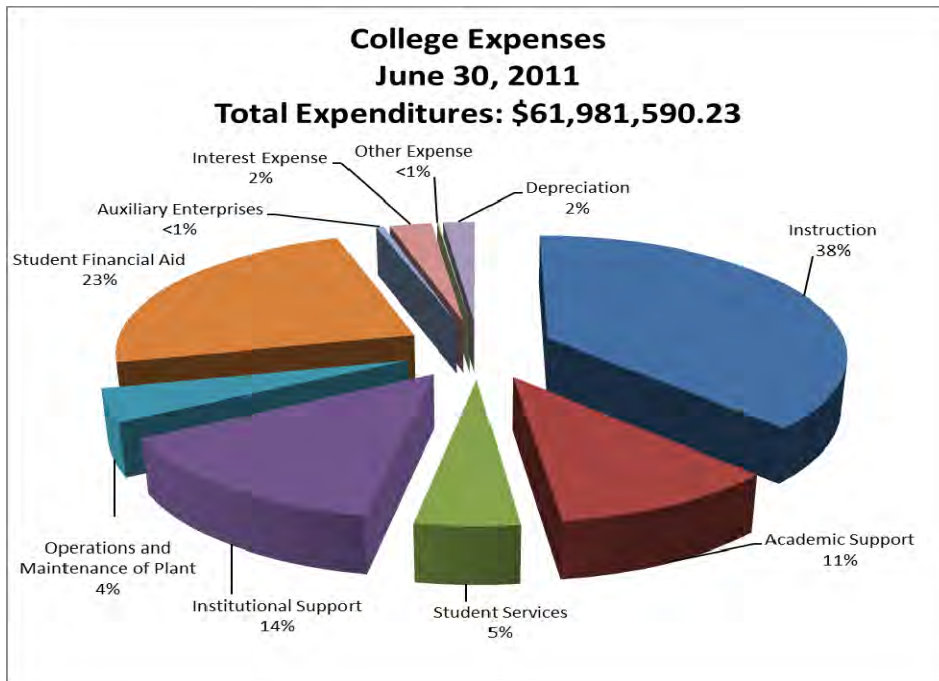
Operating Expenses

Operating expenses increased by \$9,689,595.97 (19.15%). The majority of this increase was from expenditures for services which increased by approximately \$4.52 million (118.06%). This increase relates to several factors, including roof repairs, several "one-time" projects such as a compensation study and a campus security study, and a comprehensive Information Technology (IT) wiring project. Many of these projects were made possible by the large increase in State funding due to the enrollment growth that we experienced in FYE 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(funded in FYE 2011). In addition to services, salaries and benefits increased \$2,394,720.97 (8.66%). There were several factors for this increase as well. First, the employer-paid rate for retirement, health care, disability and death benefits increased in total from 8.75% to 10.51% from FYE 2010 to FYE 2011. Second, the employer portion of medical insurance increased from \$377.22 per full-time employee per month to \$410.80 per full-time employee per month. This represented an 8.9% increase. Finally, some faculty and staff positions were created to accommodate the enrollment growth from the previous year. Supplies and materials also increased by \$790,397.77 (18.07%) based, in part, on the increase in enrollment and personnel. Another factor for the increase in supplies and materials was two categorical grants, one for allied health and one for technical education, that allowed for increased spending in those areas. Scholarships and fellowships increased by \$1,286,160.95 (9.69%) from the previous year. Again, this was primarily due to the increase in Pell recipients as discussed in the "Nonoperating Revenues" section above. Depreciation increased \$505,310.18 (71.31%) due to the capitalization of Building 400 and increased purchases of fixed assets over \$5,000.00 in cost.

The following graph shows the various components of the College's expenditures, which totaled \$61,981,590.23 for the fiscal year ended June 30, 2011:



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Financial Commitments

At June 30, 2011, the College had outstanding purchase order obligations totaling \$176,338.67. The College had no construction commitments at fiscal year-end.

The College will pay annual lease payments of \$2,200,185.00 for the NCRC building through May, 2030. This capital lease began in June 2010. This lease expense is being supported by a special legislative appropriation that has been included in the State's debt service budget. The lease does have a provision that allows the College to terminate the lease if the funding is discontinued and the College makes 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.

