

STATE OF NORTH CAROLINA

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

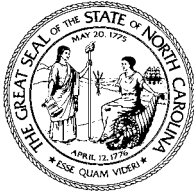
FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2014, 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.

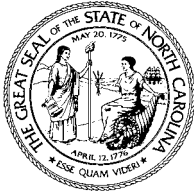
A handwritten signature in cursive script that reads "Beth A. Wood".

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Rowan-Cabarrus Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely 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 from material misstatement. The financial statements of Rowan-Cabarrus Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Rowan-Cabarrus Community College and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

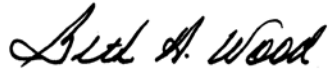
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 4, 2015

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ROWAN-CABARRUS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

As prescribed by standards issued by the Governmental Accounting Standards Board (GASB), this Management's Discussion and Analysis (MD&A) 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, 2014. The purpose of the MD&A is to identify significant transactions that have financial impact and to highlight favorable and unfavorable trends. This discussion along with the accompanying financial statements and related notes are the responsibility of the College's management and have been prepared by management to comprise the College's complete financial report.

As required, this report contains three basic financial statements and notes to the financial statements:

Statement of Net Position (Exhibit A-1): This statement includes all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The College's net position (assets and deferred outflows of resources less liabilities and deferred inflows of resources) is an indicator of the College's financial health at a point in time.

Statement of Revenues, Expenses, and Changes in Net Position (Exhibit A-2): This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize the presentation of the College's services to the students and public.

Statement of Cash Flows (Exhibit A-3): This statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing and investing activities, and helps measure the ability of the College to meet financial obligations as they mature.

Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

These statements are prepared under the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College is considered to be a business-type activity and is reported in a single column on the statements.

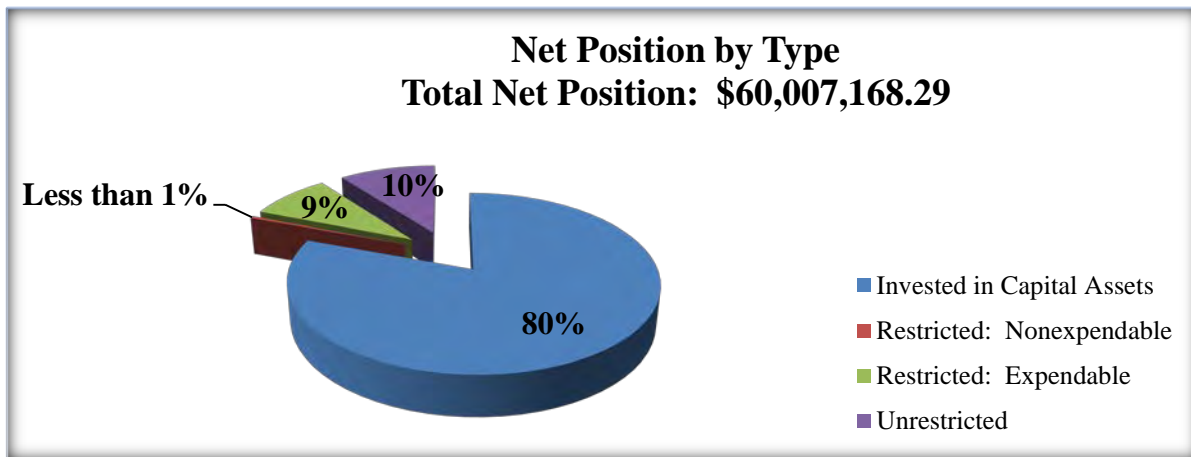
Rowan-Cabarrus Community College (RCCC) is a comprehensive, public, two-year community college serving Rowan and Cabarrus counties on multiple campuses located across the two-county service area. In fiscal year 2014, the College trained more than 8,500 curriculum, degree and non-degree seeking students through a broad range of college transfer

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

and associate or technical degree programs in addition to providing customized corporate training, continuing education courses, and special interest classes for more than 13,000 continuing education students.

