



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT REVIEW REPORT OF ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT REVIEW REPORT OF**

**ROWAN-CABARRUS COMMUNITY COLLEGE**

**SALISBURY, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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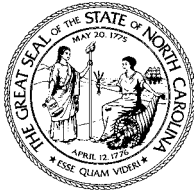
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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**REVIEWER'S TRANSMITTAL**

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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, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting 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.

*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.

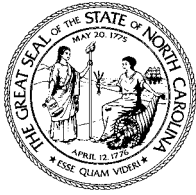
*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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Office of the State Auditor

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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

We have reviewed 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, 2004, as listed in the table of contents. We conducted our review 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. We did not review the financial statements of the Rowan-Cabarrus Community College Foundation, Inc., which represent 4.0 percent, 4.2 percent, and .42 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for the Rowan-Cabarrus Community College Foundation, Inc., is based on the report of the other accountants.

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), 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. 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.

## INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

January 21, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2004. 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, 2004 and fiscal year ended June 30, 2003.

#### EXHIBIT A-1

<u>ASSETS</u>	<u>FY2003-2004</u>	<u>FY2002-2003</u>	<u>Difference</u>	<u>% Difference</u>
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 2,195,099.74	\$ 2,198,065.90	\$ (2,966.16)	(0.13)%
Restricted Cash and Cash Equivalents	1,010,743.07	723,232.31	287,510.76	39.75%
Receivables	572,875.22	591,265.75	(18,390.53)	(3.11)%
Inventories	74,504.35	117,670.23	(43,165.88)	(36.68)%
Notes Receivable, Net	487.50	1,190.17	(702.67)	(59.04)%
<b>Total Current Assets</b>	<u>3,853,709.88</u>	<u>3,631,424.36</u>	<u>222,285.52</u>	6.12%
<b>Noncurrent Assets:</b>				
Restricted Cash and Cash Equivalents	1,799,732.08	1,687,678.83	112,053.25	6.64%
Restricted Due from Primary Government	197,889.24	179,408.49	18,480.75	10.30%
Capital Assets – Nondepreciable	739,903.96	796,676.69	(56,772.73)	(7.13)%
Capital Assets - Depreciable, Net	14,764,074.38	14,946,308.43	(182,234.05)	(1.22)%
<b>Total Noncurrent Assets</b>	<u>17,501,599.66</u>	<u>17,610,072.44</u>	<u>(108,472.78)</u>	(0.62)%
<b>Total Assets</b>	<u>21,355,309.54</u>	<u>21,241,496.80</u>	<u>113,812.74</u>	0.54%
<b><u>LIABILITIES</u></b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	512,509.43	653,353.86	(140,844.43)	(21.56)%
Funds Held for Others – Current	67,298.00	34,280.58	33,017.42	96.32%
Long-Term Liabilities - Current Portion	28,452.75	56,853.65	(28,400.90)	(49.95)%
<b>Total Current Liabilities</b>	<u>608,260.18</u>	<u>744,488.09</u>	<u>(136,227.91)</u>	(18.30)%
<b>Noncurrent Liabilities:</b>				
Long-Term Liabilities	570,552.51	352,165.42	218,387.09	62.01%
<b>Total Noncurrent Liabilities</b>	<u>570,552.51</u>	<u>352,165.42</u>	<u>218,387.09</u>	62.01%
<b>Total Liabilities</b>	<u>1,178,812.69</u>	<u>1,096,653.51</u>	<u>82,159.18</u>	7.49%



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### NET ASSETS:

Invested in Capital Assets	15,503,978.34	15,742,985.12	(239,006.78)	(1.52)%
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	871,273.04	807,763.10	63,509.94	7.86%
Other	65,450.25	65,367.44	82.81	0.13%
Expendable:				
Scholarships and Fellowships	301,010.67	182,330.84	118,679.83	65.09%
Loans	17,395.52	21,409.14	(4,013.62)	(18.75)%
Capital projects	992,300.29	910,945.14	81,355.15	8.93%
Other	692,353.52	592,389.75	99,963.77	16.87%
Unrestricted	<u>1,732,735.22</u>	<u>1,821,652.76</u>	<u>(88,917.54)</u>	(4.88)%
 Total Net Assets	 <u>\$ 20,176,496.85</u>	 <u>\$ 20,144,843.29</u>	 <u>\$ 31,653.56</u>	 0.16%

### EXHIBIT A-2

<u>REVENUES</u>	<u>FYE 2003-2004</u>	<u>FYE 2002-2003</u>	<u>Difference</u>	<u>% Difference</u>
<b>Operating Revenues:</b>				
Student Tuition and Fees, Net.	\$ 3,072,825.74	\$ 2,721,742.01	\$ 351,083.73	12.90%
Federal Grants and Contracts	5,555,785.98	4,066,755.63	1,489,030.35	36.61%
State and Local Grants and Contracts	1,848,188.33	271,168.24	1,577,020.09	581.57%
Sales and Services, Net	493,513.34	412,957.14	80,556.20	19.51%
Other Operating Revenues	<u>27,022.50</u>	<u>18,791.15</u>	<u>8,231.35</u>	43.80%
 Total Operating Revenues	 <u>10,997,335.89</u>	 <u>7,491,414.17</u>	 <u>3,505,921.72</u>	 46.80%
 <b>EXPENSES</b>				
<b>Operating Expenses:</b>				
Salaries and Benefits	17,997,963.34	15,794,098.35	2,203,864.99	13.95%
Supplies and Materials	2,095,771.67	1,812,422.52	283,349.15	15.63%
Services	1,833,716.95	1,525,480.10	308,236.85	20.21%
Scholarships and Fellowships	4,493,924.09	3,265,011.29	1,228,912.80	37.64%
Utilities	467,795.23	395,798.77	71,996.46	18.19%
Depreciation	<u>777,876.83</u>	<u>755,535.75</u>	<u>22,341.08</u>	2.96%
 Total Operating Expenses	 <u>27,667,048.11</u>	 <u>23,548,346.78</u>	 <u>4,118,701.33</u>	 17.49%
 Operating Loss	 <u>(16,669,712.22)</u>	 <u>(16,056,932.61)</u>	 <u>(612,779.61)</u>	 3.82%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### NONOPERATING REVENUES

