



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our review was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Rowan-Cabarrus Community College. The review procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Rowan-Cabarrus Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting

REVIEWER'S TRANSMITTAL (CONCLUDED)

principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

- 2. Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying Statement of Net Assets of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, as of June 30, 2002, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 9 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor
May 28, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In the fiscal year ended June 30, 2002, Rowan-Cabarrus Community College implemented 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*. As required by these pronouncements, this Management's Discussion and Analysis section of Rowan-Cabarrus Community College's Annual Financial Report presents the College's financial activity during the fiscal year ended June 30, 2002. This section should be read in conjunction with the College's basic financial statements and the related notes to the financial statements.

The new financial statement focuses 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 now consist of three statements. The first statement, Statement of Net Assets, shows, at a glance, the financial position of the College. For the first time, capital assets are presented in the same column as other resources. The Statement of Net Assets is presented in a "classified" format. This means that assets are classified by current-unrestricted, current-restricted, or noncurrent. The second statement, Statement of Revenues, Expenses, and Changes in Net Assets, presents the revenues and expenses for the fiscal year. Again, all activity is presented in one column. Revenue and expenses are classified as operating or nonoperating. The final statement, Statement of Cash Flows, presents the sources from which the College received cash and uses for which cash was spent. The Cash Flow Statement is presented in the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities.

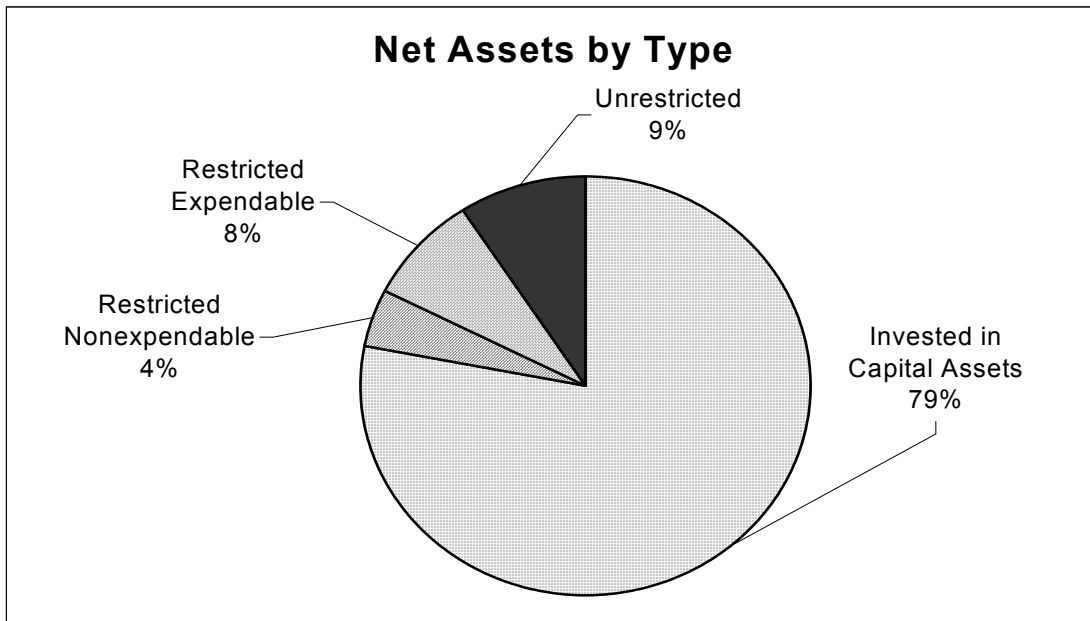
Financial Highlights:

In this first year of GASB Statement Nos. 34/35 implementation, only certain prior year numbers have been restated using GASB Statement Nos. 34/35. These limited restated numbers are used for comparative and analytical purposes. In future years, when prior-year information is available, a more comprehensive comparative analysis will be presented in the Management's Discussion and Analysis section.