Despite unexpected turnover at the Chief Financial Officer level, the College did not experience any difficulties regarding financial matters, nor do we foresee this to be a problem in the coming year. 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, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 5,697,411.31
Restricted Cash and Cash Equivalents	1,803,318.92
Restricted Short-Term Investments	116,524.00
Receivables, Net (Note 4)	823,207.14
Inventories	170,746.40
Notes Receivable, Net (Note 4)	4,228.10

Total Current Assets	8,615,435.87
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,734,758.49
Restricted Due from Primary Government	1,281,370.04
Endowment Investments	775,870.00
Capital Assets - Nondepreciable (Note 5)	3,170,738.76
Capital Assets - Depreciable, Net (Note 5)	61,924,374.54

Total Noncurrent Assets	69,887,111.83
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Total Assets	78,502,547.70
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,234,449.45
Unearned Revenue	653,816.59
Funds Held for Others	110,124.94
Long-Term Liabilities - Current Portion (Note 7)	770,380.03

Total Current Liabilities	2,768,771.01
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	23,154,025.71
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Total Noncurrent Liabilities	23,154,025.71
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Total Liabilities	25,922,796.72
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	42,106,569.77
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	1,257,443.10
Instructional Programs	9,000.00
Faculty and Staff Professional Development	56,450.00

Expendable:

Scholarships and Fellowships	282,274.55
Loans	19,028.42
Capital Projects	4,680,956.78
Instructional Programs	508,535.04
Faculty and Staff Professional Development	19,730.82
Student Support	42,577.06
Other	60,104.28

Unrestricted	3,537,081.16
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Total Net Assets	\$ 52,579,750.98
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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, 2011

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 5,027,491.68
Sales and Services, Net (Note 9)	692,357.71
Other Operating Revenues	3,663.36
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Total Operating Revenues	5,723,512.75
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EXPENSES

Operating Expenses:	
Salaries and Benefits	30,032,938.94
Supplies and Materials	5,163,486.44
Services	8,349,610.90
Scholarships and Fellowships	14,558,757.50
Utilities	963,302.56
Depreciation	1,213,965.10
	<hr/>
Total Operating Expenses	60,282,061.44
	<hr/>
Operating Loss	(54,558,548.69)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	26,616,968.81
County Appropriations	3,750,234.88
Noncapital Grants - Student Financial Aid	20,722,132.20
Noncapital Grants	1,665,787.76
Noncapital Gifts	224,563.00
Investment Income, Net	91,284.46
Interest and Fees on Debt	(1,631,009.39)
Other Nonoperating Expenses	(68,519.40)
	<hr/>
Net Nonoperating Revenues	51,371,442.32
	<hr/>
Income Before Other Revenues	(3,187,106.37)
	<hr/>
State Capital Aid	3,538,345.29
County Capital Aid	1,228,328.97
Capital Grants	8,970.00
Additions to Endowments	71,000.00
	<hr/>
Increase in Net Assets	1,659,537.89
	<hr/>

NET ASSETS

Net Assets, July 1, 2010	<hr/> 50,920,213.09
Net Assets, June 30, 2011	<hr/> \$ 52,579,750.98
	<hr/>

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, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,724,627.64
Payments to Employees and Fringe Benefits	(29,933,467.31)
Payments to Vendors and Suppliers	(14,577,780.44)
Payments for Scholarships and Fellowships	(14,581,872.37)
Collection of Loans to Students	856.50
Other Receipts	15,840.21
	<hr/>
Net Cash Used by Operating Activities	(53,351,795.77)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	26,616,968.81
County Appropriations	3,750,234.88
Noncapital Grants - Student Financial Aid	20,665,018.02
Noncapital Grants Received	1,662,298.23
Noncapital Gifts and Endowments Received	295,563.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	52,990,082.94

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	4,631,888.55
County Capital Aid	1,228,328.97
Capital Grants Received	38,892.12
Acquisition and Construction of Capital Assets	(3,180,858.69)
Principal Paid on Capital Leases	(569,175.37)
Interest Paid on Capital Leases	(1,631,009.39)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	518,066.19

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	3,026.00
Investment Income	93,286.46
Purchase of Investments and Related Fees	(897,422.00)
	<hr/>
Net Cash Used by Investing Activities	(801,109.54)

Net Decrease in Cash and Cash Equivalents	(644,756.18)
Cash and Cash Equivalents, July 1, 2010	10,880,244.90
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 10,235,488.72

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (54,558,548.69)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,213,965.10
Miscellaneous Nonoperating Income	6,169.99
Changes in Assets and Liabilities:	
Receivables, Net	(120,229.48)
Inventories	(46,000.26)
Prepaid Items	1,304.00
Notes Receivable, Net	856.50
Accounts Payable and Accrued Liabilities	30,414.31
Unearned Revenue	92,344.50
Funds Held for Others	15,555.22
Compensated Absences	12,373.04
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (53,351,795.77)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 5,697,411.31
Restricted Cash and Cash Equivalents	1,803,318.92
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,734,758.49
	<hr/>
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 10,235,488.72</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 13,042.50
Change in Fair Value of Investments	(5,028.00)
Increase in Receivables Related to Nonoperating Income	37,192.06
Loss on Disposal of Capital Assets	(74,689.39)

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

ROWAN-CABARRUS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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 were part of the College.