State Aid	12,539,153.83	12,270,574.82	268,579.01	2.19%
County Appropriations	2,228,290.00	1,830,199.00	398,091.00	21.75%
Noncapital Grants	364,447.80	310,546.29	53,901.51	17.36%
Noncapital Gifts	119,406.25	269,844.86	(150,438.61)	(55.75)%
Investment Income, Net	145,405.10	174,009.64	(28,604.54)	(16.44)%
Other Nonoperating Revenues	<u>10,438.39</u>	<u>7,125.08</u>	<u>3,313.31</u>	46.50%
 Net Nonoperating Revenues	 <u>15,407,141.37</u>	 <u>14,862,299.69</u>	 <u>544,841.68</u>	 3.67%
 Loss Before Other Revenues, Expenses, Gains, or Losses	 (1,262,570.85)	 (1,194,632.92)	 (67,937.93)	 5.69%
 State Capital Aid	 559,817.22	 719,216.38	 (159,399.16)	 (22.16)%
County Capital Appropriations	271,939.00	261,818.00	10,121.00	3.87%
Capital Grants	377,475.44	205,383.98	172,091.46	83.79%
Capital Gifts	21,400.00		21,400.00	100.00%
Additions to Endowments	<u>63,592.75</u>	<u></u>	<u>63,592.75</u>	100.00%
 Increase (Decrease) in Net Assets	 31,653.56	 (8,214.56)	 39,868.12	 485.33%

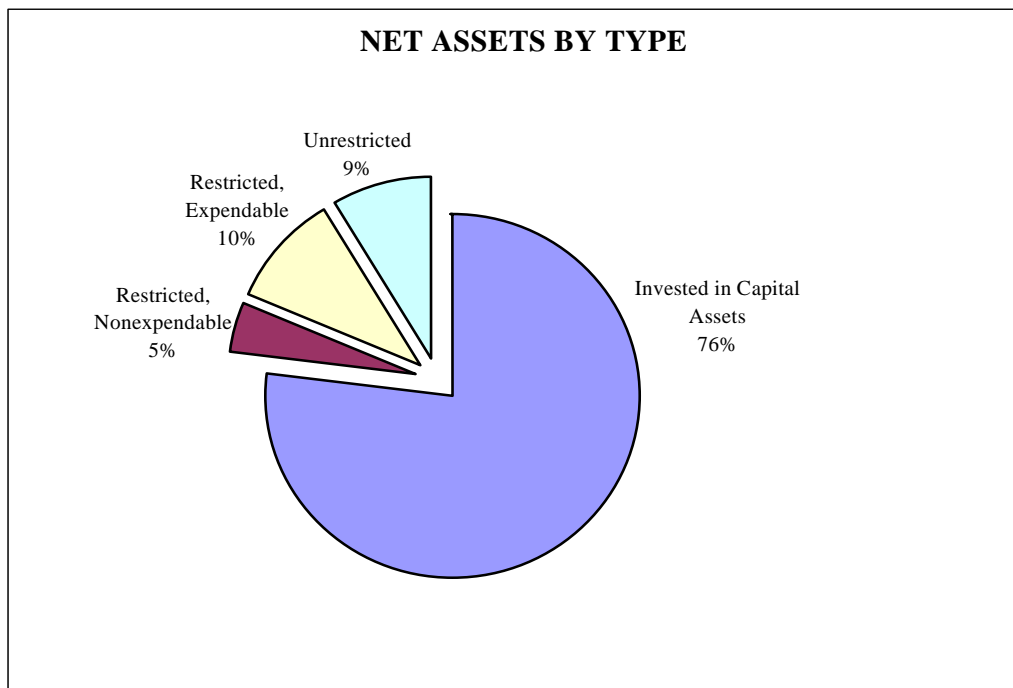
### NET ASSETS

Net assets - Beginning of Year	<u>20,144,843.29</u>	<u>20,153,057.85</u>	<u>(8,214.56)</u>	(0.04)%
 Net Assets - End of Year	 <u>\$ 20,176,496.85</u>	 <u>\$ 20,144,843.29</u>	 <u>\$ 31,653.56</u>	 0.16%