For the year ended June 30, 2002, the College's net assets increased by \$1,061,347.87 from \$19,091,709.98 in fiscal year ended June 30, 2001 (restated for GASB Statement Nos. 34/35) to \$20,153,057.85 in fiscal year ended June 30, 2002. For fiscal year ended 2002, total assets were \$20,946,213.36, of which \$15,752,111.08 was capital assets. While State aid, the largest part of the College's revenue source, was reduced by \$690,121.65 (5.5%) in the fiscal year ended June 30, 2002, the modest increase in net assets was obtained as a result of a slight increase in county appropriations, and several large private gifts in conjunction with cost cutting efforts that were employed as a result of the tight budget year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following graph depicts the allocation of net assets:

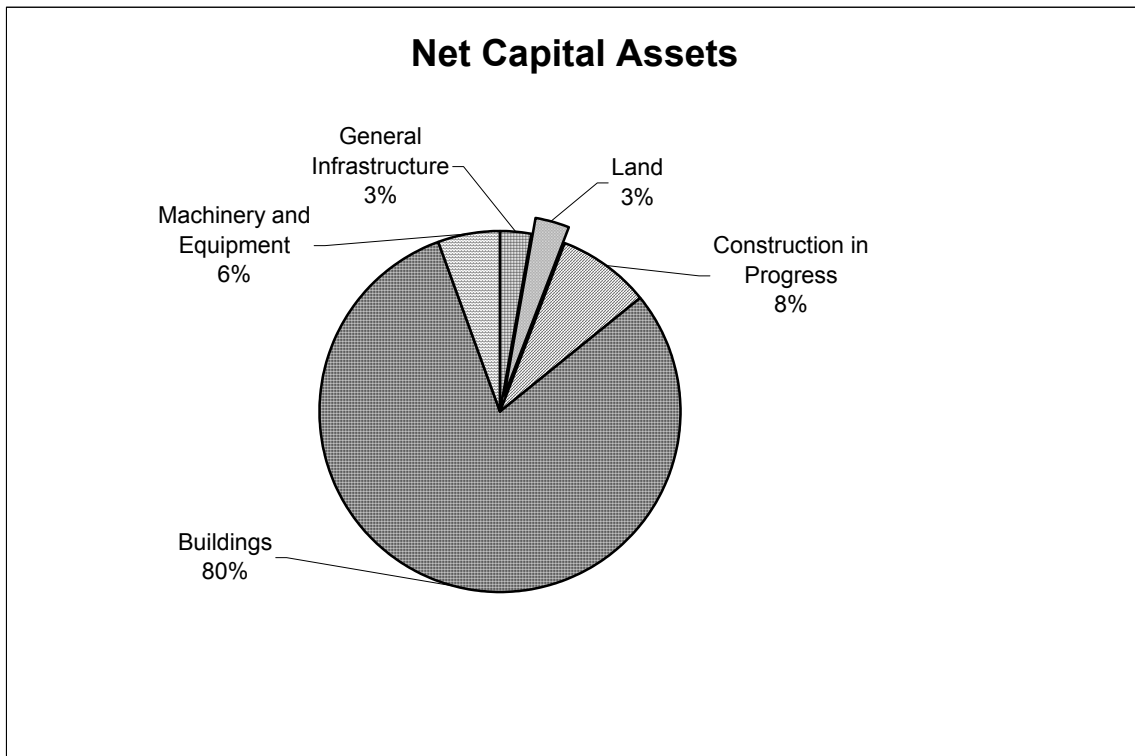


Capital Assets:

As required by GASB Statement Nos. 34/35, the College reported capital assets net of accumulated depreciation for fiscal year ended June 30, 2002. At June 30, 2002, the College reported total assets of \$24,024,371.17, and total accumulated depreciation of \$8,272,260.09. Thus at June 30, 2002, net capital assets were \$15,752,111.08.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following graph displays the allocation of net capital assets:



As shown above, construction in progress accounts for 8% of the net capital assets. Construction in progress is comprised of only one project: the renovation Building 100. The renovation is to provide a new, updated Student Services area. At June 30, 2002 the renovation was still in progress and contractual commitments related to the project (total contracts less amounts paid or reported as accounts payable in the accompanying financial statements) were \$216,857.07.

