

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

ROWAN-CABARRUS COMMUNITY COLLEGE

SALISBURY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

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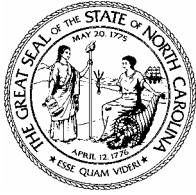
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STATE OF NORTH CAROLINA
Office of the State Auditor

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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

We have completed a financial statement and compliance audit of Rowan-Cabarrus Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

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.

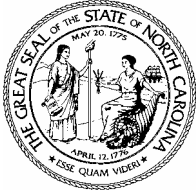
Leslie W. Merritt, Jr.

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

May 3, 2006

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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, 2005, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Rowan-Cabarrus Community College Foundation, Inc., which represent 3.5 percent, 3.8 percent, and .17 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Rowan-Cabarrus Community College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Rowan-Cabarrus Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Rowan-Cabarrus Community College as of June 30, 2005, and the change 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.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

February 27, 2006

ROWAN-CABARRUS COMMUNITY COLLEGE 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, 2005. This section should be read in conjunction with the College's basic financial statements and the notes to the financial statements.

The financial statements focus on the College as a whole. As such, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements. The basic financial statements consist of three statements. The first 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. Revenue and expenses are classified as operating or nonoperating. The final statement, Statement of Cash Flows, presents the sources from which the College received cash and uses for which cash was spent. The Cash Flow statement is presented in the direct method, with a reconciliation between operating income (loss) and net cash provided (used) by operating activities. For the purpose of this discussion, we will address the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

The following is a comparison between the Statement of Net Assets for fiscal year ended June 30, 2005, and fiscal year ended June 30, 2004.

Consolidated Statement of Net Assets				
	FYE 2005	FYE 2004	Increase/ (Decrease)	Percent Change
ASSETS				
Current assets	\$ 4,677,392.86	\$ 3,853,709.88	\$ 823,682.98	21.37%
Noncurrent Assets				
Capital	15,732,831.52	15,503,978.34	228,853.18	1.48%
Other	2,470,418.02	1,997,621.32	472,796.70	23.67%
Total Assets	22,880,642.40	21,355,309.54	1,525,332.86	7.14%
LIABILITIES				
Current Liabilities	1,224,790.30	608,260.18	616,530.12	101.36%
Noncurrent Liabilities	668,821.25	570,552.51	98,268.74	17.22%
Total Liabilities	1,893,611.55	1,178,812.69	714,798.86	60.64%
NET ASSETS				
Invested in Capital Assets	15,732,831.52	15,503,978.34	228,853.18	1.48%
Restricted	3,246,720.94	2,939,783.29	306,937.65	10.44%
Unrestricted	2,007,478.39	1,732,735.22	274,743.17	15.86%
Total Net Assets	\$ 20,987,030.85	\$ 20,176,496.85	\$ 810,534.00	4.02%

For the year ended June 30, 2005, the College's current assets increased \$823,682.98 (21.37%). This increase was caused by several factors. First, due to natural fluctuations in cash flow, the College had \$361,203.82 more current cash and cash equivalents on hand at June 30, 2005, than it did on June 30, 2004. Also, current receivables increased by \$349,230.41. This increase was a combination of a general rise in student accounts receivable of \$151,497.59 and the addition of receivables from Cabarrus County for construction projects of \$165,819.64. In FYE 2005, the College began construction on two construction projects that Cabarrus County agreed to fund in part. However, the county funded these projects on a reimbursement basis. At June 30, 2005, the county owed the College \$165,819.64 as reimbursements for these two projects.

The \$472,796.70 increase in other noncurrent assets is attributable to construction activity. Specifically, the amount that is recorded as restricted due from primary government represents the amount that the North Carolina Community College System Office owes the College for construction projects funded with State dollars. This receivable is based on approved projects and, if applicable, a cash-flow model that was approved by the State. In FYE 2005, the College began design on a new building for its Cabarrus County campus (Building 3000), and continued progress on other construction projects funded, at least in part, by State funds. As a result, the amount of Restricted Due from Primary Government increased \$440,620.69 over FYE 2004.

