



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit 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 audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Rowan-Cabarrus Community College. The audit 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 audit on the accompanying financial statements that relate solely to Rowan-Cabarrus Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Rowan-Cabarrus Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

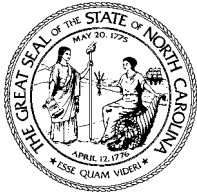
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	13
B Statement of Revenues, Expenses, and Changes in Net Assets	14
C Statement of Cash Flows	15
Notes to the Financial Statements	17
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	31
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	33
DISTRIBUTION OF AUDIT REPORT	35



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rowan-Cabarrus Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

May 24, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

In the fiscal year ended June 30, 2002, Rowan-Cabarrus Community College (RCCC) 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 RCCC's Annual Financial Report presents the College's financial activity during the fiscal year ended June 30, 2003. This section should be read in conjunction with the College's basic financial statements and the related notes to the financial statements.

The financial statements focus on the College as a whole. As such, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements. The basic financial statements consist of three statements. The first statement, Statement of Net Assets, shows, at a glance, the financial position of the College. Capital assets are presented in the same column as other resources. The Statement of Net Assets is presented in a "classified" format. This means that assets are classified by current-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. Revenues 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights:

The following is a comparison between fiscal year ended June 30, 2003 and fiscal year ended June 30, 2002:

EXHIBIT A

<u>ASSETS</u>	<u>FY2002-2003</u>	<u>FY2001-2002</u>	<u>Difference</u>	<u>% Difference</u>
Current Assets:				
Cash and Cash Equivalents	\$ 2,198,065.90	\$ 1,915,300.83	\$ 282,765.07	14.76%
Restricted Cash and Cash Equivalents	723,232.31	578,790.76	144,441.55	24.96%
Receivables, Net	591,265.75	449,296.31	141,969.44	31.60%
Inventories	117,670.23	101,873.85	15,796.38	15.51%
Notes Receivable, Net	1,190.17	2,022.24	(832.07)	(41.15%)
Total Current Assets	<u>3,631,424.36</u>	<u>3,047,283.99</u>	<u>584,140.37</u>	19.17%
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	1,687,678.83	1,734,082.92	(46,404.09)	(2.68%)
Restricted Due from Primary Government	179,408.49	412,735.37	(233,326.88)	(56.53%)
Capital Assets - Nondepreciable	796,676.69	1,805,913.86	(1,009,237.17)	(55.89%)
Capital Assets - Depreciable, Net	14,946,308.43	13,946,197.22	1,000,111.21	7.17%
Total Current Assets	<u>17,610,072.44</u>	<u>17,898,929.37</u>	<u>(288,856.93)</u>	(1.61%)
Total Assets	<u>21,241,496.80</u>	<u>20,946,213.36</u>	<u>295,283.44</u>	1.41%
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	653,353.86	386,117.67	267,236.19	69.21%
Due to Primary Government		2,887.00	(2,887.00)	
Funds Held for Others - Current	34,280.58	24,721.02	9,559.56	38.67%
Long-Term Liabilities - Current Portion	56,853.65	19,237.09	37,616.56	195.54%
Total Current Liabilities	<u>744,488.09</u>	<u>432,962.78</u>	<u>311,525.31</u>	71.95%
Noncurrent Liabilities:				
Long-Term Liabilities	352,165.42	360,192.73	(8,027.31)	(2.23%)
Total Noncurrent Liabilities	<u>352,165.42</u>	<u>360,192.73</u>	<u>(8,027.31)</u>	(2.23%)
Total Liabilities	<u>1,096,653.51</u>	<u>793,155.51</u>	<u>303,498.00</u>	38.26%
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	15,742,985.12	15,752,111.08	(9,125.96)	(0.06%)
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	807,763.10	848,258.10	(40,495.00)	(4.77%)
Other	65,367.44	49,857.50	15,509.94	31.11%
Expendable:				
Scholarships and Fellowships	182,330.84	132,912.25	49,418.59	37.18%
Loans	21,409.14	21,667.80	(258.66)	(1.19%)
Capital Projects	910,945.14	997,658.78	(86,713.64)	(8.69%)
Other	592,389.75	489,079.11	103,310.64	21.12%
Unrestricted:	1,821,652.76	1,861,513.23	(39,860.47)	(2.14%)
Total Net Assets	<u>\$ 20,144,843.29</u>	<u>\$ 20,153,057.85</u>	<u>\$ (8,214.56)</u>	(0.04%)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

