

# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**CAPE FEAR COMMUNITY COLLEGE**

**WILMINGTON, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Cape Fear Community College

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

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

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

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Cape Fear Community College. A summary of our reporting objectives and audit results is:

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

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

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

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

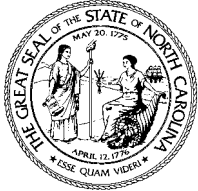


Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Cape Fear Community College  
Wilmington, North Carolina

We have audited the accompanying basic financial statements of Cape Fear Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2003 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,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 7 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.  
State Auditor

January 17, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of the Cape Fear Community College annual financial report presents Management's Discussion and Analysis of the financial performance of the College during the fiscal year ended June 30, 2002. This discussion should be read in conjunction with the accompanying financial statements and footnotes.

### **Using the Annual Financial Report**

The annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The financial statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

The financial statements prescribed by GASB Statement No. 35 present financial information in a form similar to that used by corporations. They are prepared under the modified accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Net Assets includes all assets and liabilities. The increase or decrease in net assets is an indicator of the improvement or erosion of the College's financial condition.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year. Activities are reported as operating or nonoperating. A college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing and related investing activities. The direct method is used to present cash flow.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Financial Highlights

The College continues to grow by campus expansion and student enrollment. The budget FTE (full-time equivalency) increased by 4% from 2000-01 which increased the current operating State budget by 5.2% plus, the College received an additional \$600,000 in equipment funds from HB 275. Even though the budget increased, all community colleges were mandated to revert 2.96% during the fiscal year.

The campus expansion includes the near completion of the first building at the North Campus. The opening date for this facility was August 2002. Other construction projects include the replacement of the Marine Technology pier which is in-process, outside plant infrastructure which connected all buildings with fiber optic and copper cabling, completion of the Allied Health/LRC Addition which opened in August 2001, and the purchase of a new PBX system for the Downtown and North campuses. The elevator tower project is under design and construction started in the fall of 2002.

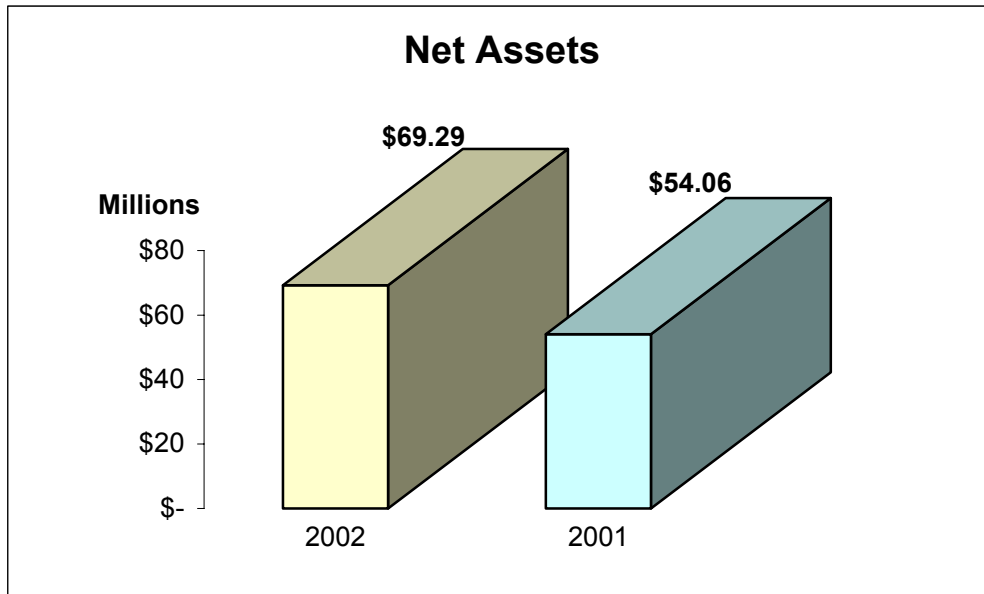
### Financial Analysis

#### Net Assets

The College's net assets increased by \$15.2 million during fiscal year 2002, or by 28.15%. This largely came from the near completion of the first building at the North Campus which is a 2-year \$22 million project.

|                         | <u>2002</u>             |
|-------------------------|-------------------------|
| Current Assets          | \$ 12,598,924.23        |
| Non-Current Assets      | <u>60,340,282.35</u>    |
| Total Assets            | 72,939,206.58           |
| <br>                    |                         |
| Current Liabilities     | 3,049,680.32            |
| Non-Current Liabilities | <u>603,975.49</u>       |
| Total Liabilities       | <u>3,653,655.81</u>     |
| <br>                    |                         |
| Total Net Assets        | <u>\$ 69,285,550.77</u> |