For the year ended June 30, 2004, the College's net assets increased by \$31,653.56 from \$20,144,843.29 at June 30, 2003 to \$20,176,496.85 at June 30, 2004. Total revenues increased \$4,158,569.45 (17.7%). However, this increase was largely offset by the \$4,118,701.33 increase in operating costs. A large portion of both the increase in revenue and the corresponding increase in operating costs related to the "Pillowtex Grant". On July 30, 2003, Pillowtex, a local manufacturing company, closed their doors and filed for bankruptcy. This action left between 4,000 and 5,000 employees without a job. In response to the anticipated rush of people trying to attend RCCC for retraining, the College requested and received funds to help cover the start up and instructional costs associated with these additional students. During the course of the 2003-2004 fiscal year, the College expended (and received as reimbursement from the above mentioned grant) \$1,357,814.00 directly related to providing services to these former Pillowtex employees. Another factor that affected both revenues and expenses was the rise in Pell awards. In the 2003-2004 fiscal year, the Pell awards increased by \$1,482,328.00. Because Pell awards are received from the Federal government, the increase affected both revenues and expenses. Finally, other revenues and expenses, such as gifts and grants, are subject to general fluctuations from year to year. The combination of these factors led to the slight increase in net assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following graph depicts the allocation of net assets:

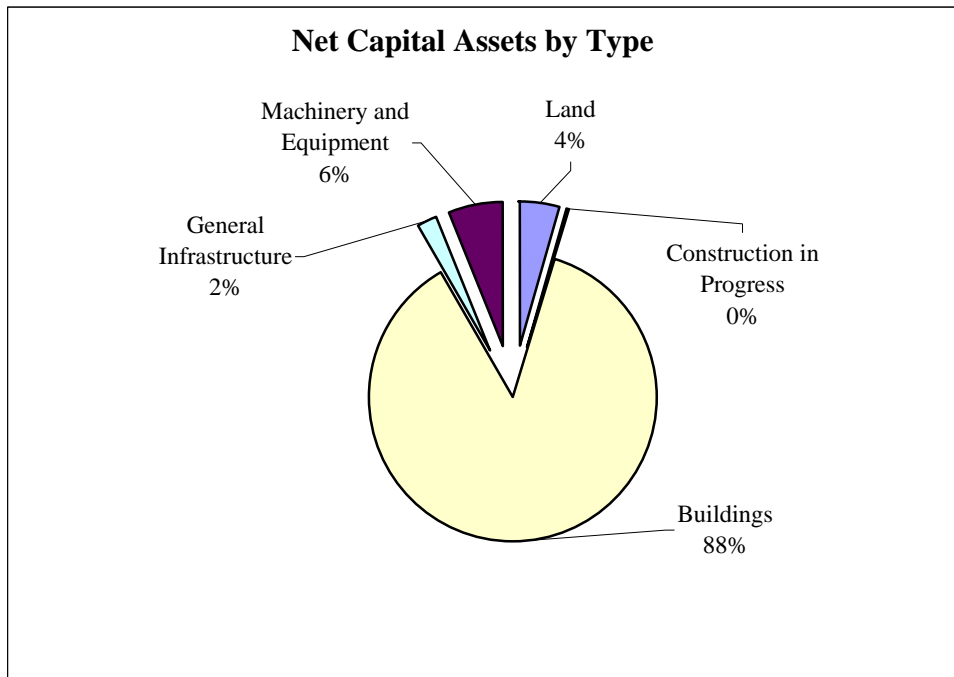


### Capital Assets:

Capital assets are reported net of accumulated depreciation as of June 30, 2004. At June 30, 2004, the College reported gross total capital assets of \$25,182,772.63, and total accumulated depreciation of \$9,678,794.29. Thus at June 30, 2004, net capital assets were \$15,503,978.34.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



### **Liabilities:**

At June 30, 2004 the total liabilities for the College were \$1,178,812.69. As required by GASB 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 \$1,178,812.69 total liabilities, \$608,260.18 was current and \$570,552.51 was noncurrent. The current liabilities decreased \$136,227.91 (18.3%) from fiscal year ended 2003. The decrease is the net result of a couple of factors. First, in fiscal year ended 2004 the College changed the way that “Pell overawards” are recorded. Pell overawards are amounts that students owe the College because they received too much Pell. In fiscal year ended 2003 and prior, the College showed this amount as a receivable and a payable. The payable was booked because it will be paid to another fund once the student pays it. In fiscal year ended 2004 an entry was made to set up a “contra-liability”. The result is that the total liabilities decreased by \$232,617.56. This decrease was somewhat offset by an increase in accrued salaries at June 30, 2004.

The noncurrent portion of liabilities, \$570,552.51, relates entirely to the long-term portion of compensated absences. As a result of GASB 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 on the line item “Long-Term Liabilities-Current Portion”. The remaining portion is reported as noncurrent. This amount increased \$218,387.09 from fiscal year ended 2003. The increase was the result of two factors. First, in July 2003 the College awarded each full time staff employee bonus leave. Any unused balance of that bonus leave must be

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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counted in the compensated absence accrual calculation (see NOTE 1 (J) for more details on the bonus leave). The second factor is the calculation that is used to determine what portion of accumulated leave is deemed current and what portion is deemed "long-term". In fiscal year ended 2003, 13.9% of the accumulated leave balance was considered current. In fiscal year ended 2004, only 4.75% of the accumulated leave balance was considered current. Therefore, a larger percentage of the accumulated leave balance was considered "noncurrent" in fiscal year ended 2004.