EXHIBIT B

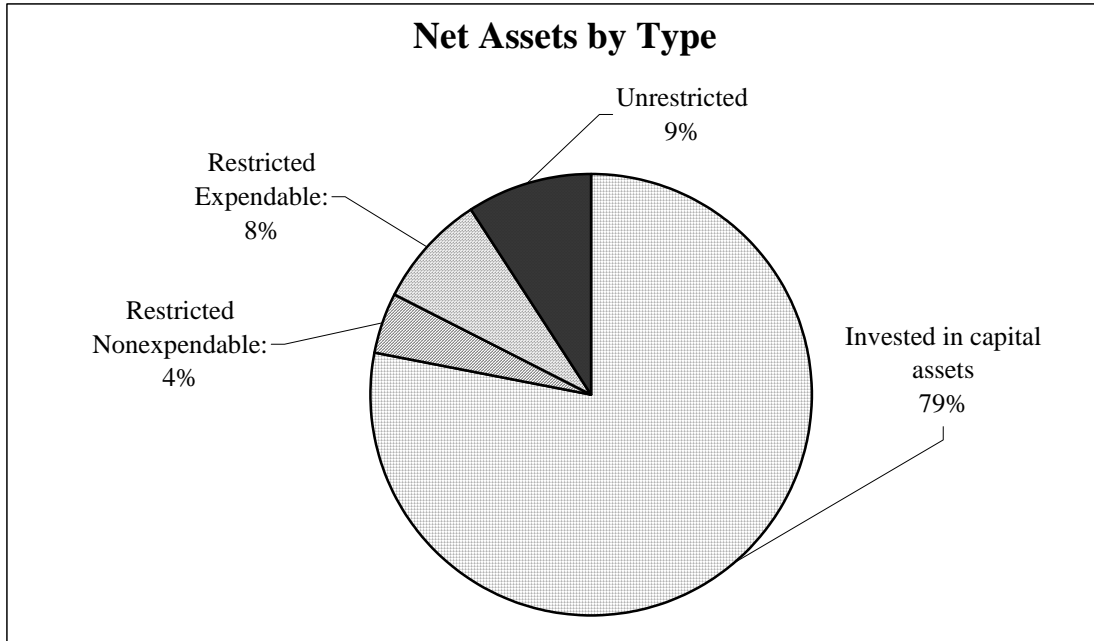
<u>REVENUES</u>	<u>FY2002-2003</u>	<u>FY2001-2002</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues:				
Student Tuition and Fees, Net	\$ 2,721,742.01	\$ 2,241,906.04	\$ 479,835.97	21.40%
Federal Grants and Contracts	4,066,755.63	3,352,775.89	713,979.74	21.30%
State and Local Grants and Contracts	271,168.24	267,151.23	4,017.01	1.50%
Sales and Services, Net	412,957.14	568,253.55	(155,296.41)	(27.33%)
Other Operating Revenues	18,791.15	16,979.09	1,812.06	10.67%
Total Operating Revenues	<u>7,491,414.17</u>	<u>6,447,065.80</u>	<u>1,044,348.37</u>	16.20%
EXPENSES				
Operating Expenses:				
Personal Services	15,794,098.35	14,767,570.87	1,026,527.48	6.95%
Supplies and Materials	1,812,422.52	1,522,460.65	289,961.87	19.05%
Services	1,525,480.10	1,443,919.17	81,560.93	5.65%
Scholarships and Fellowships	3,265,011.29	2,330,826.49	934,184.80	40.08%
Utilities	395,798.77	472,949.89	(77,151.12)	(16.31%)
Depreciation	<u>755,535.75</u>	<u>692,092.89</u>	<u>63,442.86</u>	9.17%
Total Operating Expenses	<u>23,548,346.78</u>	<u>21,229,819.96</u>	<u>2,318,526.82</u>	10.92%
Operating Loss	<u>(16,056,932.61)</u>	<u>(14,782,754.16)</u>	<u>(1,274,178.45)</u>	8.62%
NONOPERATING REVENUES (EXPENSES)				
State Aid	12,270,574.82	11,968,214.48	302,360.34	2.53%
County Appropriations	1,830,199.00	1,853,909.00	(23,710.00)	(1.28%)
Noncapital Grants	310,546.29		310,546.29	
Noncapital Gifts, Net	269,844.86	245,773.54	24,071.32	9.79%
Investment Income, Net	174,009.64	204,679.04	(30,669.40)	(14.98%)
Other Nonoperating Revenues (Expenses)	<u>7,125.08</u>	<u>17,498.89</u>	<u>(10,373.81)</u>	(59.28%)
Net Nonoperatin Revenues	<u>14,862,299.69</u>	<u>14,290,074.95</u>	<u>572,224.74</u>	4.00%
Income Before Other Revenues, Expenses, Gains, or Losses	(1,194,632.92)	(492,679.21)	(701,953.71)	142.48%
State Capital Aid	719,216.38	637,522.53	81,693.85	12.81%
County Capital Appropriations	261,818.00	220,178.00	41,640.00	18.91%
Capital Grants	<u>205,383.98</u>	<u>696,326.55</u>	<u>(490,942.57)</u>	(70.50%)
Increase (Decrease) in Net Assets	(8,214.56)	1,061,347.87	(1,069,562.43)	(100.77%)
NET ASSETS				
Net Assets - Beginning of Year	<u>20,153,057.85</u>	<u>19,091,709.98</u>	<u>1,061,347.87</u>	5.56%
Net Assets - End of Year	<u>\$ 20,144,843.29</u>	<u>\$ 20,153,057.85</u>	<u>\$ (8,214.56)</u>	(0.04%)

For the year ended June 30, 2003, the College's net assets decreased by \$8,214.56, from \$20,153,057.85 at June 30, 2002 to \$20,144,843.29 at June 30, 2003. Total revenues increased \$1,248,964.39 (5.6%). However, this increase was offset by the \$2,318,526.82 increase in operating costs as the College strived to maintain a high level of service to its students during the tight budget year. The combination of these factors led to the very slight

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

decrease in net assets. At June 30, 2003, total assets were \$21,241,496.80, of which \$15,742,985.12 were capital assets.