Financial Highlights

At June 30, 2014 the College's net position had increased by \$3,284,104.09 from the prior year totaling \$60,007,168.29 at year end, including an increase of \$3,574,754.99 in net investment in capital assets, which totaled \$48,382,262.72 at year end. Total operating revenues for the fiscal year decreased by \$418,517.71 over the prior year totaling \$4,971,562.65 at year end while operating expenses decreased by \$1,670,576.63 for a total of \$54,541,061.99 at June 30, 2014. The charts below reflect the distribution of net position, operating revenues and operating expenses for the fiscal year.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Statement of Net Position

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables, inventories, and notes receivable. Noncurrent assets consist of cash and cash equivalents, receivables, investments, and net capital assets. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of \$5,000 or more and a useful life of more than one year. The College's net capital assets are stated at historical cost less depreciation. 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.

The condensed Statement of Net Position presented here is prepared from the College's Statement of Net Position for the year ended June 30, 2014 and the year ended June 30, 2013.

	FYE 2014	FYE 2013	Increase/(Decrease)	
			Dollar Change	Percent Change
Assets				
Current Assets	\$ 9,520,330.26	\$ 8,933,645.29	\$ 586,684.97	6.57%
Noncurrent Assets				
Capital	69,404,292.98	66,531,288.87	2,873,004.11	4.32%
Other	5,175,659.55	6,390,162.55	(1,214,503.00)	-19.01%
Total Assets	84,100,282.79	81,855,096.71	2,245,186.08	2.74%
Total Deferred Outflows of Resources	0.00	0.00	0.00	0.00%
Liabilities				
Current Liabilities	2,842,633.53	3,031,201.70	(188,568.17)	-6.22%
Long-Term Liabilities	21,250,480.97	22,100,830.81	(850,349.84)	-3.85%
Total Liabilities	24,093,114.50	25,132,032.51	(1,038,918.01)	-4.13%
Total Deferred Inflows of Resources	0.00	0.00	0.00	0.00%
Net Position				
Net Investment in Capital Assets	48,382,262.72	44,807,507.73	3,574,754.99	7.98%
Restricted	5,459,806.66	6,109,722.53	(649,915.87)	-10.64%
Unrestricted	6,165,098.91	5,805,833.94	359,264.97	6.19%
Total Net Position	\$ 60,007,168.29	\$ 56,723,064.20	\$ 3,284,104.09	5.79%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's total net position at June 30, 2014 totaled \$60,007,168.29, an increase of \$3,284,104.09 over the prior fiscal year. The total increase in net position was attributable to increases in both current and noncurrent assets and decreases in current and long-term liabilities.

Current assets increased \$586,684.97 primarily due to increases in student accounts receivables, cash and cash equivalents, and restricted cash and cash equivalents. Noncurrent assets increased by \$1,658,501.11. The majority of the increase in noncurrent assets was the result of increases in capital assets primarily due to an increase in construction in progress of approximately \$2,100,000. At year end the College had multiple construction and renovation projects underway in both Rowan and Cabarrus counties. The increase in these noncurrent assets was offset by a decrease in noncurrent cash mainly due to institutional fund costs associated with capital renovation projects and a reduction in monies due from the primary government as outstanding state bond and Golden Leaf funding decreased.

Current liabilities decreased by \$188,568.17 from the prior fiscal year. The decrease was primarily due to a decrease in accounts payable and accrued liabilities of \$96,548.91, a decrease in unearned revenue of \$108,445.25, and a decrease in funds held for others of \$61,619.52. These decreases were offset slightly by an increase in the current portion of long-term liabilities of \$78,045.51. Noncurrent long-term liabilities decreased by \$850,349.84 due to a reduction in capital leases payable related to the retirement of the 2013-2014 debt.

The increase of \$3,574,754.99 in net investment in capital assets was primarily due to an overall increase in construction in progress due to increased construction costs during the year as previously discussed. The change in restricted net position of \$649,915.87 was mainly due to reduced funding in state capital aid related to capital projects. Unrestricted net position increased by \$359,264.97 primarily due to an increase in bookstore commissions and campus access fees, resulting from increased sales in the bookstore and an increase in part-time students paying the campus access fee.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position consist of total revenues of \$59,396,417.62 and total expenses of \$56,112,313.53, resulting in an overall increase in net position of \$3,284,104.09 at year-end.