### **Revenues and Expenses:**

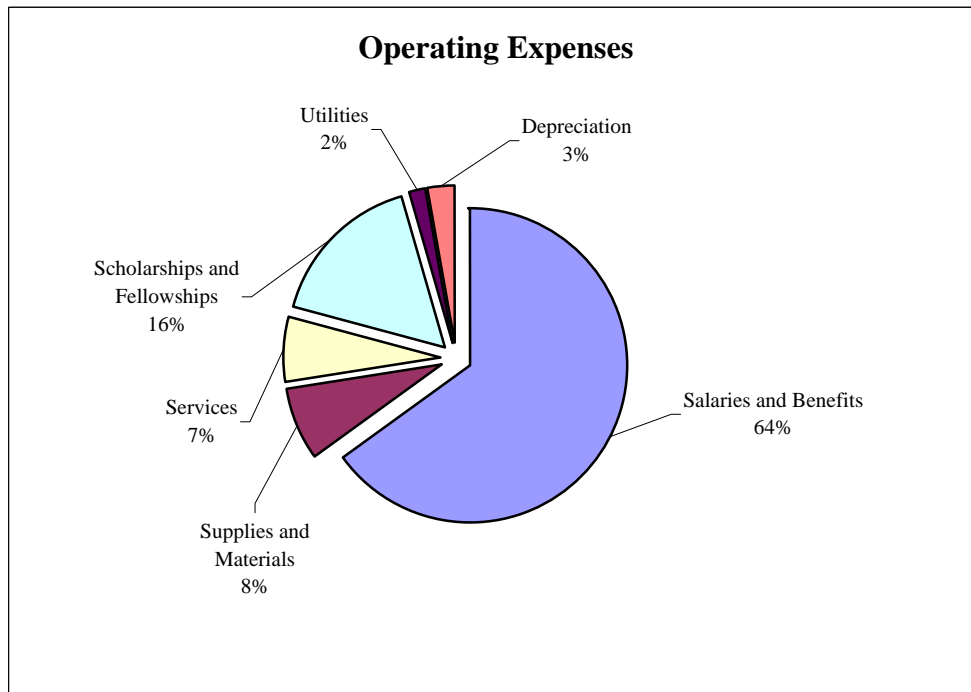
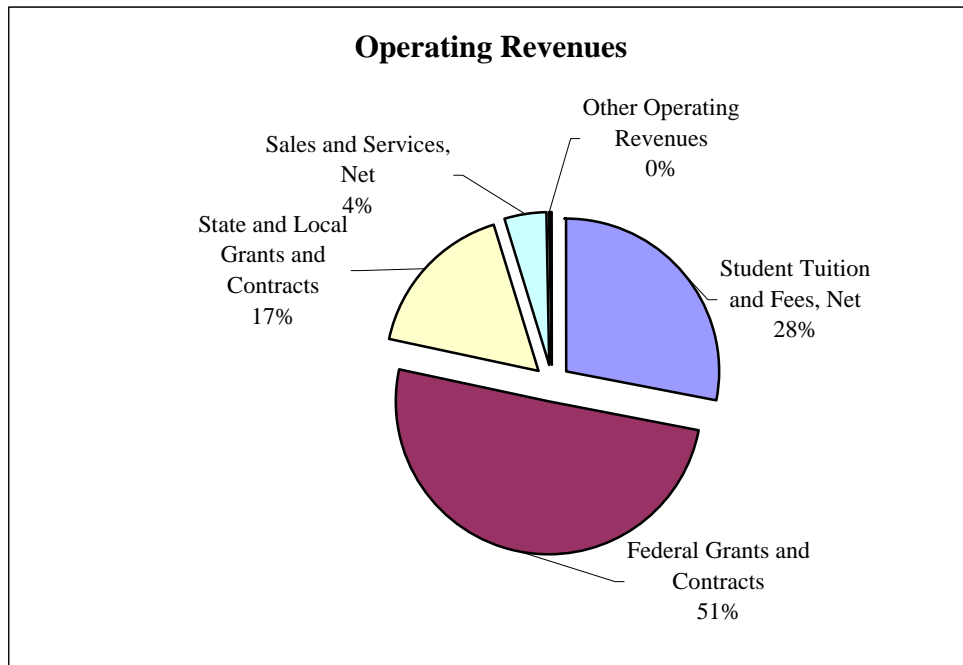
For the year ended June 30, 2004, total revenues were \$27,698,701.67, which is a \$4,158,569.45 (17.7%) increase over fiscal year ended 2003. As mentioned above, revenue is classified between operating and nonoperating as a result of GASB 34/35.

In fiscal year ended 2004, operating revenues were \$10,997,335.89, a \$3,505,921.72 (46.8%) increase over fiscal year ended 2003. This increase was primarily due to two factors. First, in fiscal year ended 2004, the amount of Pell money awarded by the College increased by \$1,482,328.00. This increase was due to a large increase in the number of students that applied for and received Pell. When a Pell award is given to a student, the College receives the funds from the US Dept of Education and these funds are reported as "federal grants and contracts" revenue. The number of students awarded Pell increased by approximately 550 over fiscal year ended 2003. In addition to the volume of students increasing, the Federal Government also increased the amount of the Pell awards. In fiscal year ended 2003 the maximum award was \$4,000.00 per year, while in fiscal year ended 2004 the maximum award was \$4,050.00 per year. Another significant part of the increase was due to the "Pillowtex Grant" mentioned above. The \$1,357,814.00 the College received as reimbursement from this grant was recorded as "state and local grants and contracts" in the operating income section.