The following graph depicts the allocation of net assets:

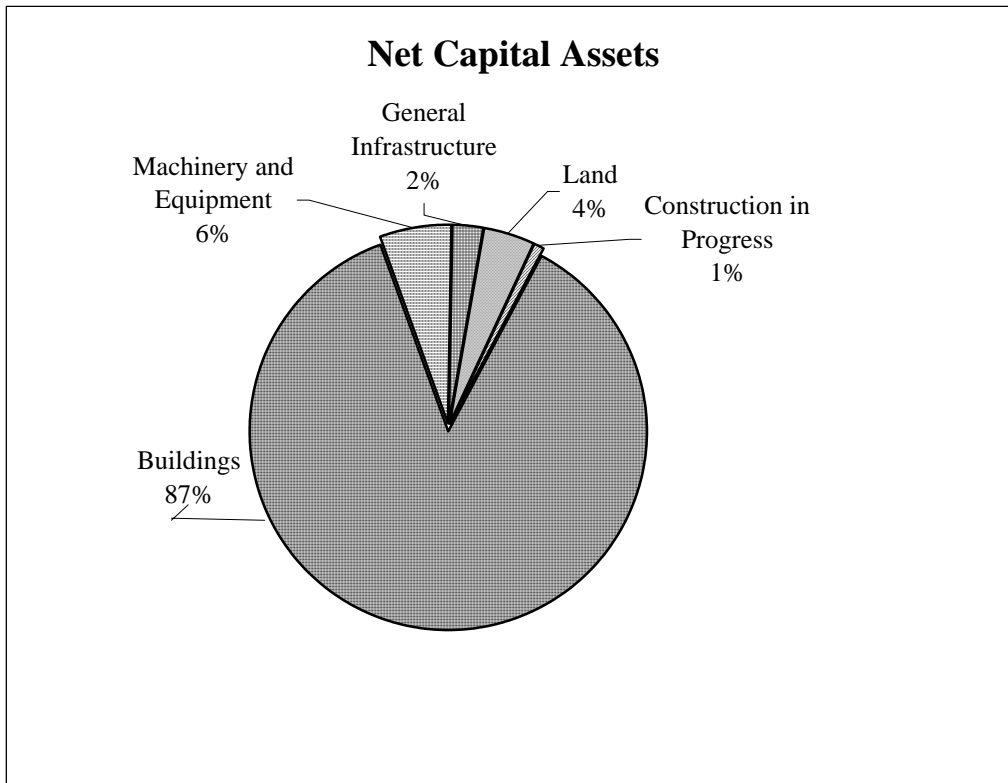


Capital Assets:

Capital assets are reported net of accumulated depreciation as of June 30, 2003. At June 30, 2003, the College reported gross total capital assets of \$24,662,076.94, and total accumulated depreciation of \$8,919,091.82. Thus at June 30, 2003, net capital assets were \$15,742,985.12.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following graph displays the allocation of the net capital assets:



As shown above, construction in progress accounts for 1% of the net capital assets. In fiscal year ended 2002 this percentage was 8%. The drop relates to the fact that in fiscal year ended 2003 the Student Services Renovation project was completed and RCCC transferred the amount that was in construction in progress as of fiscal year ended 2002 (\$1,526,852.53) to buildings. At June 30, 2003, construction in progress is comprised of only one project: "Various North Campus Renovation Projects." These renovation projects are a series of renovations to various buildings on the North Campus. At June 30, 2003 these renovation projects were still in progress and financial commitments related to the projects (total contracts less amounts paid or reported as accounts payable in the accompanying financial statements) were \$64,478.80.

Liabilities:

At June 30, 2003 the total liabilities for the College were \$1,096,653.51. As required by GASB Statement Nos. 34/35, RCCC has classified the liabilities between current and noncurrent. Generally, current liabilities are liabilities that will be paid within one year, while noncurrent liabilities will not become due within one year. Of the \$1,096,653.51 total liabilities, \$744,488.09 was current and \$352,165.42 was noncurrent. The current liabilities increased \$311,525.31 (71.95%) from fiscal year ended 2002. The increase is the result of a couple of factors. First, in fiscal year ended 2003 the College began paying part-time

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

employees one month behind, instead of two weeks behind. As a result, at June 30, 2003 the accrued liability for the part-time payroll was increased. The second factor relates to the way that Pell "overawards" are recorded. Pell "overawards" are amounts that students owe the College because they received too much Pell. The College in turn shows this amount as a payable because it will be paid to another fund once the student pays it. In fiscal year ended 2003 this amount increased by approximately \$145,000.00. This increase resulted from the fact that in the Spring of 2002, RCCC changed its distribution method for Pell checks so that students received their checks on the first day of class. This increased the Pell "overawards" amount. At June 30, 2003 the receivable and payable related to Pell "overawards," reflected a full year of this new distribution method.

The noncurrent portion of liabilities, \$352,165.42, 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 leave that will be used in one year. This portion is reported as a current liability. The remaining portion is reported as noncurrent.

Revenues and Expenses:

For the year ended June 30, 2003, total revenues were \$23,540,132.22, which is a \$1,248,964.39 (5.6%) increase over fiscal year ended 2002. As mentioned above, revenue is classified between operating and nonoperating as a result of GASB Statement Nos. 34/35.