Liabilities:

At June 30, 2002 the total liabilities for Rowan-Cabarrus Community College were \$793,155.51. The new GASB Statement Nos. 34/35 format requires the College to classify liabilities between current and noncurrent. Generally, current liabilities are liabilities that will be paid within one year, while noncurrent liabilities will not become due within one year. Of the \$793,155.51 total liabilities, \$432,962.78 was current and \$360,192.73 was noncurrent. The current liabilities increased \$233,379.09 (116.93%) from fiscal year ended June 30, 2001. The increase is the result of accounts payables related to the Building 100 construction project that was in progress at June 30, 2002. The noncurrent portion of liabilities, \$360,192.73, relates entirely to the long-term portion of compensated absences. As a result of GASB Statement Nos. 34/35, the College is required to systematically estimate the amount of accrued vacation leave that will be used in one year. This portion is reported as a current liability. The remaining portion is reported as noncurrent.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

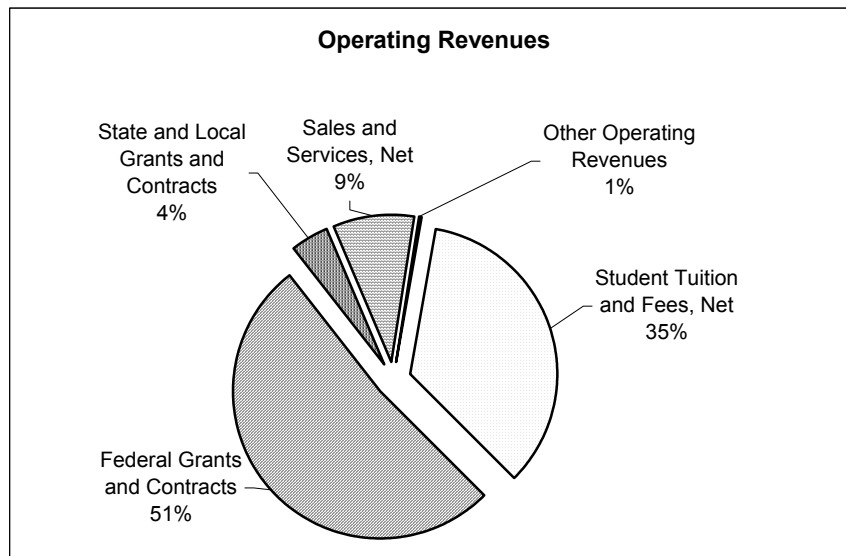
Revenues and Expenses:

For the year ended June 30, 2002, total revenues were \$21,798,488.62, which is a \$1,209,874.10 (5.7%) increase over fiscal year ended June 30, 2001. As mentioned above, revenue is classified between operating and nonoperating as a result of GASB Statement Nos. 34/35.