Blended Component Unit - The Rowan-Cabarrus Community College Foundation, Inc. (the Foundation) is governed by a 21-member board. 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 Foundation Director, P.O. 1595, Salisbury, NC 28145-1595, or by calling (704) 216-3459. 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, money market 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. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.

H. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 75 years for buildings, and 10 to 30 years for equipment.

I. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Invested in Capital Assets, Net of Related Debt - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2011 was \$2,638.00. The carrying amount of the College's deposits not with the State Treasurer was \$1,746,613.23 and the bank balance was \$2,965,915.94.

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method except for \$979,167 held by the College's component unit. This amount was uninsured and uncollateralized.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of custodian.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$8,486,237.49, 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 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment Type	Investments		
	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1 to 5
Debt Securities			
Debt Mutual Funds	\$ 197,203.00	\$ 0.00	\$ 197,203.00
Money Market Mutual Funds	44,205.00	44,205.00	
		\$ 44,205.00	\$ 197,203.00
Other Securities			
Mutual Funds	201,223.00		
Real Estate Investment Trust	2,067.00		
Domestic Stocks	384,400.00		
Foreign Stocks	63,296.00		
Total Investments	\$ 892,394.00		

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2011, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
Debt Mutual Funds	\$ 197,203.00	\$ 81,072.00	\$ 22,441.00	\$ 43,243.00	\$ 36,899.00	\$ 9,592.00	\$ 3,956.00
Money Market Mutual Funds	44,205.00	44,205.00					

Rating Agency: S&P

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	\$ 2,638.00
Carrying Amount of Deposits with Private Financial Institutions	1,746,613.23
Investments in the Short-Term Investment Fund	8,486,237.49
Other Investments	892,394.00
Total Deposits and Investments	\$ 11,127,882.72
Current:	
Cash and Cash Equivalents	\$ 5,697,411.31
Restricted Cash and Cash Equivalents	1,803,318.92
Restricted Short-Term Investments	116,524.00
Noncurrent:	
Restricted Cash and Cash Equivalents	2,734,758.49
Endowment Investments	775,870.00
Total	\$ 11,127,882.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, net appreciation of \$12,512.12 was available to be spent, of which \$7,098.31 was restricted to specific purposes.

The Foundation's endowment assets are invested in marketable securities as disclosed in Note 2 and are reported as endowment investments - noncurrent on the Foundation's financial statements. If a donor has not provided specific instructions, State law permits the Board of Directors to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the Foundation's endowment funds are based on an adopted spending policy. It is the policy of the Foundation to annually distribute for support of College programs, not more than 5% of a trailing three-year average of each endowment's total asset value. Such distributions shall be made from the endowments' related spendable restricted fund. This limit is established with the understanding that the spending rate plus inflation will not normally exceed total real return (return net of inflation) from investments. This trailing three-year average shall be either calendar or fiscal-year periods, according to the nature of the funds and the requirements of the budgetary process. It shall be the responsibility of the Foundation's Finance Committee to periodically review the spending policy against actual returns in order to make adjustments necessary for the preservation of capital and income of the endowment. At June 30, 2011, net appreciation of \$11,552.00 was available to be spent, of which \$4,186.00 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 855,071.64	\$ 244,250.09	\$ 610,821.55
Accounts	6,051.16		6,051.16
Intergovernmental	196,182.46		196,182.46
Private Grantors	10,151.97		10,151.97
Total Current Receivables	<u>\$ 1,067,457.23</u>	<u>\$ 244,250.09</u>	<u>\$ 823,207.14</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 9,061.18</u>	<u>\$ 4,833.08</u>	<u>\$ 4,228.10</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 671,498.76	\$ 1,927,530.00	\$	\$ 2,599,028.76
Construction in Progress	7,977,393.04	241,884.88	7,647,567.92	571,710.00
Total Capital Assets, Nondepreciable	8,648,891.80	2,169,414.88	7,647,567.92	3,170,738.76
Capital Assets, Depreciable:				
Buildings	56,158,701.93	7,880,703.55	1,927,530.00	62,111,875.48
Machinery and Equipment	5,353,665.99	1,944,128.33	200,088.41	7,097,705.91
General Infrastructure	1,791,996.20	32,696.23		1,824,692.43
Total Capital Assets, Depreciable	63,304,364.12	9,857,528.11	2,127,618.41	71,034,273.82
Less Accumulated Depreciation for:				
Buildings	5,913,010.16	825,875.88		6,738,886.04
Machinery and Equipment	1,754,815.04	361,927.52	125,399.02	1,991,343.54
General Infrastructure	353,508.00	26,161.70		379,669.70
Total Accumulated Depreciation	8,021,333.20	1,213,965.10	125,399.02	9,109,899.28
Total Capital Assets, Depreciable, Net	55,283,030.92	8,643,563.01	2,002,219.39	61,924,374.54
Capital Assets, Net	<u>\$ 63,931,922.72</u>	<u>\$ 10,812,977.89</u>	<u>\$ 9,649,787.31</u>	<u>\$ 65,095,113.30</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 270,101.30
Accrued Payroll	964,348.15
Total Accounts Payable and Accrued Liabilities	\$ 1,234,449.45