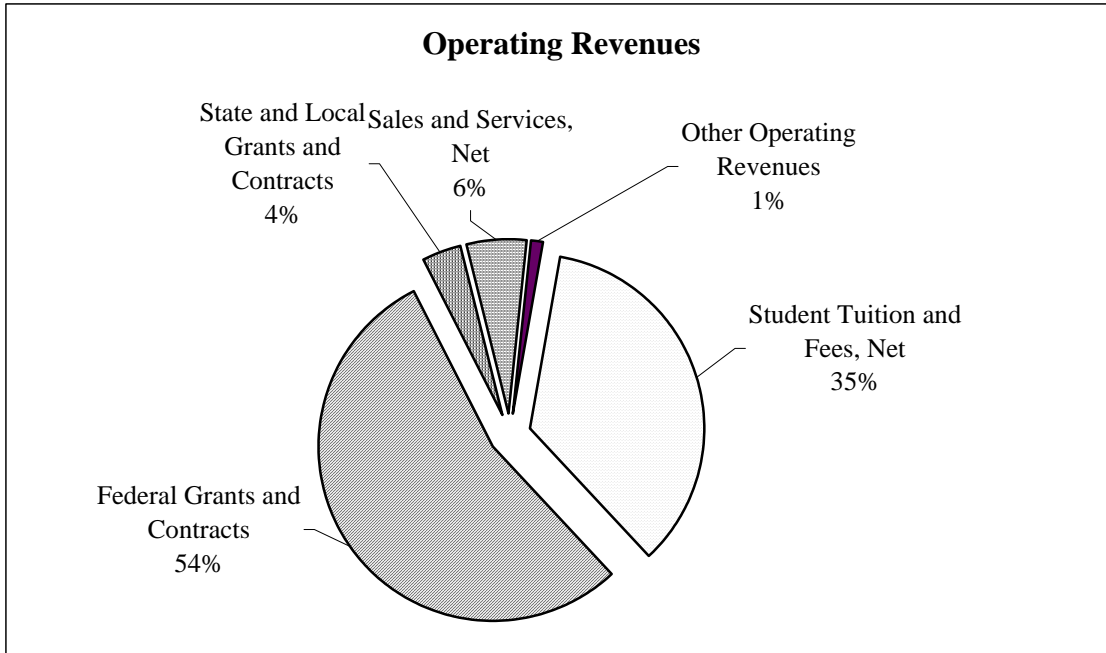
In fiscal year ended 2003 operating revenues were \$7,491,414.17. This represents a 16.2% increase over operating revenues in fiscal year ended 2002. The biggest part of this increase was due to the large increase in the number of students that applied for and received Pell grants. When a Pell award is given to a student, the College receives the funds from the US Department of Education and these funds are reported as "federal grants and contracts" revenue. The number of students awarded Pell increased by approximately 25% from fiscal year ended 2002 to fiscal year ended 2003. In addition to the increase in the number of students awarded Pell, the federal government also increased the amount of the Pell awards. In fiscal year ended 2002 the maximum award was \$3,750.00 per year, while in fiscal year ended 2003 the maximum award was \$4,000.00 per year. Another significant part of the increase was due to a tuition increase that the North Carolina General Assembly enacted for the 2002-2003 school year. In-State tuition was increased \$3.25 per credit hour, while out-of-State tuition was increased \$17.50 per credit hour. This tuition increase caused the amount reported as "student tuition and fees" revenue to increase by approximately 21.4%. In addition, approximately \$192,000.00 of student fees were reported as "student tuition and fees" revenue in fiscal year ended 2003. These student fees were reported as "sales and services" revenue in fiscal year ended 2002, contributing to the increase in student tuition and fees in the 2002-2003 fiscal year.

Operating expenses for fiscal year ended 2003 totaled \$23,548,346.78, which represents a 10.9% increase over operating expenses for fiscal year ended 2002. There were two main reasons for this increase. First, 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 \$934,184.80 (40.1%). Secondly, the "personal

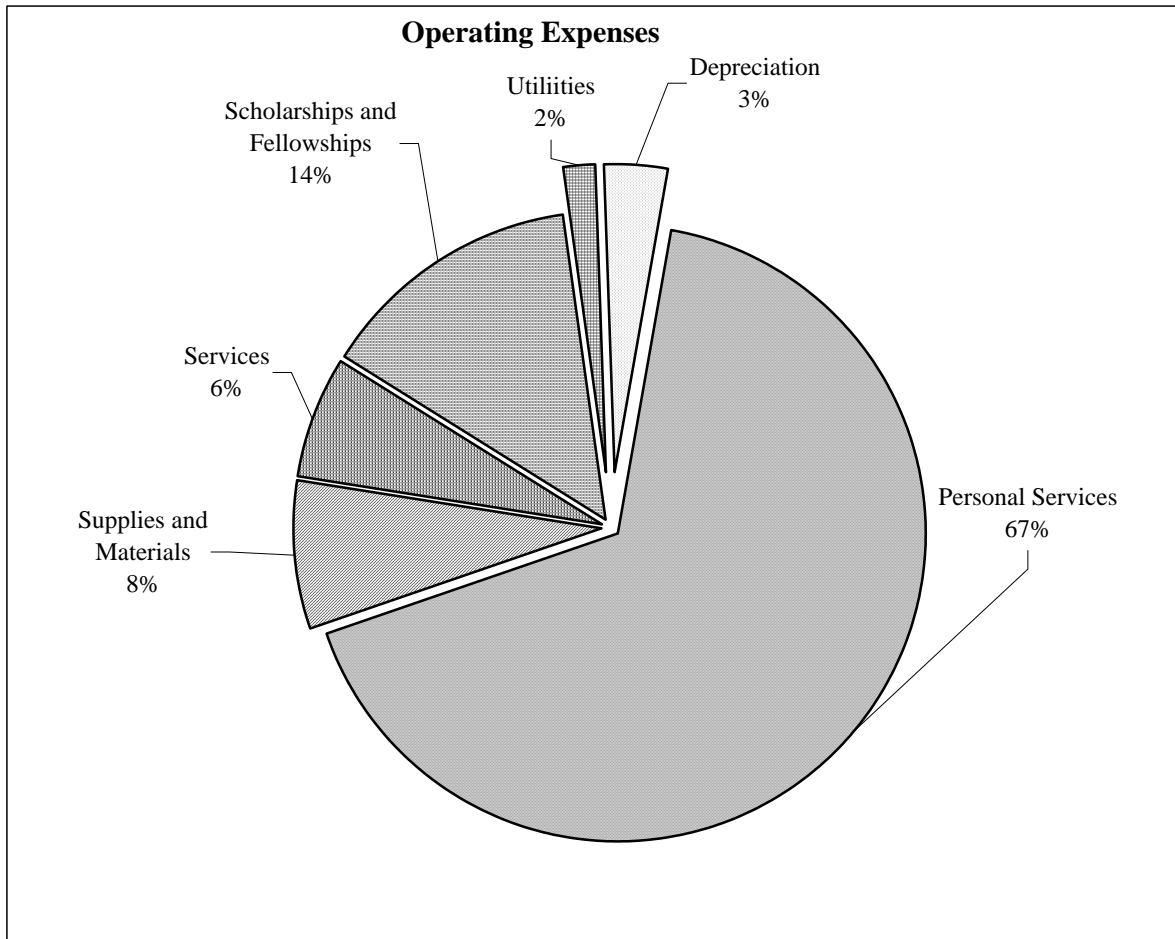
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