Operating revenue decreased by \$418,517.71 to \$4,971,562.65 this year. The chief cause of the change is a reduction in student tuition and fee revenue of \$482,521.71 due to a decline in enrollment over the previous year.

Net nonoperating revenue decreased by \$1,890,630.78 to \$49,069,837.98 in fiscal year 2014. The decrease is primarily due to decreases in state aid of \$797,735.19, county appropriations of \$378,910.50, and noncapital grants and gifts of \$828,414.36. The decrease in noncapital grants and gifts was primarily due to a decrease in the amount of Pell awards for the year resulting from the implementation of the lifetime Pell eligibility limitations. Students only qualify for Pell for the equivalent of six full-time years, and many of the College's students had reached the maximum limit in fiscal year 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, financial aid grants, and other nonoperating revenues. The College receives appropriations from the State and from Rowan and Cabarrus counties. For fiscal year 2014, there was decreased funding from these sources compared to the prior year. Tuition and state aid provides 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. Prior to fiscal year 2014, state aid appropriations were based on the previous year's FTE or the three year average FTE, whichever was higher. Beginning in fiscal year 2014, the funding model for state aid changed to the previous year's FTE or the two year average FTE, whichever was higher. The change from a three year average to a two year average during a year when FTE declined had a significant impact on the College's state aid appropriations in fiscal year 2014 since the two year average resulted in a lower budget FTE. Rowan and Cabarrus counties provide funds for the operation and maintenance of facilities in the 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 expenses for fiscal year 2014 decreased by \$1,670,576.63 to \$54,541,061.99. The decrease was primarily due to the reduction of expenses for salaries and benefits of \$1,099,703.33, services of \$451,561.75, and scholarships and fellowships of \$991,810.27. Salaries and benefits decreased due to a reduction in state aid. State aid decreased due to a decline in enrollment coupled with the transition from a three year average FTE funding model to a two year average FTE funding model as previously discussed. Service expenses decreased mainly due to reduced spending for contracted services, and scholarships and fellowships decreased as lower enrollments precipitated lower scholarship and fellowship awards, as well as implementation of the lifetime Pell eligibility limitations. The decrease in operating expenses was offset by increases in supplies and materials in the amount of \$653,733.65 and utilities in the amount of \$191,680.68. Supplies and materials increased due to additional purchases of instructional supplies and materials, other costs items, and equipment purchases not required to be capitalized.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The condensed Statement of Revenues, Expenses, and Changes in Net Position presented here is prepared from the College's Statement of Revenues, Expenses, and Change in Net Position for the year ended June 30, 2014 and the year ended June 30, 2013.

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

	FYE 2014	FYE 2013	Increase/(Decrease)	
			Dollar Change	Percent Change
Operating Revenues				
Student Tuition and Fees, Net	\$ 4,072,084.08	\$ 4,554,605.79	\$ (482,521.71)	-10.59%
Sales and Services, Net	858,468.30	733,601.38	124,866.92	17.02%
Other Operating Revenues	41,010.27	101,873.19	(60,862.92)	-59.74%
Total Operating Revenues	4,971,562.65	5,390,080.36	(418,517.71)	-7.76%
Operating Expenses				
Salaries and Benefits	32,825,457.51	33,925,160.84	(1,099,703.33)	-3.24%
Supplies and Materials	2,909,616.01	2,255,882.36	653,733.65	28.98%
Services	6,300,249.99	6,751,811.74	(451,561.75)	-6.69%
Scholarships and Fellowships	10,094,022.63	11,085,832.90	(991,810.27)	-8.95%
Utilities	1,034,759.98	843,079.30	191,680.68	22.74%
Depreciation	1,376,955.87	1,349,871.48	27,084.39	2.01%
Less Operating Expenses	54,541,061.99	56,211,638.62	(1,670,576.63)	-2.97%
Operating Loss	(49,569,499.34)	(50,821,558.26)	(1,252,058.92)	2.46%
Nonoperating Revenues (Expenses)				
State Aid	27,944,784.80	28,742,519.99	(797,735.19)	-2.78%
County Appropriations	3,505,433.50	3,884,344.00	(378,910.50)	-9.75%
Noncapital Grants and Gifts	19,112,121.83	19,940,536.19	(828,414.36)	-4.15%
Other Nonoperating Expenses	(1,492,502.15)	(1,606,931.42)	114,429.27	-7.12%
Net Nonoperating Revenues	49,069,837.98	50,960,468.76	(1,890,630.78)	-3.71%
Income (Loss) Before Other Revenues	(499,661.36)	138,910.50	(638,571.86)	-459.70%
Capital Contributions and Other Revenues	3,783,765.45	3,367,389.31	416,376.14	12.36%
Increase in Net Position	3,284,104.09	3,506,299.81	(222,195.72)	-6.34%
Net Position, Beginning of Year	56,723,064.20	53,216,764.39	3,506,299.81	6.59%
Net Position, End of Year	\$ 60,007,168.29	\$ 56,723,064.20	\$ 3,284,104.09	5.79%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Assets