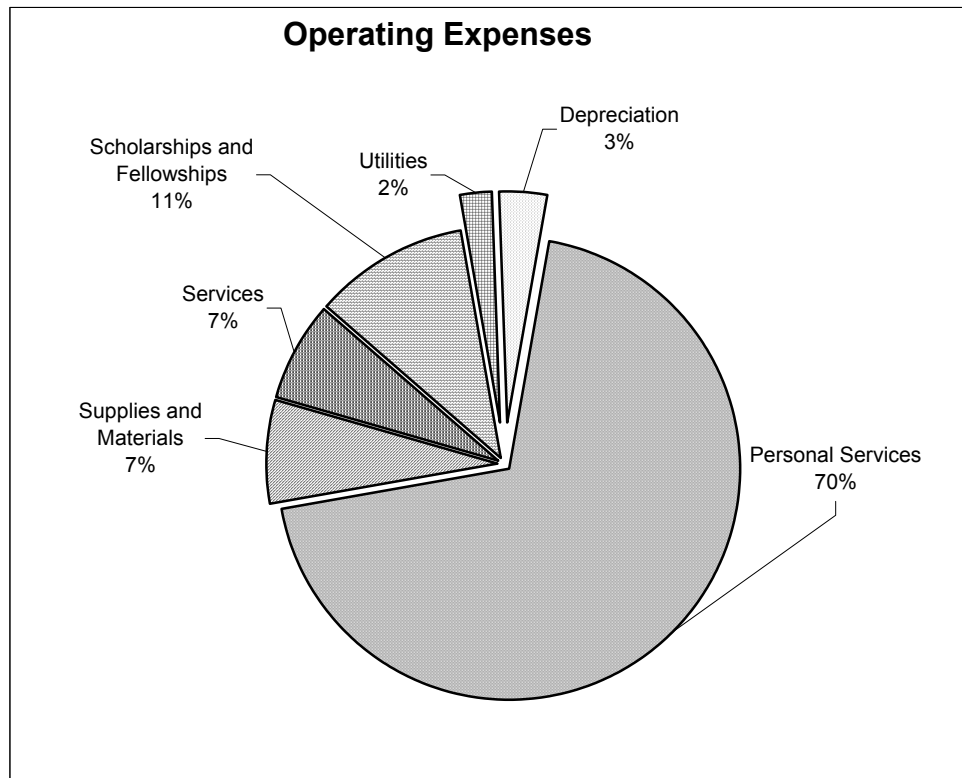
In fiscal year ended June 30, 2002 operating revenues were \$6,447,065.80. This represents a 48.0% increase over operation revenues in fiscal year ended 2001. The biggest part of this increase was due to the large increase in the number of students that applied for and received Pell grants. When a Pell award is given to a student, the College receives the funds from the U.S. Department of Education and these funds are reported as "Federal grants and contracts" revenue. The number of students awarded Pell grants increased by approximately 50% from fiscal year ended June 30, 2001 to fiscal year ended June 30, 2002. In addition to the volume of students increasing, the federal government also increased the amount of the Pell awards. In fiscal year ended June 30, 2001, the maximum award was \$3,300 while in fiscal year ended June 30, 2002 the maximum award was \$3,750. Another significant part of the increase was due to a \$3.50 per credit-hour tuition increase that the North Carolina General Assembly enacted for the Fall 2001 term. Due to a combination of increased enrollment and the tuition increase, the amount reported as "Student tuition and fees" revenue increased by approximately 30% over fiscal year ended June 30, 2001.

Operating expenses also increased, although at a much smaller percentage. Operating expenses for fiscal year ended June 30, 2002 totaled \$21,229,819.96, which represents a 3.9% increase over operating expenses for fiscal year ended June 30, 2001. As noted above, the number of students receiving Pell awards increased. This increase not only affected revenue, it also had an impact on the "Scholarships and fellowships" expense, which increased by \$1,224,042 or 110.59%.

The following charts show the components of operating revenues and operating expenses:

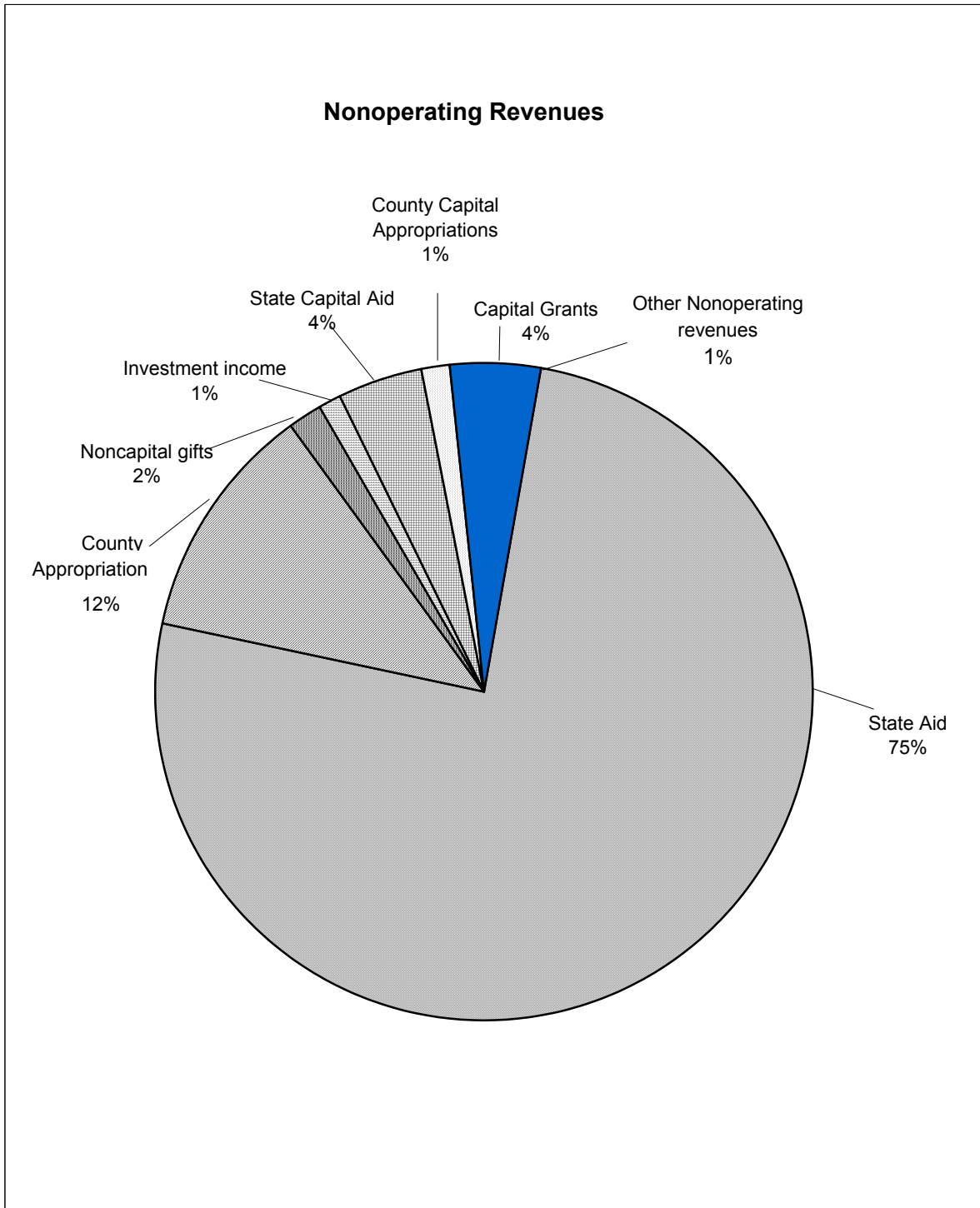


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



The “Nonoperating” revenues consist of State aid, State capital aid, county appropriations, county capital appropriations, noncapital gifts, and investment income. The total amount reported for these items in fiscal year ended June 30, 2002 was \$15,351,422.82. The majority of the College’s funding comes from State appropriations. These funds are reported as “Nonoperating Revenues” in the financial statements. In fiscal year ended June 30, 2002, the amount reported for State aid was \$11,968,214.48. As mentioned above, fiscal year ended June 30, 2002 was a tight budget year for the State of North Carolina. As a result, the amount received from the State actually decreased approximately \$690,000 (5.5%) compared to fiscal year ended June 30, 2001 (excluding State capital aid and special grants and contracts). In addition, the amount reported as State capital aid decreased by approximately \$59,441.02 (7.5%).

These decreases were offset somewhat by increases in county appropriations, county capital aid, and noncapital gifts. County appropriations were reported as \$1,853,909.00, which is a \$119,053.00 (6.9%) increase over fiscal year ended June 30, 2001. Also, the amount reported as county capital appropriations, \$220,178.00, represents a \$41,000.00 (15.7%) decrease over fiscal year ended June 30, 2001. Noncapital gifts for fiscal year ended June 30, 2002 were \$245,773.54, a \$28,110.73 (12.9%) increase over fiscal year ended June 30, 2001. Included in the noncapital gifts revenue are six gifts totaling \$124,070.00, which were additions to endowment accounts. Finally, capital grants for fiscal year ended June 30, 2002 were \$696,326.55, a \$77,965.42 (10.1%) decrease over fiscal year ended June 30, 2001. The majority of the decrease in capital grants related to the timing of expenditures on capital projects underway.