services” expense (salaries and fringe benefits) increased by \$1,026,527.48 (7.0%). RCCC is dedicated to providing high quality service to the students. In order to provide this service, you need highly qualified and motivated employees. Therefore, even in a tight budget year such as fiscal year ended 2003, the College made an effort to provide modest increases in salary.

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 grants and gifts, capital grants, investment income, and other nonoperating revenue. The total amount reported for these items in fiscal year ended 2003 was \$16,048,718.05. The majority of the College’s funding comes from State appropriations. These funds are reported as “Nonoperating Revenue” in the financial statements. In fiscal year ended 2003, the amount reported for State aid was \$12,270,574.82, approximately 2.5% more than the College received in fiscal year ended 2002. The modest increase was the net effect of two factors. First, in the 2001-2002 fiscal year, the College had enrollment growth of approximately 13%. This growth was funded by the State in the 2002-2003 year with an “enrollment growth” formula. However, in 2002-2003 the State cut the regular funding for each community college. Therefore the net effect was a small increase in funding.

For fiscal year ended 2003, State capital aid revenue was \$719,216.38, an \$81,693.85 (12.8%) increase over fiscal year ended 2002. This increase was due to an increase in spending for computer technology and software related to the new Datatel Software that RCCC is implementing college-wide. Certain “modules” of the software were implemented in the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2002-2003 fiscal year while other "modules" will be implemented in the future. New computer equipment and technology were needed to support the new system. The money for these expenditures was available from a special allocation of State funds (authorized by North Carolina House of Representative Bill number 275) received in prior years. The funds were earmarked for instructional equipment and technology. This also included equipment and software made necessary by the Datatel conversion. The College saved and carried over these funds so that they could meet unexpected needs as they arose.

County appropriations were reported as \$1,830,199.00, which is a \$23,710.00 (1.3%) decrease compared to fiscal year ended 2002. However, the amount reported as County capital appropriations, \$261,818.00, represents a \$41,640.00 (18.9%) increase over fiscal year ended 2002. This net increase of \$17,930.00 resulted from an increase in Cabarrus County's appropriations. Rowan County's appropriations were exactly the same as the fiscal year ended 2002 level. In fiscal year ended 2002, \$41,000.00 of Rowan County's capital appropriations were transferred to current expense. In fiscal year ended 2003 that transfer was not needed. Therefore, \$41,000.00 of the \$41,640.00 increase in County capital appropriations between fiscal years ended 2002 and 2003 relates to this transfer. The remaining \$640.00 increase was a true increase received from Cabarrus County. Conversely, in the "county appropriations" line item, the decrease was the net effect of the \$41,000.00 transferred into this line item in fiscal year ended 2002 but not fiscal year ended 2003 for Rowan County, and a true increase of \$17,290.00 from Cabarrus County.