The following schedule compares capital assets for the fiscal years 2014 and 2013, net of accumulated depreciation.

	FYE 2014	FYE 2013	Increase/(Decrease)	
			Dollar Change	Percent Change
Land	\$ 2,599,028.76	\$ 2,599,028.76	\$ 0.00	0.00%
Construction in Progress	3,924,307.13	1,767,623.32	2,156,683.81	122.01%
Buildings	55,142,988.01	54,330,035.03	812,952.98	1.50%
General Infrastructure	1,612,869.83	1,640,082.03	(27,212.20)	-1.66%
Machinery and Equipment	6,125,099.25	6,194,519.73	(69,420.48)	-1.12%
Total Capital Assets, Net	<u>\$ 69,404,292.98</u>	<u>\$ 66,531,288.87</u>	<u>\$ 2,873,004.11</u>	4.32%

Construction in progress increased significantly as a result of continued construction and renovation projects funded by local and state bond funds and college capital reserve funds. During the 2014 fiscal year the College had several renovation projects underway at the north campus in Rowan County and at two campuses in Cabarrus County. Buildings increased due to the completion of capital projects.

Financial Commitments

At June 30, 2014, the College had outstanding commitments on construction contracts totaling \$1,635,699.69 and outstanding commitments on purchase orders totaling \$25,807.89. The College pays annual lease payments of \$2,200,184.76 for the NCRC building and land for a period of 20 years. 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.

Factors Impacting Future Periods

The College's FTE has declined slightly over the past three years resulting in a decrease in budget FTE, but over a ten year period from 2002 through 2012, the College saw unprecedented enrollment growth totaling 59% over the 10 year period. The increase in enrollment over the period is attributed to a downturn in the economy and the addition of new programs designed to meet community needs. The North Carolina Community College System prides itself in its role in economic recovery and historically, a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. When the economy began a slow recovery following the economic recession, it was not unusual or unexpected to see a decline in FTE as students return to work.

State support is a key factor influencing the College's financial condition and its ability to expand programs, undertake new initiatives and meet its core mission and ongoing operational

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

needs. The recession and economic recovery have also affected the College's level of state funding and in response RCCC continues to seek new opportunities for local, federal, and private funding and partnerships.

Rowan-Cabarrus Community College is confident in its financial stability and ability to attract citizens in Rowan and Cabarrus counties to the life-changing benefits of higher education. The College's Board of Trustees, administration, staff, and faculty are dedicated to the College's mission of "*improving lives and building community through higher education workforce development.*"

The College's strategic plan centers on:

- Preparing students for 21st Century careers and opportunities that stimulate sustainable economic and workforce development,
- Producing exceptional learning that demonstrates academic excellence and student success,
- Providing excellent service delivery for current and prospective students to advance achievement,
- Acquiring, developing and managing human, fiscal, and infrastructure resources essential to the development and delivery of high-quality education and service,
- Serving as a catalyst for advancing the community.

Rowan-Cabarrus Community College is well positioned to increase enrollment, strategically add programs, partner with the state, local, federal agencies, and private business partners in economic development opportunities, and meet community needs and expectations while remaining financially sound.

Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 6,688,949.89
Restricted Cash and Cash Equivalents	1,126,411.90
Receivables, Net (Note 4)	1,631,428.11
Inventories	66,750.83
Notes Receivable, Net (Note 4)	<u>6,789.53</u>
Total Current Assets	<u>9,520,330.26</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,635,235.70
Restricted Due from Primary Government	2,952,732.26
Restricted Investments	135,270.98
Other Investments	452,420.61
Capital Assets - Nondepreciable (Note 5)	6,523,335.89
Capital Assets - Depreciable, Net (Note 5)	<u>62,880,957.09</u>
Total Noncurrent Assets	<u>74,579,952.53</u>

Total Assets	<u>84,100,282.79</u>
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DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<u>0.00</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,165,757.27
Unearned Revenue	375,428.32
Funds Held for Others	398,229.06
Long-Term Liabilities - Current Portion (Note 7)	<u>903,218.88</u>
Total Current Liabilities	<u>2,842,633.53</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	<u>21,250,480.97</u>
Total Liabilities	<u>24,093,114.50</u>

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<u>0.00</u>
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Rowan-Cabarrus Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	48,382,262.72
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	213,994.08
Restricted for Specific Programs	24,000.00
Expendable:	
Scholarships and Fellowships	46,441.53
Loans	19,028.42
Capital Projects	4,350,800.73
Restricted for Specific Programs	805,541.90
Unrestricted	<u>6,165,098.91</u>
Total Net Position	<u>\$ 60,007,168.29</u>

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 Position
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 4,072,084.08
Sales and Services, Net (Note 9)	858,468.30
Other Operating Revenues	41,010.27
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Total Operating Revenues	4,971,562.65
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EXPENSES

Operating Expenses:	
Salaries and Benefits	32,825,457.51
Supplies and Materials	2,909,616.01
Services	6,300,249.99
Scholarships and Fellowships	10,094,022.63
Utilities	1,034,759.98
Depreciation	1,376,955.87
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Total Operating Expenses	54,541,061.99
	<hr/>
Operating Loss	(49,569,499.34)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	27,944,784.80
County Appropriations	3,505,433.50
Noncapital Grants - Student Financial Aid	17,802,298.61
Noncapital Grants	1,184,328.50
Noncapital Gifts	125,494.72
Investment Income	78,749.39
Interest and Fees on Debt	(1,498,433.88)
Other Nonoperating Expenses	(72,817.66)
	<hr/>
Net Nonoperating Revenues	49,069,837.98
	<hr/>
Loss Before Other Revenues	(499,661.36)
	<hr/>
State Capital Aid	902,072.86
County Capital Aid	2,881,692.59
	<hr/>
Increase in Net Position	3,284,104.09
	<hr/>

NET POSITION

Net Position, July 1, 2013	56,723,064.20
	<hr/>
Net Position, June 30, 2014	\$ 60,007,168.29
	<hr/> <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, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,500,150.57
Payments to Employees and Fringe Benefits	(32,920,389.24)
Payments to Vendors and Suppliers	(10,243,457.46)
Payments for Scholarships and Fellowships	(10,094,022.63)
Loans Issued to Students	(46,861.43)
Collection of Loans to Students	44,231.48
Other Payments	(57,468.13)
	<hr/>
Net Cash Used by Operating Activities	(48,817,816.84)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	27,944,784.80
County Appropriations	3,505,433.50
Noncapital Grants - Student Financial Aid	17,587,482.49
Noncapital Grants	1,184,328.50
Noncapital Gifts	125,494.72
William D. Ford Direct Lending Receipts	16,120,363.00
William D. Ford Direct Lending Disbursements	(16,120,363.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	50,347,524.01

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,324,719.84
County Capital Aid	2,881,692.59
Capital Grants	491,451.00
Acquisition and Construction of Capital Assets	(4,326,929.03)
Principal Paid on Capital Lease	(701,750.89)
Interest Paid on Capital Lease	(1,498,433.88)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(1,829,250.37)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	78,749.39
Purchase of Investments and Related Fees	(11,995.59)
	<hr/>
Net Cash Provided by Investing Activities	66,753.80