Operating expenses for fiscal year ended 2004 totaled \$27,667,048.11, which represents a 17.5% increase over operating expenses for fiscal year ended 2003. As with the operating revenues, the two main reasons for these increases were: the number of students receiving Pell awards increased and the expenditures made to accommodate the enrollment growth driven by the former Pillowtex employees that came to RCCC. The increase in Pell awards not only affected revenue, it also had an impact on the "scholarships and fellowships" expense, which increased by \$1,228,912.80 (37.6%). The enrollment growth that was experienced in fiscal year ended 2004 caused increases in both the "salaries and benefits" and "supplies and materials" line items. Expenditures for salaries and benefits increased \$2,203,864.99 (13.9%), while expenditures for supplies and materials increased \$283,349.15 (15.6%).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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The “nonoperating” revenues consist of State aid, State capital aid, county appropriations, county capital appropriations, noncapital grants and gifts, capital grants, capital gifts, investment income, additions to endowments, and other nonoperating revenue. The total amount reported for these items in fiscal year ended 2004 was \$16,701,365.78. 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 2004, the amount reported for State aid was \$12,539,153.83, approximately 2.2% more than the College received in fiscal year ended 2003. The modest increase was the net effect of two factors. First, the College experienced enrollment growth between fiscal years 2002 and 2003. This growth was funded in theory by enrollment growth funding received in fiscal year ended 2004. However, for fiscal year ended 2004 the General Assembly cut the funding formula for each community college. Therefore the net effect was a small increase in funding.

For fiscal year ended 2004, State capital aid revenue was \$559,817.22, a \$159,399.16 (22.2%) decrease over fiscal year ended 2003. This decrease was due to the fact that in prior years, special allocations of State funds (authorized by North Carolina House of Representative Bill number 275) have been received by the College. In fiscal year ended 2004, these funds were not available and were not received by the College.

County appropriations were reported as \$2,228,290.00, which is a \$398,091.00 (21.8%) increase over fiscal year ended 2003. County capital appropriations for fiscal year ended 2004 were \$271,939.00, a \$10,121.00 (3.9%) increase. The increases noted above came from a few factors. First, in fiscal year ended 2004, the College requested and received a modest increase in the regular allocation from each County (2% from Cabarrus County and 2.4% from Rowan County). Even after this slight increase, the College had to go back to each County and request additional funds to handle security/parking costs that soared due to rising enrollment and inadequate parking space. Cabarrus County approved an additional \$98,000.00 in appropriations, while Rowan County approved an additional \$102,000.00. Further, in their original appropriations approval, Cabarrus County approved approximately \$160,000.00 for the Cosmetology facility. This amount was in addition to the overall 2% increase. Finally, Rowan County approved an allocation of \$4,000.00 to cover the closing cost on a land purchase made by the College. This purchase will allow the College to establish another entrance to the College, which will ultimately improve the parking/traffic flow problems on the North Campus.

Noncapital grants for fiscal year ended 2004 were \$364,447.80. This represents the federal funds passed through the North Carolina Community College System. In fiscal year ended 2003, there was \$310,546.29 of these funds.