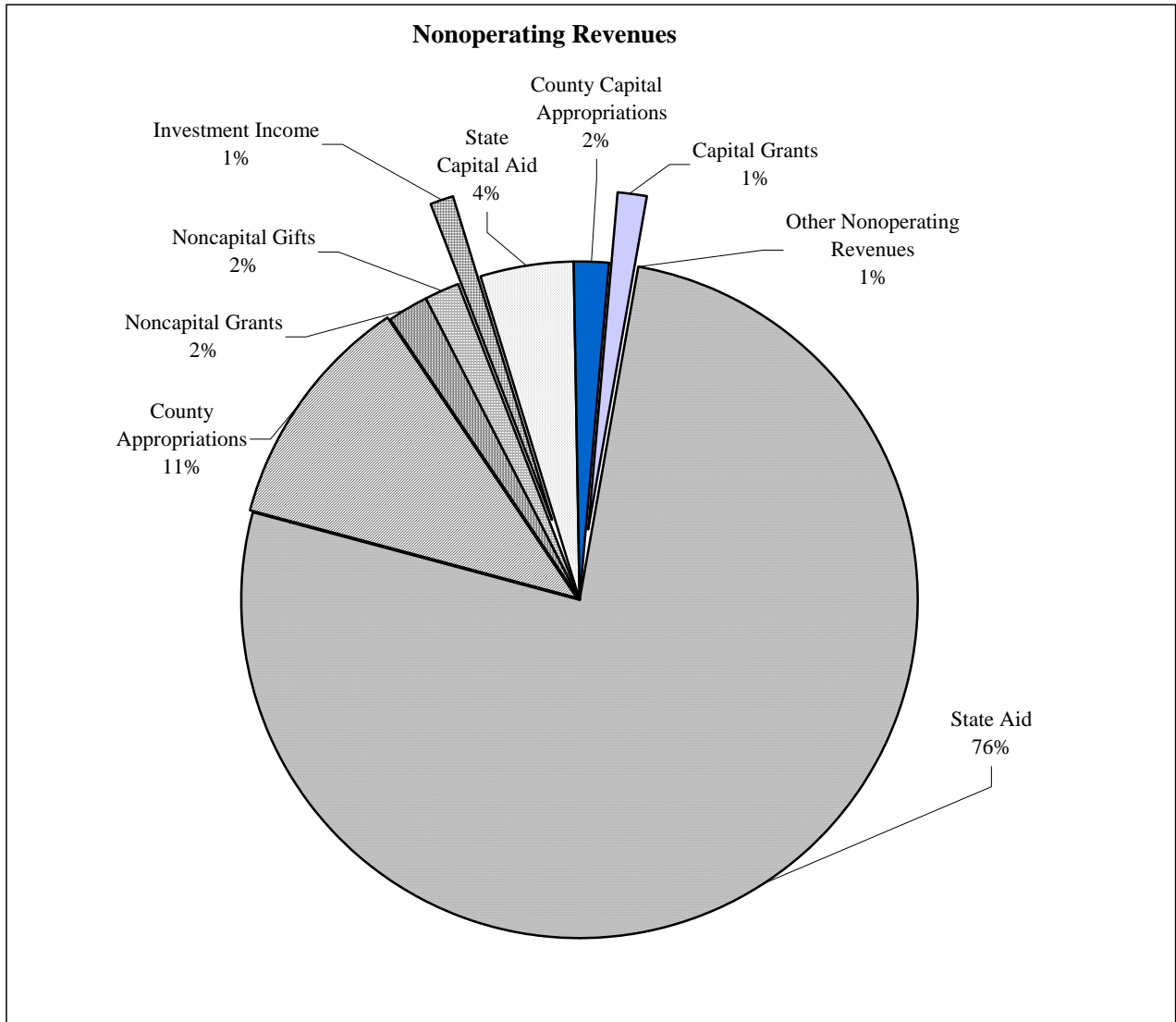
Noncapital grants for fiscal year ended 2003 were \$310,546.29. This represents the federal funds passed through the North Carolina Community College System. In fiscal year ended 2002, there were \$281,597.61 of these funds; however, they were presented as part of the "federal grants and contracts" revenue. "Noncapital gifts" revenue increased \$24,071.32 (9.8%) in fiscal year ended 2003.

These increases were offset somewhat by the decrease in investment income and capital grants. RCCC reported \$174,009.64 of investment income for fiscal year ended 2003, a \$30,669.40 (14.9%) decrease from fiscal year ended 2002. The decrease was due mainly to the interest rates that continued to fall for the majority of the 2002-2003 fiscal year. Capital grants decreased \$490,942.57 (70.5%). This decrease is the result of several offsetting activities. First, the revenue reported for the Student Services renovation project decreased by \$784,235.00. For fiscal year ended 2002, RCCC reported \$400,000.00 in County revenue and \$291,850.00 in State revenue for the project. The County revenue was a one-time grant for the project and was recorded when received. Therefore, in fiscal year ended 2003 no county revenue was recognized for this project. The State revenue is recognized based on a cash flow model that is maintained by the North Carolina Community College System Office. For fiscal year ended 2002, the cash flow model indicated that RCCC should recognize \$291,850.00 in revenue. In fiscal year ended 2003 changes were made to the cash flow model as the timing of expenditures became clearer. Due to these changes, RCCC had to actually recognize a NEGATIVE revenue of \$92,385.00. Two new projects began in fiscal year ended 2003. The revenue associated with these projects mitigated some of the decrease in revenue related to the Student Services renovation project. First, the college began the "North

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Campus Renovations Project". RCCC reported \$160,194.00 in State revenue for this project. The revenue recognized was determined by the cash flow model mentioned above. The second project was the purchase of land. Rowan County provided \$125,000.00 towards the purchase of land that will ultimately become another entrance to the College. This revenue was received and the land was purchased prior to June 30, 2003, thus the revenue was recognized in fiscal year ended 2003.