Net Decrease in Cash and Cash Equivalents	(232,789.40)
Cash and Cash Equivalents, July 1, 2013	9,683,386.89
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 9,450,597.49

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (49,569,499.34)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,376,955.87
Nonoperating Other Income	4,151.39
Changes in Assets and Liabilities:	
Receivables, Net	(362,966.83)
Inventories	73,339.14
Notes Receivable, Net	(2,629.95)
Accounts Payable and Accrued Liabilities	(96,548.91)
Unearned Revenue	(108,445.25)
Funds Held for Others	(61,619.52)
Compensated Absences	(70,553.44)
Net Cash Used by Operating Activities	<u>\$ (48,817,816.84)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 6,688,949.89
Restricted Cash and Cash Equivalents	1,126,411.90
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,635,235.70</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 9,450,597.49</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 214,816.12
Loss on Disposal of Capital Assets	(76,969.05)

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

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Financial Position
June 30, 2014

Exhibit B-1

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 3,526,490
Investments	2,137,275
Receivables	23,309
Unconditional Promises to Give	144,141
	<hr/>
Total Assets	\$ 5,831,215
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Total Liabilities	\$ 0
	<hr/>
Net Assets	
Unrestricted	221,661
Temporarily Restricted	3,922,941
Permanently Restricted	1,686,613
	<hr/>
Total Net Assets	5,831,215
	<hr/>
Total Liabilities and Net Assets	\$ 5,831,215
	<hr/> <hr/>

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

Rowan-Cabarrus Community College Foundation, Inc.
Statement of Activities
Year Ended June 30, 2014

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND GAINS				
Contributions & Support	\$ 137,526	\$ 3,239,153	\$ 130,366	\$ 3,507,045
Special Events, Net	7,178			7,178
Investment Income, Net	24,024	236,117		260,141
Net Assets Released From Restrictions	292,305	(292,305)		
	<u>461,033</u>	<u>3,182,965</u>	<u>130,366</u>	<u>3,774,364</u>
EXPENSES AND LOSSES				
Program Expenses	369,313			369,313
Supporting Services:				
General Administration	18,771			18,771
	<u>388,084</u>			<u>388,084</u>
Change in Net Assets	72,949	3,182,965	130,366	3,386,280
Net Assets at Beginning of Year	148,712	739,976	1,556,247	2,444,935
Net Assets at End of Year	<u>\$ 221,661</u>	<u>\$ 3,922,941</u>	<u>\$ 1,686,613</u>	<u>\$ 5,831,215</u>

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

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ROWAN-CABARRUS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 discretely presented in the College's financial statements. See below for further discussion of the College's component unit.

Discretely Presented Component Unit – Rowan-Cabarrus Community College Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2014, the Foundation distributed \$191,381.26 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College's Foundation Director, P.O. Box 1595, Salisbury, NC 28145-1595 or by calling (704) 216-3876.

- 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 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.

- 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, include 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 (STIF). The STIF 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ready market existed for the investments. The net increase in the fair value of investments is recognized as a component of investment income.

Endowment investments include the principal amount of gifts and bequests that, according to donor restrictions, must be held in perpetuity or for a specified period of time, along with any accumulated investment earnings on such amounts. Further, endowment investments also include amounts internally designated by the College for investment in an endowment capacity (i.e. quasi-endowments), along with accumulated investment earnings on such amounts.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, and state and local governments. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using 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.

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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 fiscal year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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.

L. Net Position - The College's net position is classified as follows:

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

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 the auxiliary operation have been eliminated in the accompanying financial statements. The 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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, 2014 was \$2,595.00. The carrying amount of the College's deposits not with the State Treasurer was \$1,759,888.68 and the bank balance was \$1,632,082.60.

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, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments

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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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 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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$7,688,113.81, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF 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 STIF) 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) 707-0500.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agreements; obligations of the State of North Carolina; certificates of deposit and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

At June 30, 2014, the amount shown on the Statement of Net Position as restricted and other investments includes \$587,691.59, which represents the College's equity position in the State Treasurer's Long-Term Investment Portfolio (LTIP). The LTIP (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 16.3 years at June 30, 2014. Assets and shares of the LTIP are valued at fair market value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's LTIP) 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) 707-0500.