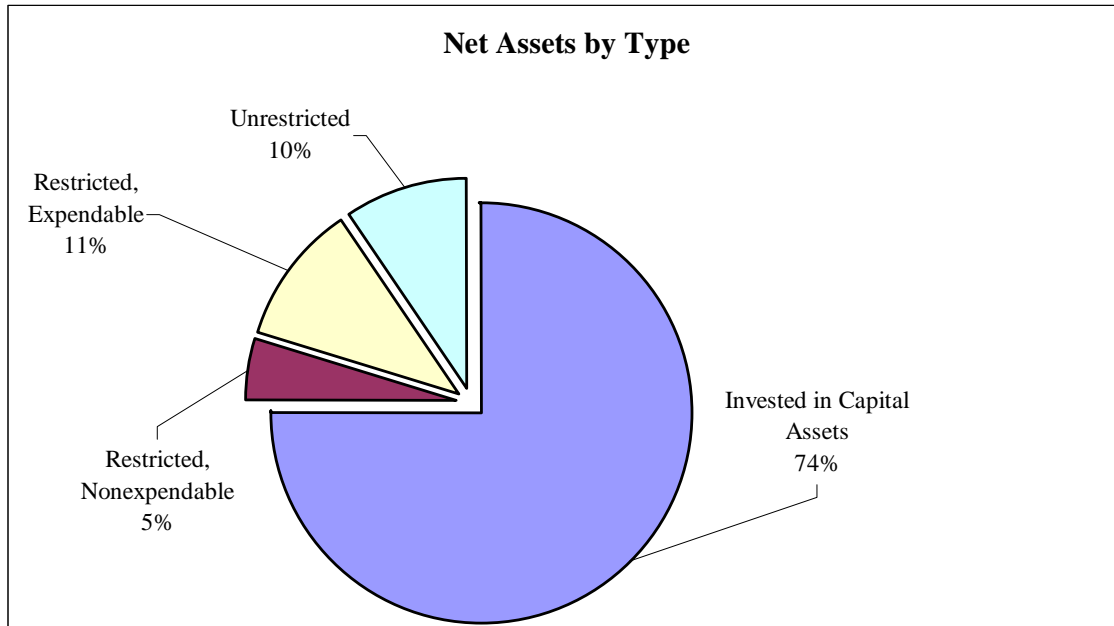
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Liabilities

At June 30, 2005, the total liabilities for the College were \$1,893,611.55. As required by GASB Statements No. 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 \$1,893,611.55 total liabilities, \$1,224,790.30 was current and \$668,821.25 was noncurrent. The current liabilities increased \$616,530.12 (101.36%) from FYE 2004. This increase is due to several factors. First, accounts payable increased by \$218,554.54. This increase is due to three construction projects that were in progress at June 30, 2005, that were not in progress at June 30, 2004. These three projects had a total of \$191,448.06 in accounts payable at June 30, 2005. The second factor in the current liabilities increase is that accrued payroll increased by \$255,993.17. This increase is due to an increase in the amount accrued for full time faculty members that work less than 12 months but have their pay prorated over 12 months. In addition, due to enrollment growth, the College hired additional faculty and staff, which increased the amount of the payroll accrual at June 30, 2005.

Net Assets

The following graph depicts the allocation of net assets at June 30, 2005:



For the year ended June 30, 2005, the College's net assets increased by \$810,534.00 from \$20,176,496.85 at June 30, 2004, to \$20,987,030.85 at June 30, 2005. Restricted net assets increased \$306,937.65 (10.44%), primarily due to the increase in construction activity and the related receivable, Restricted Due from Primary Government. As mentioned above, the College began design of Building 3000 on its South Campus in Cabarrus County. In addition, construction on several other projects funded, at least in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

part, by State funds continued. As a result, the amount of restricted due from primary government increased \$440,620.69, causing the amount of restricted net assets at June 30, 2005, to increase. Unrestricted net assets increased \$274,743.17 (15.86%), primarily due to the growth the College experienced in FYE 2004, and the State mechanism for funding community colleges based on prior year enrollment. In years of high growth, colleges are faced with inadequate State aid, and cash positions, as well as unrestricted net assets, suffer. In FYE 2004, RCCC's unrestricted net assets declined by 4.88% despite a 20% increase in enrollment. This year's 15.86% increase in unrestricted net assets represents a recovery to a more appropriate level.