The following chart illustrates the breakdown of nonoperating revenues:



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, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,198,065.90
Restricted Cash and Cash Equivalents	723,232.31
Receivables, Net (Note 3)	591,265.75
Inventories	117,670.23
Notes Receivable, Net (Note 3)	1,190.17

Total Current Assets 3,631,424.36

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,687,678.83
Restricted Due from Primary Government	179,408.49
Capital Assets - Nondepreciable, Net (Note 4)	796,676.69
Capital Assets - Depreciable, Net (Note 4)	14,946,308.43

Total Noncurrent Assets 17,610,072.44

Total Assets 21,241,496.80

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	653,353.86
Funds Held for Others	34,280.58
Long-Term Liabilities - Current Portion (Note 6)	56,853.65

Total Current Liabilities 744,488.09

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	352,165.42
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Total Noncurrent Liabilities 352,165.42

Total Liabilities 1,096,653.51

NET ASSETS

Invested in Capital Assets 15,742,985.12

Restricted for:

Nonexpendable:

Scholarships and Fellowships	807,763.10
Other	65,367.44

Expendable:

Scholarships and Fellowships	182,330.84
Loans	21,409.14
Capital Projects	910,945.14
Other	592,389.75

Unrestricted 1,821,652.76

Total Net Assets \$ 20,144,843.29

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

Rowan-Cabarrus Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,721,742.01
Federal Grants and Contracts		4,066,755.63
State and Local Grants and Contracts		271,168.24
Sales and Services, Net (Note 8)		412,957.14
Other Operating Revenues		18,791.15
Total Operating Revenues		7,491,414.17
EXPENSES		
Operating Expenses:		
Personal Services		15,794,098.35
Supplies and Materials		1,812,422.52
Services		1,525,480.10
Scholarships and Fellowships		3,265,011.29
Utilities		395,798.77
Depreciation		755,535.75
Total Operating Expenses		23,548,346.78
Operating Loss		(16,056,932.61)
NONOPERATING REVENUES		
State Aid		12,270,574.82
County Appropriations		1,830,199.00
Noncapital Grants		310,546.29
Noncapital Gifts		269,844.86
Investment Income, Net		174,009.64
Other Nonoperating Revenues		7,125.08
Net Nonoperating Revenues		14,862,299.69
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,194,632.92)
State Capital Aid		719,216.38
County Capital Appropriations		261,818.00
Capital Grants		205,383.98
Decrease in Net Assets		(8,214.56)
NET ASSETS		
Net Assets, July 1, 2002		20,153,057.85
Net Assets, June 30, 2003	\$	20,144,843.29
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, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	7,460,845.39
Payments to Employees and Fringe Benefits		(15,483,904.39)
Payments to Vendors and Suppliers		(3,591,626.82)
Payments for Scholarships and Fellowships		(3,418,696.83)
Loans Issued to Students		(5,962.00)
Collection of Loans to Students		6,368.57
Other Receipts		21,132.81
Net Cash Used by Operating Activities		<u>(15,011,843.27)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		12,270,574.82
County Appropriations		1,830,199.00
Noncapital Grants Received		309,863.79
Noncapital Gifts and Endowments Received		307,339.89
Net Cash Provided by Noncapital Financing Activities		<u>14,717,977.50</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		952,543.26
County Capital Appropriations		261,818.00
Capital Grants Received		207,702.83
Acquisition and Construction of Capital Assets		(924,558.93)
Net Cash Provided by Capital and Related Financing Activities		<u>497,505.16</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		177,163.14
Net Cash Provided by Investing Activities		<u>177,163.14</u>
Net Increase in Cash and Cash Equivalents		380,802.53
Cash and Cash Equivalents, July 1, 2002		4,228,174.51
Cash and Cash Equivalents, June 30, 2003	\$	<u>4,608,977.04</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(16,056,932.61)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		755,535.75
Provision for Uncollectible Loans and Writeoffs		425.50
Miscellaneous Nonoperating Income		11,573.25
Changes in Assets and Liabilities:		
Receivables, Net		(184,254.32)
Inventories		(15,796.38)
Notes Receivable, Net		406.57
Accounts Payable and Accrued Liabilities		440,937.16
Due to Primary Government		(2,887.00)
Funds Held for Others		9,559.56
Compensated Absences		29,589.25
Net Cash Used by Operating Activities	\$	<u>(15,011,843.27)</u>

Rowan-Cabarrus Community College			
Statement of Cash Flows			Exhibit C
For the Fiscal Year Ended June 30, 2003			Page 2
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RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Current Assets:			
	Cash and Cash Equivalents	\$	2,198,065.90
	Restricted Cash and Cash Equivalents		723,232.31
Noncurrent Assets:			
	Restricted Cash and Cash Equivalents		1,687,678.83
Total Cash and Cash Equivalents - June 30, 2003		\$	4,608,977.04
<hr/>			
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
	Decrease in Receivables Related to Nonoperating Income	\$	(42,967.38)
<hr/>			
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, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Rowan-Cabarrus Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Rowan-Cabarrus Community College, 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 nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Public Colleges and Universities, 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.

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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 provider's 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 valued at cost using the last invoice cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year unless part of a collection and are expensed in the year of acquisition.

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

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- N. Internal Sales Activities** – The Copy Center is the only institutional auxiliary operation that provides goods and services to College departments. All internal sales activities to College departments from this auxiliary operation have been eliminated in the accompanying financial statements. This elimination is recorded by removing the revenue and expense in the auxiliary operation and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,825.00. The carrying amount of cash on deposit was \$4,607,152.04 and the bank balance was \$5,205,370.24.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 4,418,368.83	\$ 4,315,478.83
Cash on Deposit with Private Financial Institutions	<u>188,783.21</u>	<u>889,891.41</u>
	<u>\$ 4,607,152.04</u>	<u>\$ 5,205,370.24</u>

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 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 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, 2003, \$100,000.00 of the bank balance was covered by federal depository insurance, and \$789,891.41 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method)..