Component Unit - Investments of the College's discretely presented component unit, Rowan-Cabarrus Community College, Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	<u>Fair Value</u>
Debt Securities:	
Debt Mutual Funds	\$ 604,596
Money Market Mutual Funds	98,158
Other Securities:	
Mutual Funds	<u>1,434,521</u>
Total Investments	<u><u>\$ 2,137,275</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$	2,595.00
Carrying Amount of Deposits with Private Financial Institutions		1,759,888.68
Investments in the Short-Term Investment Fund		7,688,113.81
Investments in the Long-Term Investment Portfolio		<u>587,691.59</u>
Total Deposits and Investments	\$	<u><u>10,038,289.08</u></u>
Deposits		
Current:		
Cash and Cash Equivalents	\$	6,688,949.89
Restricted Cash and Cash Equivalents		1,126,411.90
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>1,635,235.70</u>
Total Deposits		<u>9,450,597.49</u>
Investments		
Noncurrent:		
Restricted Investments		135,270.98
Other Investments		<u>452,420.61</u>
Total Investments		<u>587,691.59</u>
Total Deposits and Investments	\$	<u><u>10,038,289.08</u></u>

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, 2014, net appreciation of \$645.04 was available to be spent, of which \$551.58 was classified in net position as restricted expendable for scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

On March 1, 2013, the College placed additional endowment assets in the State Treasurer's Long-Term Investment Portfolio. These assets are pooled with state agencies and similar institutions in long-term investments with the State Treasurer's Investment Pool and are reported as restricted and other

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investments – 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; however, it is generally expected that the amount of annual spending will approximate a range of 2% to 7% of the previous 12 quarter average market value of portfolio assets determined at December 31 each year. Initially, the annual spending will be based on the market value of portfolio assets for the previous year and the previous two years until a three year average is available. At June 30, 2014, there was no appreciation available to be spent.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,481,387.44	\$ 343,501.59	\$ 1,137,885.85
Student Sponsors	67,452.15		67,452.15
Accounts	1,328.49		1,328.49
Intergovernmental	424,761.62		424,761.62
	<u>424,761.62</u>		<u>424,761.62</u>
Total Current Receivables	<u>\$ 1,974,929.70</u>	<u>\$ 343,501.59</u>	<u>\$ 1,631,428.11</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 11,846.64	\$ 5,057.11	\$ 6,789.53
	<u>11,846.64</u>	<u>5,057.11</u>	<u>6,789.53</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 2,599,028.76	\$ 0.00	\$ 0.00	\$ 2,599,028.76
Construction in Progress	1,767,623.32	3,813,585.66	1,656,901.85	3,924,307.13
Total Capital Assets, Nondepreciable	4,366,652.08	3,813,585.66	1,656,901.85	6,523,335.89
Capital Assets, Depreciable:				
Buildings	62,748,135.48	1,653,401.85		64,401,537.33
Machinery and Equipment	8,408,016.22	513,343.37	286,918.67	8,634,440.92
General Infrastructure	2,075,324.93	3,500.00		2,078,824.93
Total Capital Assets, Depreciable	73,231,476.63	2,170,245.22	286,918.67	75,114,803.18
Less Accumulated Depreciation for:				
Buildings	8,418,100.45	840,448.87		9,258,549.32
Machinery and Equipment	2,213,496.49	505,794.80	209,949.62	2,509,341.67
General Infrastructure	435,242.90	30,712.20		465,955.10
Total Accumulated Depreciation	11,066,839.84	1,376,955.87	209,949.62	12,233,846.09
Total Capital Assets, Depreciable, Net	62,164,636.79	793,289.35	76,969.05	62,880,957.09
Capital Assets, Net	\$ 66,531,288.87	\$ 4,606,875.01	\$ 1,733,870.90	\$ 69,404,292.98

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 272,422.57
Accrued Payroll	829,958.91
Contract Retainage	63,375.79
Total Current Accounts Payable and Accrued Liabilities	\$ 1,165,757.27