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, 2002		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	1,915,300.83
Restricted Cash and Cash Equivalents		578,790.76
Receivables, Net (Note 3)		449,296.31
Inventories		101,873.85
Notes Receivable, Net (Note 3)		2,022.24
Total Current Assets		3,047,283.99
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,734,082.92
Restricted Due from Primary Government		412,735.37
Capital Assets, Net (Note 4)		15,752,111.08
Total Noncurrent Assets		17,898,929.37
Total Assets		20,946,213.36
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		386,117.67
Due to Primary Government		2,887.00
Funds Held for Others		24,721.02
Long-Term Liabilities - Current Portion (Note 6)		19,237.09
Total Current Liabilities		432,962.78
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		360,192.73
Total Noncurrent Liabilities		360,192.73
Total Liabilities		793,155.51
NET ASSETS		
Invested in Capital Assets		15,752,111.08
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		848,258.10
Other		49,857.50
Expendable:		
Scholarships and Fellowships		132,912.25
Loans		21,667.80
Capital Projects		997,658.78
Other		489,079.11
Unrestricted		1,861,513.23
Total Net Assets	\$	20,153,057.85
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

Rowan-Cabarrus Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2002		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,241,906.04
Federal Grants and Contracts		3,352,775.89
State and Local Grants and Contracts		267,151.23
Sales and Services, Net (Note 8)		568,253.55
Other Operating Revenues		16,979.09
Total Operating Revenues		6,447,065.80
EXPENSES		
Operating Expenses:		
Personal Services		14,767,570.87
Supplies and Materials		1,522,460.65
Services		1,443,919.17
Scholarships and Fellowships		2,330,826.49
Utilities		472,949.89
Depreciation		692,092.89
Total Operating Expenses		21,229,819.96
Operating Loss		(14,782,754.16)
NONOPERATING REVENUES		
State Aid		11,968,214.48
County Appropriations		1,853,909.00
Noncapital Gifts		245,773.54
Investment Income		204,679.04
Other Nonoperating Revenues		17,498.89
Net Nonoperating Revenues		14,290,074.95
Loss Before Other Revenues, Expenses, Gains, and Losses		(492,679.21)
State Capital Aid		637,522.53
County Capital Appropriations		220,178.00
Capital Grants		696,326.55
Increase in Net Assets		1,061,347.87
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 15)		19,091,709.98
Net Assets, June 30, 2002	\$	20,153,057.85
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

Rowan-Cabarrus Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2002		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,364,841.25
Payments to Employees and Fringe Benefits		(14,742,098.77)
Payments to Vendors and Suppliers		(3,445,393.28)
Payments for Scholarships and Fellowships		(2,415,519.33)
Loans Issued to Students		(7,588.94)
Collection of Loans to Students		7,939.59
Other Receipts		24,367.51
Net Cash Used by Operating Activities		(14,213,451.97)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,968,214.48
County Appropriations		1,853,909.00
Noncapital Grants Received		9.48
Noncapital Gifts and Endowments Received		205,773.54
Net Cash Provided by Noncapital Financing Activities		14,027,906.50
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		730,391.83
County Capital Appropriations		220,178.00
Capital Grants Received		721,706.44
Acquisition and Construction of Capital Assets		(1,226,787.53)
Net Cash Provided by Capital and Related Financing Activities		445,488.74
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		203,278.84
Net Cash Provided by Investing Activities		203,278.84
Net Increase in Cash and Cash Equivalents		463,222.11
Cash and Cash Equivalents, July 1, 2001		3,764,952.40
Cash and Cash Equivalents, June 30, 2002	\$	4,228,174.51
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(14,782,754.16)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		692,092.89
Provision for Uncollectible Loans and Writeoffs		709.25
Miscellaneous Nonoperating Income		20,620.00
Changes in Assets and Liabilities:		
Receivables, Net		(166,917.39)
Inventories		(5,355.26)
Notes Receivable, Net		350.65
Accounts Payable and Accrued Liabilities		215.92
Due to Primary Government		2,093.00
Funds Held for Others		3,747.51
Compensated Absences		21,745.62
Net Cash Used by Operating Activities	\$	(14,213,451.97)