It is important to note that State appropriation funds do not carry over from one year to the next. Therefore, net assets will never be increased due to a surplus of State appropriations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues and Expenses

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

	FYE 2005	FYE 2004	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 3,472,393.85	\$ 3,072,825.74	\$ 399,568.11	13.00 %
Grants and Contracts	7,543,841.41	7,403,974.31	139,867.10	1.89 %
Sales and Services, Net	503,355.84	493,513.34	9,842.50	1.99 %
Other Operating Revenues	24,470.33	27,022.50	(2,552.17)	(9.44) %
Total Operating Revenues	11,544,061.43	10,997,335.89	546,725.54	4.97 %
Less Operating Expenses	32,865,797.51	27,667,048.11	5,198,749.40	18.79 %
Operating Loss	(21,321,736.08)	(16,669,712.22)	(4,652,023.86)	27.91 %
Nonoperating Revenues (Expenses):				
State Aid	15,892,446.96	12,539,153.83	3,353,293.13	26.74 %
County Appropriations	2,368,452.00	2,228,290.00	140,162.00	6.29 %
Noncapital Grants and Gifts	636,713.54	483,854.05	152,859.49	31.59 %
Investment Income, Net	125,345.98	145,405.10	(20,059.12)	(13.80) %
Other Nonoperating Revenues (Expenses)	(3,235.44)	10,438.39	(13,673.83)	(131.00) %
Net Nonoperating Revenues	19,019,723.04	15,407,141.37	3,612,581.67	23.45 %
Loss Before Other Revenues	(2,302,013.04)	(1,262,570.85)	(1,039,442.19)	82.33 %
Capital Contributions and Other Revenues				
State Capital Aid	1,874,779.36	559,817.22	1,314,962.14	234.89 %
County Capital Appropriations	277,378.00	271,939.00	5,439.00	2.00 %
Capital Grants and Gifts	933,618.68	398,875.44	534,743.24	134.06 %
Additions to Endowments	26,771.00	63,592.75	(36,821.75)	(57.90) %
Total Capital Contributions and Other Revenues	3,112,547.04	1,294,224.41	1,818,322.63	140.50 %
Increase in Net Assets	810,534.00	31,653.56	778,880.44	2,460.64 %
Net Assets:				
Net Assets, Beginning of Year	20,176,496.85	20,144,843.29	31,653.56	
Net Assets, End of Year	\$ 20,987,030.85	\$ 20,176,496.85	\$ 810,534.00	

RCCC is a State supported college that provides subsidized educational services to citizens of North Carolina. As such, it is expected that operating expenses will exceed operating revenues every year, resulting in an operating loss. The operating loss is offset by State and county appropriations and other nonoperating revenues.

Total revenues for FYE 2005 were \$33,676,331.51 as compared to \$27,698,701.67 for FYE 2004. This represents an increase of \$5,980,865.28 as explained in the next paragraph.

It is important to understand how the College is funded. The College receives appropriations from the State and from both Rowan and Cabarrus counties. The State provides funds for the operational and administrative needs of the College, while Rowan and Cabarrus counties provide funds for the operation and maintenance of facilities in their respective counties. In FYE 2005, the College received \$17,767,226.32 (52.76% of total revenues) in State appropriations (both current and capital). This represents a \$4,668,255.27 increase over the State appropriations (current and capital) received in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FYE 2004. This increase is due primarily to enrollment growth. 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. During the course of FYE 2003-2004, many of these former Pillowtex workers came to RCCC for additional education. The result was that for the FYE 2003-2004 year, RCCC experienced a 20.11% growth (based on FTE comparison). This enrollment growth was funded by the State in FYE 2004-2005. In addition, in FYE 2005, the College received two special capital allocation grants that totaled \$418,322.00. One grant, \$103,416.00, was given to RCCC because Cabarrus County (one of the College's service areas) had an unemployment rate of greater than five percent. The second grant, \$314,906.00, was given to the College because enrollment growth was greater than 10 percent.