Due in part to a reclassification decision, “noncapital gifts” revenue reported for fiscal year ended 2004 was \$150,438.61 less than fiscal year ended 2003. In fiscal year ended 2004, any gift that was received to establish or increase an endowment was reported as “additions to endowments”. In fiscal year ended 2003, such gifts were recorded as “noncapital gifts”. In fiscal year ended 2003, approximately \$70,000.00 would have been classified as “additions to endowments” had that classification been used. The remaining decrease is simply due to the natural ebb and flow of gifts.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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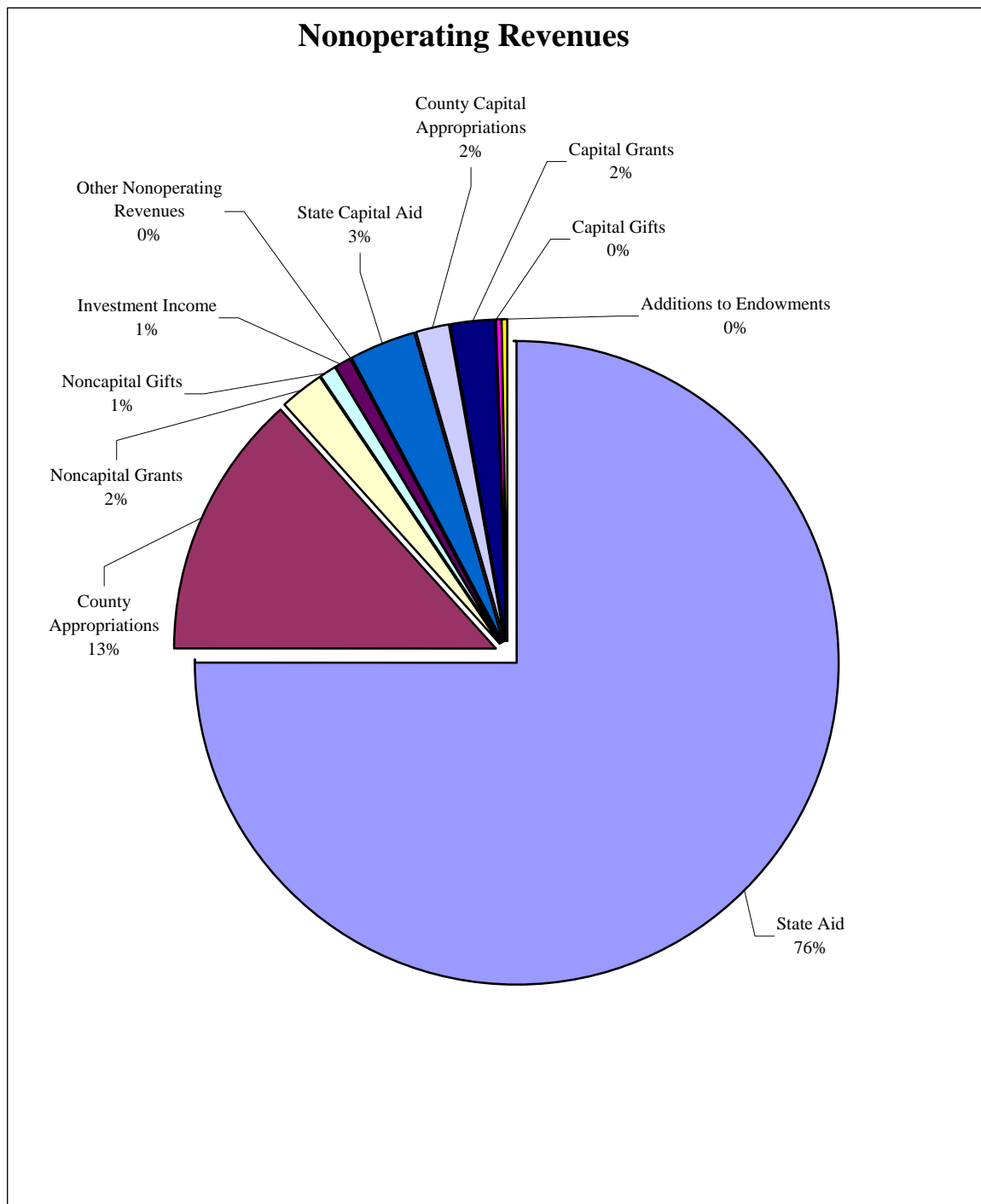
The College experienced a \$28,604.54 decrease in investment income for fiscal year ended 2004. This decrease is mainly due to the fact that the College had to use excess cash to fund the greatly increased Pell grants and the Pillowtex expenditures until reimbursements were received by the respective agencies. Therefore, less money was available to keep in the State Treasurer's Investment Fund (STIF) and thus less interest was earned.

Capital grants increased \$172,091.46 from fiscal year ended 2003. This increase is the result of the way revenue is recognized for construction projects funded by State Bond funds. Revenue is recognized based on allocations made by the State. These allocations are based on cash flow models that are updated throughout the fiscal year. In fiscal year ended 2003, NEGATIVE revenue of \$92,385.00 was recorded for one project due to the fact that the cash flow model changed between fiscal years 2002 and 2003. That same project recognized positive revenue of \$2,968.00 in fiscal year ended 2004. Also, in fiscal year ended 2004, revenue of \$85,782.00 was recognized for a new project. The combination of these two items account for the majority of the revenue increase in "capital grants".



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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, 2004****Exhibit A-1****ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$	2,195,099.74
Restricted Cash and Cash Equivalents		1,010,743.07
Receivables (Note 4)		572,875.22
Inventories		74,504.35
Notes Receivable, Net (Note 4)		487.50
<b>Total Current Assets</b>		<b>3,853,709.88</b>

## Noncurrent Assets:

Restricted Cash and Cash Equivalents		1,799,732.08
Restricted Due from Primary Government		197,889.24
Capital Assets - Nondepreciable (Note 5)		739,903.96
Capital Assets - Depreciable, Net (Note 5)		14,764,074.38
<b>Total Noncurrent Assets</b>		<b>17,501,599.66</b>
<b>Total Assets</b>		<b>21,355,309.54</b>

**LIABILITIES**

## Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		512,509.43
Funds Held for Others		67,298.00
Long-Term Liabilities - Current Portion (Note 7)		28,452.75
<b>Total Current Liabilities</b>		<b>608,260.18</b>

## Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		570,552.51
<b>Total Noncurrent Liabilities</b>		<b>570,552.51</b>
<b>Total Liabilities</b>		<b>1,178,812.69</b>

**NET ASSETS**

Invested in Capital Assets		15,503,978.34
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		871,273.04
Other		65,450.25
Expendable:		
Scholarships and Fellowships		301,010.67
Loans		17,395.52
Capital Projects		992,300.29
Other		692,353.52
Unrestricted		1,732,735.22
<b>Total Net Assets</b>	<b>\$</b>	<b>20,176,496.85</b>