NOTE 7 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Capital Leases Payable	\$ 23,557,718.90	\$ 0.00	\$ 569,175.37	\$ 22,988,543.53	\$ 663,130.21
Compensated Absences	923,489.17	586,168.36	573,795.32	935,862.21	107,249.82
Total Long-Term Liabilities	\$ 24,481,208.07	\$ 586,168.36	\$ 1,142,970.69	\$ 23,924,405.74	\$ 770,380.03

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to NCRC (North Carolina Research Campus) Building are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 2,200,184.76
2013	2,200,184.76
2014	2,200,184.76
2015	2,200,184.76
2016	2,200,184.76
2017-2021	11,000,923.80
2022-2026	11,000,923.80
2027-2030	8,434,041.58
Total Minimum Lease Payments	41,436,812.98
Amount Representing Interest (7% Rate of Interest)	18,448,269.45
Present Value of Future Lease Payments	\$ 22,988,543.53

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The NCRC Building and land acquired under capital lease amounted to \$26,786,729.97 at June 30, 2011. The capital lease expense is supported by a special North Carolina legislative appropriation which was first approved in 2006 and has been included in the State's debt service budget.

Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. 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, 2011:

Fiscal Year	Amount
2012	\$ 488,896.89
2013	487,898.89
2014	315,924.33
2015	187,562.21
2016	18,000.00
Total Minimum Lease Payments	\$ 1,498,282.32

Rental expense for all operating leases during the year was \$495,887.45.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 11,167,577.57	\$ 0.00	\$ 6,310,717.58	\$ (170,631.69)	\$ 5,027,491.68
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	\$ 536,722.70	\$ 0.00	\$ 0.00	\$ 0.00	\$ 536,722.70
Vending Commissions	28,411.28				28,411.28
Copy Center	408,189.91	408,189.91			0.00
Other	16,922.36				16,922.36
Sales and Services of Education and Related Activities	110,301.37				110,301.37
Total Sales and Services	\$ 1,100,547.62	\$ 408,189.91	\$ 0.00	\$ 0.00	\$ 692,357.71

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 18,113,323.07	\$ 2,550,299.74	\$ 2,588,099.81	\$ 0.00	\$ 0.00	\$ 0.00	\$ 23,251,722.62
Academic Support	4,265,265.24	1,144,139.81	1,100,236.56				6,509,641.61
Student Services	2,370,065.53	166,115.81	450,846.76				2,987,028.10
Institutional Support	4,655,797.51	1,264,603.57	2,336,266.47		543,540.02		8,800,207.57
Operations and Maintenance of Plant	628,045.56	28,359.62	1,605,617.90		419,762.54		2,681,785.62
Student Financial Aid			26,128.00	14,518,735.50			14,544,863.50
Auxiliary Enterprises	442.03	9,967.89	242,415.40	40,022.00			292,847.32
Depreciation						1,213,965.10	1,213,965.10
Total Operating Expenses	<u>\$ 30,032,938.94</u>	<u>\$ 5,163,486.44</u>	<u>\$ 8,349,610.90</u>	<u>\$ 14,558,757.50</u>	<u>\$ 963,302.56</u>	<u>\$ 1,213,965.10</u>	<u>\$ 60,282,061.44</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the 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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$24,710,718.44, of which \$17,684,130.95 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$871,827.66 and \$1,061,047.86, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$871,827.66, \$581,978.14, and \$586,367.46, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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 \$45,264.00 for the year ended June 30, 2011.

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 \$335,355.92 for the year ended June 30, 2011.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$866,522.42, \$733,585.89, and \$715,507.91, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$91,957.48, \$84,769.92, and \$90,747.34, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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 fiscal 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 \$100,493.06 at June 30, 2011.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 funds 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 purchase orders were \$176,338.67 at June 30, 2011. There were no outstanding commitments on construction projects at June 30, 2011.

B. Pending Litigation and Claims - The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

NOTE 15 - RELATED PARTIES

One member of the College Board of Trustees is an employee of the company that leases the North Carolina Research Campus (NCRC) building to the College. He did not become a board member until after the Memorandum of Agreement for the lease was signed. The land and buildings capitalized under the lease was valued at \$26,786,729.97. The annual minimum lease payment is \$2,200,184.76 and at June 30, 2011 the remaining commitment on the lease was \$41,436,812.98.

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, 2011, and have issued our report thereon dated March 21, 2012. 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 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.

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

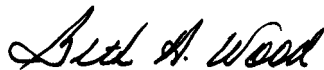
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

March 21, 2012

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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