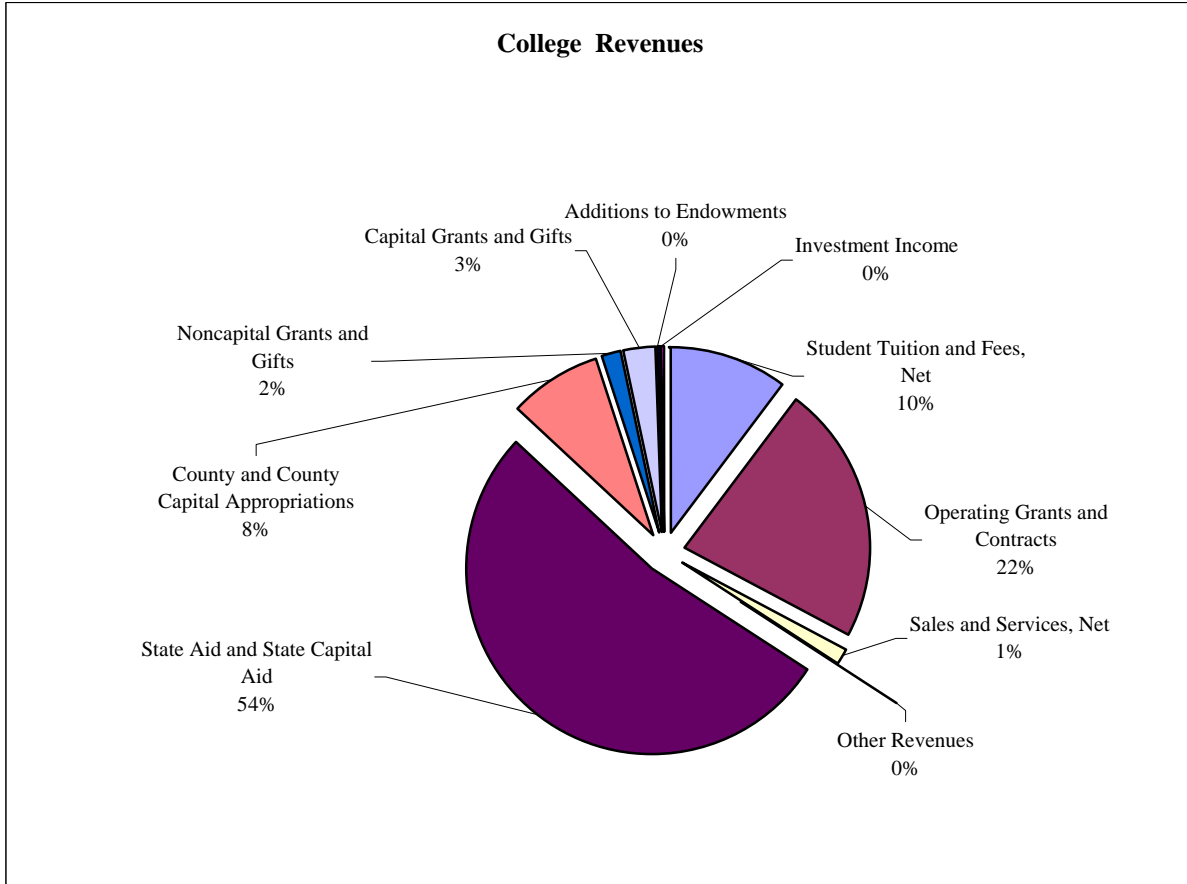
The appropriations for Rowan and Cabarrus counties combined (both current and capital) totaled \$2,645,830.00 (7.86% of total revenues). This amount represents a \$145,601.00 (5.82%) increase over FYE 2004. County funding is not directly linked to enrollment. The modest increase provided by the counties is a reflection of the fact that North Carolina has been slow to recover from the recession. Therefore, counties are having to make difficult funding decisions.