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

<b>Rowan-Cabarrus Community College</b>		
<b>Statement of Revenues, Expenses, and</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-2</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	3,072,825.74
Federal Grants and Contracts		5,555,785.98
State and Local Grants and Contracts		1,848,188.33
Sales and Services, Net (Note 9)		493,513.34
Other Operating Revenues		27,022.50
Total Operating Revenues		10,997,335.89
<b>EXPENSES</b>		
Operating Expenses:		
Salaries and Benefits		17,997,963.34
Supplies and Materials		2,095,771.67
Services		1,833,716.95
Scholarships and Fellowships		4,493,924.09
Utilities		467,795.23
Depreciation		777,876.83
Total Operating Expenses		27,667,048.11
Operating Loss		(16,669,712.22)
<b>NONOPERATING REVENUES</b>		
State Aid		12,539,153.83
County Appropriations		2,228,290.00
Noncapital Grants		364,447.80
Noncapital Gifts		119,406.25
Investment Income, Net		145,405.10
Other Nonoperating Revenues		10,438.39
Net Nonoperating Revenues		15,407,141.37
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,262,570.85)
State Capital Aid		559,817.22
County Capital Appropriations		271,939.00
Capital Grants		377,475.44
Capital Gifts		21,400.00
Additions to Endowments		63,592.75
Increase in Net Assets		31,653.56
<b>NET ASSETS</b>		
Net Assets, July 1, 2003		20,144,843.29
Net Assets, June 30, 2004	\$	20,176,496.85
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Rowan-Cabarrus Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Exhibit A-3</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers		\$ 10,996,856.36
Payments to Employees and Fringe Benefits		(17,703,985.85)
Payments to Vendors and Suppliers		(4,541,600.08)
Payments for Scholarships and Fellowships		(4,496,695.74)
Other Receipts		43,455.81
Net Cash Used by Operating Activities		(15,701,969.50)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		12,539,153.83
County Appropriations		2,228,290.00
Noncapital Grants Received		365,130.30
Noncapital Gifts and Endowments Received		190,503.97
Net Cash Provided by Noncapital Financing Activities		15,323,078.10
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		541,336.47
County Capital Appropriations		271,939.00
Capital Grants Received		377,475.44
Reimbursement of Overpayment for Asset		294.15
Acquisition and Construction of Capital Assets		(574,415.15)
Net Cash Provided by Capital and Related Financing Activities		616,629.91
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income		158,859.34
Net Cash Provided by Investing Activities		158,859.34
Net Increase in Cash and Cash Equivalents		396,597.85
Cash and Cash Equivalents, July 1, 2003		4,608,977.04
Cash and Cash Equivalents, June 30, 2004		\$ 5,005,574.89

<b>Rowan-Cabarrus Community College</b>		
<b>Statement of Cash Flows</b>		<b>Exhibit A-3</b>
<b>For the Fiscal Year Ended June 30, 2004</b>		<b>Page 2</b>
<b>RECONCILIATION OF OPERATING LOSS</b>		
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (16,669,712.22)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		777,876.83
Provision for Uncollectible Loans and Write-Offs		702.67
Miscellaneous Nonoperating Income		10,438.39
Changes in Assets and Liabilities:		
Receivables		(3,251.18)
Inventories		43,165.88
Accounts Payable and Accrued Liabilities		(84,193.48)
Funds Held for Others		33,017.42
Compensated Absences		189,986.19
Net Cash Used by Operating Activities		<u>\$ (15,701,969.50)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents		\$ 2,195,099.74
Restricted Cash and Cash Equivalents		1,010,743.07
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,799,732.08
Total Cash and Cash Equivalents - June 30, 2004		<u>\$ 5,005,574.89</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Assets Acquired through a Gift		\$ 21,400.00
Capital Asset Write-Offs		18,174.36
Increase in Receivables Related to Nonoperating Income		18,480.75
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, 2004**

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**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 one component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

**Blended Component Unit** – Although legally separate, the Rowan-Cabarrus Community College Foundation, Inc. (Foundation) is reported as if it were part of the College. The Foundation is governed by members of a board that are appointed by the members of the Rowan-Cabarrus Community College Board of Trustees. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Rowan-Cabarrus Community College Board of Trustees and the Foundation's sole purpose is to benefit Rowan-Cabarrus Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, P.O. Box 1595, Salisbury, NC 28145, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity (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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

### NOTE 2 - DEPOSITS

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 \$2,400.00. The carrying amount of cash on deposit was \$5,003,174.89 and the bank balance was \$5,052,336.16.

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)

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Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 4,566,757.80	\$ 4,566,757.80
Cash on Deposit with Private Financial Institutions	436,417.09	485,578.36
	\$ 5,003,174.89	\$ 5,052,336.16

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, 2004, \$100,000.00 of the bank balance was covered by federal depository insurance, and \$385,578.36 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College’s endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College’s endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$54,756.03 was available to be spent, of which \$31,766.58 was restricted to specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 518,118.33	\$ 0.00	\$ 518,118.33
Accounts	2,918.10		2,918.10
Intergovernmental	51,833.23		51,833.23
Interest on Loans	5.56		5.56
<b>Total Current Receivables</b>	<b>\$ 572,875.22</b>	<b>\$ 0.00</b>	<b>\$ 572,875.22</b>
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	\$ 7,114.23	\$ 6,626.73	\$ 487.50