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Capital Leases Payable	\$ 21,723,781.14	\$ 0.00	\$ 701,750.89	\$ 21,022,030.25	\$ 752,480.49
Compensated Absences	1,202,223.04	733,170.42	803,723.86	1,131,669.60	150,738.39
Total Long-Term Liabilities	\$ 22,926,004.18	\$ 733,170.42	\$ 1,505,474.75	\$ 22,153,699.85	\$ 903,218.88

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to the North Carolina Research Campus (NCRC) 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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 2,200,184.76
2016	2,200,184.76
2017	2,200,184.76
2018	2,200,184.76
2019	2,200,184.76
2020-2024	11,000,923.80
2025-2030	<u>12,834,411.10</u>
Total Minimum Lease Payments	34,836,258.70
Amount Representing Interest (7% Rate of Interest)	<u>13,814,228.45</u>
Present Value of Future Lease Payments	<u><u>\$ 21,022,030.25</u></u>

The NCRC building and land acquired under capital lease amounted to \$26,786,729.97 at June 30, 2014. The capital lease expense is 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.

Depreciation for the capital assets associated with capital leases is included in depreciation expense, and accumulated depreciation for assets acquired under capital lease totaled \$1,339,634.59 at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 354,095.22
2016	48,769.26
2017	41,200.08
Total Minimum Lease Payments	<u><u>\$ 444,064.56</u></u>

Rental expense for all operating leases during the year was \$521,154.46.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	<u>\$ 12,039,838.98</u>	<u>\$ 0.00</u>	<u>\$ 7,920,555.40</u>	<u>\$ 47,199.50</u>	<u>\$ 4,072,084.08</u>
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore Commissions	\$ 705,413.29	\$ 0.00	\$ 0.00	\$ 0.00	\$ 705,413.29
Vending Commissions	27,853.25				27,853.25
Copy Center	50,005.45	50,005.45			
Other	12,664.28				12,664.28
Sales and Services of Education and Related Activities	<u>112,537.48</u>				<u>112,537.48</u>
Total Sales and Services	<u><u>\$ 908,473.75</u></u>	<u><u>\$ 50,005.45</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 858,468.30</u></u>

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	\$ 19,170,414.32	\$ 1,495,173.17	\$ 1,456,632.11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 22,122,219.60
Academic Support	4,075,368.67	266,019.45	503,656.41				4,845,044.53
Student Services	3,267,920.83	53,086.07	484,460.90				3,805,467.80
Institutional Support	5,104,194.52	791,078.98	1,842,351.13				7,737,624.63
Operations and Maintenance of Plant	1,207,559.17	304,258.34	1,446,286.30		1,034,759.98		3,992,863.79
Student Financial Aid			59,124.32	10,094,022.63			10,153,146.95
Auxiliary Enterprises			507,738.82				507,738.82
Depreciation						1,376,955.87	1,376,955.87
Total Operating Expenses	\$ 32,825,457.51	\$ 2,909,616.01	\$ 6,300,249.99	\$ 10,094,022.63	\$ 1,034,759.98	\$ 1,376,955.87	\$ 54,541,061.99

NOTE 11 - PENSION PLANS

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$26,132,302.96, of which \$20,026,561.80 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$1,740,308.22 and \$1,201,593.71, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$1,740,308.22, \$1,691,361.36, and \$1,427,744.42, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The TSERS 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) 707-0500.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$1,081,434.34, \$1,076,136.28, and \$959,505.66, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$88,116.87, \$89,339.62, and \$99,788.59, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College System Office pays the premium, based on a composite rate, directly to the private insurer.

During the fiscal year 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 \$72,672.68 at June 30, 2014.

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 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 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

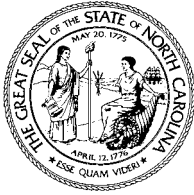
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,635,699.69 and on other purchases were \$25,807.89 at June 30, 2014.

Office of the State Auditor

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State Auditor

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

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

We have audited, in accordance with the 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, the financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 4, 2015. Our report includes a reference to other auditors who audited the financial statements of Rowan-Cabarrus Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Rowan-Cabarrus Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 4, 2015

ORDERING INFORMATION

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Bill Holmes

Director of External Affairs