In addition to the appropriations discussed above, both the State and the counties provide financial support for construction projects. These funds were recorded in the capital grants and gifts revenue line item. In FYE 2005, the amount of revenue reported increased by \$534,743.24 (134.06%). This increase is due to fact that the College began construction on two major projects, the expansion of a parking lot and the construction of a new building.

The revenue increases discussed above were largely offset by the \$5,198,749.40 increase in operating expenses. A large portion of the increase in operating costs related to enrollment growth as well. At the same time the College received funding for the 20.11% enrollment growth mentioned above, the College's enrollment continued to climb. In FYE 2005, the College experienced an 11.99% enrollment increase (based on FTE comparison). The College incurred increased operational costs in order to meet the educational needs of the expanding student population.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following graph shows the various components of the College's \$33,676,331.51 of revenue for the fiscal year ended June 30, 2005:



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, 2005

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 2,579,725.14
Restricted Cash and Cash Equivalents	987,321.49
Receivables (Note 4)	922,105.63
Inventories	184,923.60
Notes Receivable, Net (Note 4)	<u>3,317.00</u>
Total Current Assets	<u>4,677,392.86</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,831,908.09
Restricted Due from Primary Government	638,509.93
Capital Assets - Nondepreciable (Note 5)	990,558.51
Capital Assets - Depreciable, Net (Note 5)	<u>14,742,273.01</u>
Total Noncurrent Assets	<u>18,203,249.54</u>
Total Assets	<u>22,880,642.40</u>

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	1,002,900.90
Funds Held for Others	198,277.43
Long-Term Liabilities - Current Portion (Note 7)	<u>23,611.97</u>
Total Current Liabilities	<u>1,224,790.30</u>
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	<u>668,821.25</u>
Total Liabilities	<u>1,893,611.55</u>

NET ASSETS

Invested in Capital Assets	15,732,831.52
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	904,399.03
Other	65,450.25
Expendable:	
Scholarships and Fellowships	244,146.38
Loans	17,738.11
Capital Projects	1,246,449.15
Other	768,538.02
Unrestricted	<u>2,007,478.39</u>
Total Net Assets	<u>\$ 20,987,030.85</u>

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

Rowan-Cabarrus Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 3,472,393.85
Federal Grants and Contracts	6,253,939.50
State and Local Grants and Contracts	1,289,901.91
Sales and Services, Net (Note 9)	503,355.84
Other Operating Revenues	24,470.33

Total Operating Revenues	11,544,061.43
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EXPENSES

Operating Expenses:

Personal Services	20,855,191.98
Supplies and Materials	3,287,204.93
Services	2,372,332.13
Scholarships and Fellowships	5,065,481.13
Utilities	469,936.68
Depreciation	815,650.66

Total Operating Expenses	32,865,797.51
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Operating Loss	(21,321,736.08)
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NONOPERATING REVENUES (EXPENSES)

State Aid	15,892,446.96
County Appropriations	2,368,452.00
Noncapital Grants	508,918.00
Noncapital Gifts	127,795.54
Investment Income, Net	125,345.98
Other Nonoperating Expenses	(3,235.44)

Net Nonoperating Revenues	19,019,723.04
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Loss Before Other Revenues	(2,302,013.04)
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State Capital Aid	1,874,779.36
County Capital Appropriations	277,378.00
Capital Grants	926,968.68
Capital Gifts	6,650.00
Additions to Endowments	26,771.00

Increase in Net Assets	810,534.00
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NET ASSETS

Net Assets, July 1, 2004	20,176,496.85
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Net Assets, June 30, 2005	\$ 20,987,030.85
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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, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 11,410,172.79
Payments to Employees and Fringe Benefits	(20,505,770.85)
Payments to Vendors and Suppliers	(6,249,105.49)
Payments for Scholarships and Fellowships	(5,089,733.27)
Loans Issued to Students	(24,370.75)
Collection of Loans to Students	21,815.00
Other Receipts	137,431.43
	<hr/>
Net Cash Used by Operating Activities	(20,299,561.14)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	15,892,446.96
County Appropriations	2,368,452.00
Noncapital Grants Received	508,918.00
Noncapital Gifts and Endowments Received	127,566.54
	<hr/>
Cash Provided by Noncapital Financing Activities	18,897,383.50