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 496,377.85	\$ 0.00	\$ 496,377.85
Accounts	2,079.53		2,079.53
Intergovernmental	71,843.60		71,843.60
Pledges	7,504.97		7,504.97
Investment Earnings	13,459.80		13,459.80
Total Current Receivables	\$ 591,265.75	\$ 0.00	\$ 591,265.75
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 7,114.23	\$ 5,924.06	\$ 1,190.17

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 484,443.76	\$ 0.00	\$ 187,055.00	\$ 0.00	\$ 671,498.76
Construction in Progress	1,321,470.10	(1,526,852.53)	330,560.36		125,177.93
Total Capital Assets, Nondepreciable	1,805,913.86	(1,526,852.53)	517,615.36		796,676.69
Capital Assets, Depreciable:					
Buildings	18,978,538.44	1,526,852.53	38,720.81		20,544,111.78
Machinery and Equipment	2,075,102.70		187,527.54	113,152.19	2,149,478.05
General Infrastructure	1,164,816.17		6,994.25		1,171,810.42
Total Capital Assets, Depreciable	22,218,457.31	1,526,852.53	233,242.60	113,152.19	23,865,400.25
Less Accumulated Depreciation:					
Buildings	6,363,083.36		541,576.81		6,904,660.17
Machinery and Equipment	1,175,160.71		161,016.61	108,704.02	1,227,473.30
General Infrastructure	734,016.02		52,942.33		786,958.35
Total Accumulated Depreciation	8,272,260.09		755,535.75	108,704.02	8,919,091.82
Total Capital Assets, Depreciable, Net	13,946,197.22	1,526,852.53	(522,293.15)	4,448.17	14,946,308.43
Capital Assets, Net	\$ 15,752,111.08	\$ 0.00	\$ (4,677.79)	\$ 4,448.17	\$ 15,742,985.12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 338,342.70
Accrued Payroll	292,588.40
Contract Retainage	22,422.76
Total Accounts Payable and Accrued Liabilities	\$ 653,353.86

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Compensated Absences	\$ 379,429.82	\$ 310,237.04	\$ 280,647.79	\$ 409,019.07	\$ 56,853.65

NOTE 7 - OPERATING LEASES

Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	\$ 331,902.79
2005	340,354.24
2006	329,095.20
2007	270,132.36
2008	194,308.40
2009-2014	566,867.21
Total Minimum Lease Payments	\$ 2,032,660.20

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	Amount
Minimum Rentals	\$ 202,500.99
Contingent Rentals	8,900.70
Total Rental Expense	\$ 211,401.69

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 3,845,831.12	\$ 0.00	\$ 1,124,089.11	\$ 2,721,742.01
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commissions	\$ 129,105.23	\$ 0.00	\$ 0.00	\$ 129,105.23
Vending Commissions	9,993.33			9,993.33
Childcare	198,392.44			198,392.44
Copy Center	295,979.69	295,979.69		
Other	1,317.32			1,317.32
Sales and Services of Education and Related Activities	74,148.82			74,148.82
Total Sales and Services	\$ 708,936.83	\$ 295,979.69	\$ 0.00	\$ 412,957.14

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	\$ 9,649,105.51	\$ 782,306.94	\$ 380,116.23	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,811,528.68
Academic Support	1,563,445.88	137,698.94	112,807.75				1,813,952.57
Student Services	1,219,994.44	96,519.27	12,920.64				1,329,434.35
Institutional Support	2,578,781.52	139,697.48	738,793.16		132,992.95		3,590,265.11
Operations and Maintenance of Plant	595,924.55	649,907.83	180,005.26		262,805.82		1,688,643.46
Student Financial Aid		261.72	3,555.80	3,232,141.29			3,235,958.81
Auxiliary Enterprises	186,846.45	6,030.34	97,281.26	32,870.00			323,028.05
Depreciation						755,535.75	755,535.75
Total Operating Expenses	<u>\$ 15,794,098.35</u>	<u>\$ 1,812,422.52</u>	<u>\$ 1,525,480.10</u>	<u>\$ 3,265,011.29</u>	<u>\$ 395,798.77</u>	<u>\$ 755,535.75</u>	<u>\$ 23,548,346.78</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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$13,586,272.65, of which \$9,571,307.96 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$574,279.72. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$184,939.62, and \$488,356.94, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$210,962.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$44,018.00 for the year ended June 30, 2003.

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 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, 2003, the College’s total contribution to the Plan was \$224,925.74. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$49,770.80. 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 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 \$137,830.08 at June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

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 \$110,948.81 and on other purchases were \$139,395.81 at June 30, 2003.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 were authorized for issuance 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 of \$10,815,667.00 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.

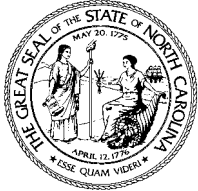
Rowan-Cabarrus Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion 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	\$ 1,526,852.53	84.91%	Mar 2004
Various North Campus Renovation Projects	Dec 2002	480,584.00		480,584.00	125,177.93	26.05%	Jan 2004
Classroom/Laboratory Building - South Project #1185	Mar 2004	4,357,029.00	3,565,141.00	7,922,170.00			Mar 2006
<i>Projects Pending Approval by the State Board</i>							
LRC and Student Support Space Expansion and Renovation	Sep 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	\$ 1,652,030.46		

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.

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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

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

We have audited the financial statements of Rowan-Cabarrus Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 24, 2004.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

May 24, 2004

DISTRIBUTION OF AUDIT 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 Michael F. Easley	Governor of North Carolina
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
Ms. Karen Jarrett	Associate Vice President, Finance and Business Services Rowan-Cabarrus Community College
Mr. Ray E. Paradowski	Chairman, Board of Trustees Rowan-Cabarrus Community College

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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June 30, 2004

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20601 Mail Service Center
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