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
<b>Capital Assets, Nondepreciable:</b>					
Land	\$ 671,498.76	\$ 0.00	\$ 0.00	\$ 0.00	\$ 671,498.76
Construction in Progress	125,177.93	(274,977.86)	218,205.13		68,405.20
<b>Total Capital Assets, Nondepreciable</b>	<b>796,676.69</b>	<b>(274,977.86)</b>	<b>218,205.13</b>		<b>739,903.96</b>
<b>Capital Assets, Depreciable:</b>					
Buildings	20,544,111.78	274,977.86	106,635.37		20,925,725.01
Machinery and Equipment	2,149,478.05		205,254.55	18,174.36	2,336,558.24
General Infrastructure	1,171,810.42		8,775.00		1,180,585.42
<b>Total Capital Assets, Depreciable</b>	<b>23,865,400.25</b>	<b>274,977.86</b>	<b>320,664.92</b>	<b>18,174.36</b>	<b>24,442,868.67</b>
<b>Less Accumulated Depreciation:</b>					
Buildings	6,904,660.17		544,513.81		7,449,173.98
Machinery and Equipment	1,227,473.30		180,257.40	18,174.36	1,389,556.34
General Infrastructure	786,958.35		53,105.62		840,063.97
<b>Total Accumulated Depreciation</b>	<b>8,919,091.82</b>		<b>777,876.83</b>	<b>18,174.36</b>	<b>9,678,794.29</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>14,946,308.43</b>	<b>274,977.86</b>	<b>(457,211.91)</b>		<b>14,764,074.38</b>
<b>Capital Assets, Net</b>	<b>\$ 15,742,985.12</b>	<b>\$ 0.00</b>	<b>\$ (239,006.78)</b>	<b>\$ 0.00</b>	<b>\$ 15,503,978.34</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 112,604.98
Accrued Payroll	396,579.70
Contract Retainage	3,324.75
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 512,509.43</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 409,019.07	\$ 529,641.79	\$ 339,655.60	\$ 599,005.26	\$ 28,452.75

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 376,482.02
2006	354,963.36
2007	306,553.62
2008	230,017.48
2009	114,612.84
2010-2014	453,523.61
Total Minimum Lease Payments	<b>\$ 1,836,152.93</b>

## 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	\$ 413,347.30
Contingent Rentals	29,452.78
Total Rental Expense	\$ 442,800.08

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,640,068.36	\$ 0.00	\$ 1,567,242.62	\$ 3,072,825.74
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commissions	\$ 169,515.22	\$ 0.00	\$ 0.00	\$ 169,515.22
Vending Commissions	11,393.65			11,393.65
Childcare	198,442.09			198,442.09
Copy Cener	378,404.30	378,404.30		
Other	1,510.85			1,510.85
Sales and Services of Education and Related Activities	112,651.53			112,651.53
<b>Total Sales and Services</b>	\$ 871,917.64	\$ 378,404.30	\$ 0.00	\$ 493,513.34

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 10,509,916.19	\$ 753,886.44	\$ 455,100.15	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,718,902.78
Academic Support	1,762,068.94	104,815.02	99,582.81				1,966,466.77
Student Services	1,367,927.53	91,630.93	16,708.07				1,476,266.53
Institutional Support	3,622,396.94	521,131.84	724,366.07		151,998.54		5,019,893.39
Operations and Maintenance of Plant	566,991.33	598,626.85	393,264.46		315,796.69		1,874,679.33
Student Financial Aid			13,694.93	4,447,801.49			4,461,496.42
Auxiliary Enterprises	168,662.41	25,680.59	131,000.46	46,122.60			371,466.06
Depreciation						777,876.83	777,876.83
Total Operating Expenses	<u>\$ 17,997,963.34</u>	<u>\$ 2,095,771.67</u>	<u>\$ 1,833,716.95</u>	<u>\$ 4,493,924.09</u>	<u>\$ 467,795.23</u>	<u>\$ 777,876.83</u>	<u>\$ 27,667,048.11</u>

### NOTE 11 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$15,371,936.25, of which \$11,077,087.00 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$664,625.22 and \$24,369.59, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$24,369.59, \$0.00, and \$184,939.62, 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)

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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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$21,998.00 for the year ended June 30, 2004.

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 \$226,487.00 for the year ended June 30, 2004.

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 \$46,015.00 for the year ended June 30, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 12 - 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$354,466.78. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$5,000,000 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 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 \$148,349.86 at June 30, 2004.

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.

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. There were no employer contributions required for the current fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$53,600.00 and on other purchases were \$327,666.95 at June 30, 2004.
- 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 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 \$10,530,403.00 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, 2004**

**Schedule 1**

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b>Capital Improvement Projects</b>									
<b>Projects Approved by the State Board</b>									
Building 100 Renovations - Project #1032	Feb 2001	Feb 2001	\$ 202,432.00	\$ 1,355,376.00	\$ 1,557,808.00	\$ 1,557,808.42	100.00%	Feb 2002	Mar 2004
Various North Campus Renovation Projects - Project #1314	Sep 2001	Dec 2002	603,152.00		603,152.00	274,130.36	45.45%	Jan 2004	Aug 2005
Classroom/Laboratory Building - South Project #1185	Apr 2001	Jul 2004	4,357,029.00	3,565,141.00	7,922,170.00			Oct 2003	Jan 2007
<b>Projects Pending Approval by the State Board</b>									
LRC and Student Support Space Expansion and Renovation	Apr 2003	Sep 2005	805,584.00		805,584.00				
Classroom/Laboratory Building and Parking Lot - North	Mar 2004	Oct 2006	5,207,129.00	3,659,365.00	8,866,494.00				
<b>Total All Projects</b>			<b>\$ 11,175,326.00</b>	<b>\$ 8,579,882.00</b>	<b>\$ 19,755,208.00</b>	<b>\$ 1,831,938.78</b>			

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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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 Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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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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Mr. James D. Johnson	Director, Fiscal Research Division
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