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,434,158.67
County Capital Appropriations	277,378.00
Capital Grants Received	762,879.05
Acquisition and Construction of Capital Assets	(804,204.23)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,670,211.49

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	125,345.98
	<hr/>
Cash Provided by Investing Activities	125,345.98

Net Increase in Cash and Cash Equivalents	393,379.83
Cash and Cash Equivalents, July 1, 2004	5,005,574.89
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 5,398,954.72

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

Operating Loss	\$ (21,321,736.08)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	815,650.66
Provision for Uncollectible Loans and Write-Offs	(273.75)
Miscellaneous Nonoperating Income	6,452.00
Changes in Assets and Liabilities:	
Receivables	(158,140.78)
Inventories	(110,419.25)
Notes Receivable, Net	(2,555.75)
Accounts Payable and Accrued Liabilities	247,054.42
Funds Held for Others	130,979.43
Compensated Absences	93,427.96
	<hr/>
Net Cash Used by Operating Activities	\$ (20,299,561.14)

Rowan-Cabarrus Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,579,725.14
Restricted Cash and Cash Equivalents	987,321.49
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,831,908.09</u>
Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 5,398,954.72</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 243,337.05
Assets Acquired through a Gift	6,650.00
Increase in Receivables Related to Nonoperating Income	631,710.32
Capital Asset Write-Offs	32,274.54

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, 2005

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 was part of the College.

Blended Component Unit – Although legally separate, the Rowan-Cabarrus Community College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a board that consists of no fewer than three and no more than twenty members as determined by the Board of Trustees of Rowan-Cabarrus Community College. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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 charged 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 1 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 staff 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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 *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$2,445.00, and deposits in private financial institutions with a carrying value of \$664,439.89 and a bank balance of \$1,156,482.33.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,732,069.83 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2005, net appreciation of \$48,674.91 was available to be spent, of which \$29,091.01 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 669,615.92	\$ 0.00	\$ 669,615.92
Accounts	882.34		882.34
Intergovernmental	224,601.81		224,601.81
Pledges	27,000.00		27,000.00
Interest on Loans	5.56		5.56
	<u>922,105.63</u>	<u>0.00</u>	<u>922,105.63</u>
Total Current Receivables	<u>\$ 922,105.63</u>	<u>\$ 0.00</u>	<u>\$ 922,105.63</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 9,669.98</u>	<u>\$ 6,352.98</u>	<u>\$ 3,317.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 671,498.76	\$ 0.00	\$ 0.00	\$ 0.00	\$ 671,498.76
Construction in Progress	68,405.20	(74,715.20)	325,369.75		319,059.75
Total Capital Assets, Nondepreciable	<u>739,903.96</u>	<u>(74,715.20)</u>	<u>325,369.75</u>		<u>990,558.51</u>
Capital Assets, Depreciable:					
Buildings	20,925,725.01		325,387.18		21,251,112.19
Machinery and Equipment	2,336,558.24		377,256.10	25,280.29	2,688,534.05
General Infrastructure	1,180,585.42	74,715.20	26,178.25	6,994.25	1,274,484.62
Total Capital Assets, Depreciable	<u>24,442,868.67</u>	<u>74,715.20</u>	<u>728,821.53</u>	<u>32,274.54</u>	<u>25,214,130.86</u>
Less Accumulated Depreciation:					
Buildings	7,449,173.98		556,209.01		8,005,382.99
Machinery and Equipment	1,389,556.34		202,694.78	21,771.10	1,570,480.02
General Infrastructure	840,063.97		56,746.87	816.00	895,994.84
Total Accumulated Depreciation	<u>9,678,794.29</u>		<u>815,650.66</u>	<u>22,587.10</u>	<u>10,471,857.85</u>
Total Capital Assets, Depreciable, Net	<u>14,764,074.38</u>	<u>74,715.20</u>	<u>(86,829.13)</u>	<u>9,687.44</u>	<u>14,742,273.01</u>
Capital Assets, Net	<u>\$ 15,503,978.34</u>	<u>\$ 0.00</u>	<u>\$ 238,540.62</u>	<u>\$ 9,687.44</u>	<u>\$ 15,732,831.52</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 331,159.52
Accrued Payroll	652,572.87
Contract Retainage	19,168.51
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,002,900.90</u>