Rowan-Cabarrus Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2002		Page 2
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Assets Acquired through Assumption of a Liability	\$ 230,619.67
	Increase in Receivables Related to Nonoperating Income	40,000.00
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Because the members of the board that governs the Foundation are appointed by the members of the Rowan-Cabarrus Community College Board of Trustees and the Foundation's sole purpose is to support the educational mission of 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 Rowan-Cabarrus Community College, Post Office Box 1595, Salisbury, NC 28145, or by calling (704) 637-0760, Extension 234. Other related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities, effective for the College’s year ended June 30, 2002, the full scope of the College’s activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also 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 providers conditions have been satisfied. Notes receivable are recorded net of estimated uncollectible amounts. All other receivables are recorded at book value with no provision for uncollectible amounts considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies and postage, are priced at cost using the last invoice cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 20 years for general infrastructure, 20 to 40 years for buildings, and 5 to 15 years for equipment.

- H. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at fiscal year-end is converted to sick leave.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- N. Internal Sales Activities** – The Copy Center is the only institutional auxiliary operation that provides goods and services to College departments. All internal sales activities to College departments from this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

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

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,625.00. The carrying amount of cash on deposit was \$4,226,549.51 and the bank balance was \$4,587,074.71.

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.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 4,122,089.96	\$ 4,063,089.96
Cash on Deposit with Private Financial Institutions	<u>104,459.55</u>	<u>523,984.75</u>
	<u>\$ 4,226,549.51</u>	<u>\$ 4,587,074.71</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$100,000.00 of the bank balance was covered by federal depository insurance, and \$423,984.75 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 363,018.09	\$ 0.00	\$ 363,018.09
Accounts	5,588.10		5,588.10
Intergovernmental	19,076.82		19,076.82
Pledges	45,000.00		45,000.00
Investment Earnings	16,613.30		16,613.30
Total Current Receivables	\$ 449,296.31	\$ 0.00	\$ 449,296.31
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 7,520.80	\$ 5,498.56	\$ 2,022.24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 484,443.76	\$ 0.00	\$ 0.00	\$ 484,443.76
Construction in Progress	87,076.75	1,234,393.35		1,321,470.10
Total Capital Assets, Non-Depreciable	571,520.51	1,234,393.35		1,805,913.86
Capital Assets, Depreciable:				
Buildings	18,957,444.26	21,094.18		18,978,538.44
Machinery and Equipment	1,939,491.32	159,380.38	23,769.00	2,075,102.70
General Infrastructure	1,122,276.88	42,539.29		1,164,816.17
Total Capital Assets, Depreciable	22,019,212.46	223,013.85	23,769.00	22,218,457.31
Less Accumulated Depreciation:				
Buildings	5,875,871.29	487,212.07		6,363,083.36
Machinery and Equipment	1,041,699.25	154,109.35	20,647.89	1,175,160.71
General Infrastructure	683,244.55	50,771.47		734,016.02
Total Accumulated Depreciation	7,600,815.09	692,092.89	20,647.89	8,272,260.09
Total Capital Assets, Depreciable, Net	14,418,397.37	(469,079.04)	3,121.11	13,946,197.22
Capital Assets, Net	\$ 14,989,917.88	\$ 765,314.31	\$ 3,121.11	\$ 15,752,111.08

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 374,133.98
Accrued Payroll	11,983.69
Total Accounts Payable and Accrued Liabilities	\$ 386,117.67

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	\$ 357,684.20	\$ 302,478.17	\$ 280,732.55	\$ 379,429.82	\$ 19,237.09

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 215,308.16
2004	198,170.92
2005	107,027.47
2006	48,236.52
2007	<u>40,253.52</u>
Total Minimum Lease Payments	<u><u>\$ 608,996.59</u></u>

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

	<u>Amount</u>
Minimum Rentals	\$ 230,654.55
Contingent Rentals	<u>12,659.24</u>
Total Rental Expense	<u><u>\$ 243,313.79</u></u>

NOTE 8 - 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>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	\$ 3,245,703.55	\$ 0.00	\$ 1,003,797.51	\$ 2,241,906.04
Sales and services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commissions	\$ 119,545.96	\$ 0.00	\$ 0.00	\$ 119,545.96
Vending Commissions	10,265.55			10,265.55
Childcare	209,371.67			209,371.67
Copy Center	283,357.33	283,357.33		0.00
Patron Fees	40,417.75			40,417.75
Other	1,594.62			1,594.62
Sales and Services of Educational and Related Activities	<u>187,058.00</u>			<u>187,058.00</u>
Total Sales and Services	<u><u>\$ 851,610.88</u></u>	<u><u>\$ 283,357.33</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 568,253.55</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,147,580.66	\$ 591,522.40	\$ 531,873.31	\$ 0.00	\$ 53,861.76	\$ 0.00	\$ 10,324,838.13
Academic Support	1,428,674.03	177,118.41	104,092.61				1,709,885.05
Student Services	1,124,384.11						1,124,384.11
Institutional Support	2,286,196.05	144,235.99	561,174.84	25.00	188,152.76		3,179,784.64
Operations and Maintenance of Plant	613,617.08	599,322.50	133,733.48		230,935.37		1,577,608.43
Student Financial Aid			8,140.00	2,321,298.24			2,329,438.24
Auxiliary Enterprises	167,118.94	10,261.35	104,904.93	9,503.25			291,788.47
Depreciation						692,092.89	692,092.89
Total Operating Expenses	<u>\$ 14,767,570.87</u>	<u>\$ 1,522,460.65</u>	<u>\$ 1,443,919.17</u>	<u>\$ 2,330,826.49</u>	<u>\$ 472,949.89</u>	<u>\$ 692,092.89</u>	<u>\$ 21,229,819.96</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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, 2002, these rates were set at

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$12,765,646.57, of which \$9,387,798.19 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$563,269.09 and \$184,939.62, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$184,939.62, \$488,356.94, and \$699,743.31, respectively.

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

B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$206,122.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$44,522.00 for the year ended June 30, 2002.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$220,613.26. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$48,816.55. 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

North Carolina Community College System Office directly to the private insurer.

During the year ended June 30, 1995, the College's 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 \$137,549.71 at June 30, 2002.

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from County and Institutional Fund paid employees are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$216,857.07 and there were no other commitments at June 30, 2002.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$10,883,476.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on obligations under leases. New disclosures include the major components of receivable and payable balances.

NOTE 15 - NET ASSET RESTATEMENT

As referred to in Note 14, the College implemented 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*.

July 1, 2001 Fund Equity as previously reported	\$ 28,414,039.72
Implementation of GASB 34/35	<u>(9,322,329.74)</u>
July 1, 2001 Net Assets as Restated	<u><u>\$ 19,091,709.98</u></u>

Rowan-Cabarrus Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

	Projected	General	Other	Total	Amount	Percent	Expected
Capital Improvement Projects	Start	Obligation Bonds	Sources	Project	Expended	Completed	Completion
	Date	Authorized		Budget			Date
<i>Projects Approved by the State Board</i>							
Building 100 Renovations - Project #1032	Feb 2001	\$ 325,000.00	\$ 1,473,242.00	\$ 1,798,242.00	\$ 1,321,470.10	73.49%	Aug 2002
Classroom/Laboratory Building - South Project #1185	Jun 2003	4,357,029.00	3,565,141.00	7,922,170.00			Dec 2005
<i>Projects Pending Approval by the State Board</i>							
Various North Campus Renovation Projects	Aug 2002	480,584.00		480,584.00			
LRC and Student Support Space Expansion and Renovation	Jan 2005	805,584.00		805,584.00			
Classroom/Laboratory Building and Parking Lot - North	Oct 2006	5,207,129.00	3,659,365.00	8,866,494.00			
Total All Projects		\$ 11,175,326.00	\$ 8,697,748.00	\$ 19,873,074.00	\$ 1,321,470.10		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

DISTRIBUTION OF REVIEW REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Richard L. Brownell	President, Rowan-Cabarrus Community College
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June 18, 2003

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