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 599,005.26	\$ 457,320.59	\$ 363,892.63	\$ 692,433.22	\$ 23,611.97

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases for equipment and facilities consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 316,343.87
2007	230,502.77
2008	141,631.43
2009	111,837.60
2010	111,452.46
2011-2014	<u>342,457.57</u>
Total Minimum Lease Payments	<u>\$ 1,254,225.70</u>

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

	<u>Amount</u>
Minimum Rentals	\$ 360,410.26
Contingent Rentals	<u>52,471.36</u>
Total Rental Expense	<u>\$ 412,881.62</u>

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 5,288,718.27</u>	<u>\$ 0.00</u>	<u>\$ 1,816,324.42</u>	<u>\$ 3,472,393.85</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commissions	\$ 189,635.77	\$ 0.00	\$ 0.00	\$ 189,635.77
Vending Commissions	13,251.91			13,251.91
Childcare	189,611.85			189,611.85
Copy Center	427,838.30	427,838.30		0.00
Other	1,128.78			1,128.78
Sales and Services of Education and Related Activities	<u>109,727.53</u>			<u>109,727.53</u>
Total Sales and Services	<u>\$ 931,194.14</u>	<u>\$ 427,838.30</u>	<u>\$ 0.00</u>	<u>\$ 503,355.84</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 12,967,121.51	\$ 1,071,624.35	\$ 588,712.40	\$ 0.00	\$ 0.00	\$ 0.00	\$ 14,627,458.26
Academic Support	1,890,613.86	174,004.49	110,430.38				2,175,048.73
Student Services	1,477,887.76	99,124.44	24,614.88				1,601,627.08
Institutional Support	3,748,024.50	196,134.64	1,064,189.90		158,531.37		5,166,880.41
Operations and Maintenance of Plant	603,283.04	1,746,317.01	416,274.35		311,405.31		3,077,279.71
Student Financial Aid			27,253.01	5,032,611.13			5,059,864.14
Auxiliary Enterprises	168,261.31		140,857.21	32,870.00			341,988.52
Depreciation						815,650.66	815,650.66
Total Operating Expenses	<u>\$ 20,855,191.98</u>	<u>\$ 3,287,204.93</u>	<u>\$ 2,372,332.13</u>	<u>\$ 5,065,481.13</u>	<u>\$ 469,936.68</u>	<u>\$ 815,650.66</u>	<u>\$ 32,865,797.51</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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$17,524,828.54, of which \$12,756,203.94 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$765,372.24 and \$276,809.63, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$276,809.63, \$24,369.59, and \$0.00, 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.ncosc.net/> 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 \$17,002.00 for the year ended June 30, 2005.

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 \$308,226.00 for the year ended June 30, 2005.

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 \$52,796.00 for the year ended June 30, 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2005, the College's total contribution to the Plan was \$408,198.53. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$56,765.11. 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, and can include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$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 \$148,849.58 at June 30, 2005.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 \$680,491.63 and on other purchases were \$81,037.28 at June 30, 2005.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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 \$9,954,742.00 is

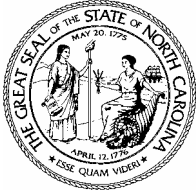
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

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

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

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

We have audited 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, 2005, and have issued our report thereon dated February 27, 2006. We did not audit the financial statements of Rowan-Cabarrus Community College Foundation, Inc., which represent 3.5 percent, 3.8 percent, and .17 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Rowan-Cabarrus Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of Rowan-Cabarrus Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Rowan-Cabarrus Community College Foundation, Inc.

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 an opinion 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 reportable condition in which the design or operation

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ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management 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.

Leslie W. Merritt, Jr.

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

February 27, 2006

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