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

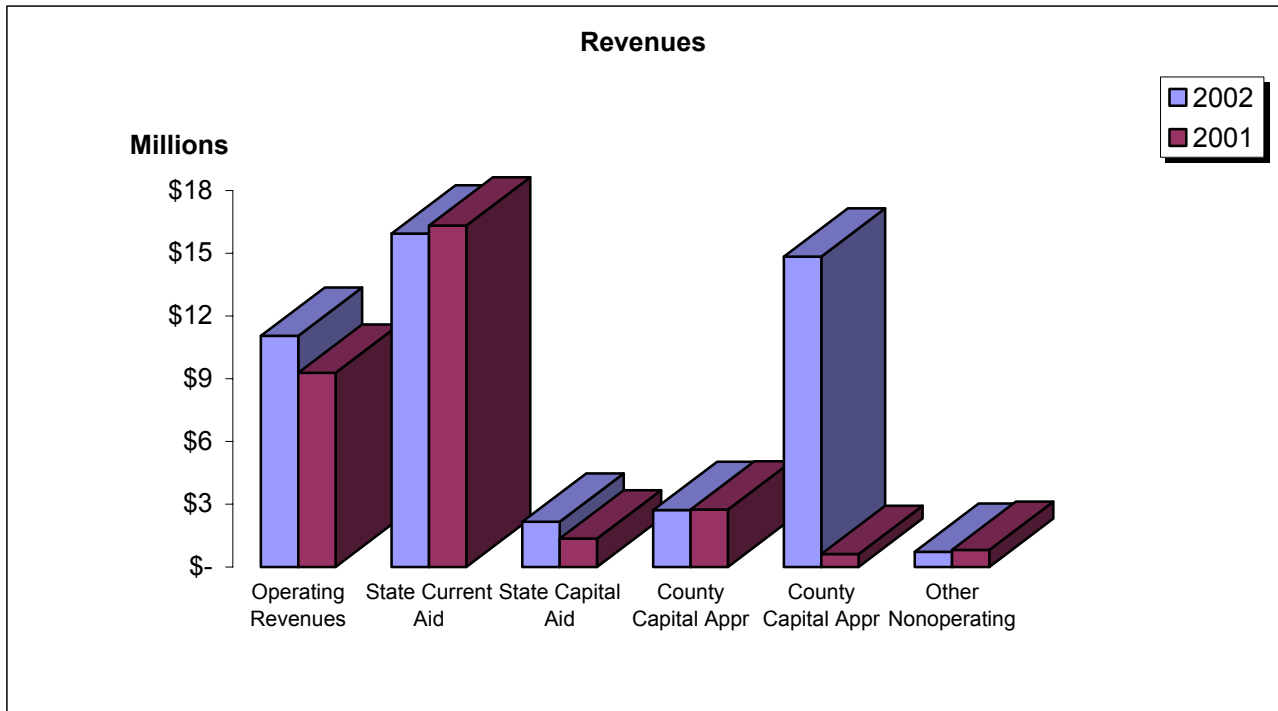


**Revenues**

Total revenue increased by \$16.3 million, or 65.6%, over fiscal year 2001 as noted in the data listed below. The majority of the increase is from the sale of \$14.3 million in construction bonds by New Hanover County. The bulk of the remaining is from the increase in operating revenues.

|                               | <u>2002</u>                 | <u>2001</u>                 | <u>Increase/<br/>(Decrease)</u> |
|-------------------------------|-----------------------------|-----------------------------|---------------------------------|
| Operating Revenues            | \$ 11,047,186.68            | \$ 9,283,150.86             | \$ 1,764,035.82                 |
| State Current Aid             | 15,935,731.02               | 16,321,858.81               | (386,127.79)                    |
| State Capital Aid             | 2,161,409.29                | 1,357,281.33                | 804,127.96                      |
| County Capital Appropriations | 2,720,402.12                | 2,739,362.36                | (18,960.24)                     |
| County Capital Appropriations | 14,838,899.60               | 615,699.64                  | 14,223,199.96                   |
| Other Nonoperating            | <u>724,937.00</u>           | <u>813,850.73</u>           | <u>(88,913.73)</u>              |
| <br>Total Operating Revenue   | <br><u>\$ 47,428,565.71</u> | <br><u>\$ 31,131,203.73</u> | <br><u>\$ 16,297,361.98</u>     |

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



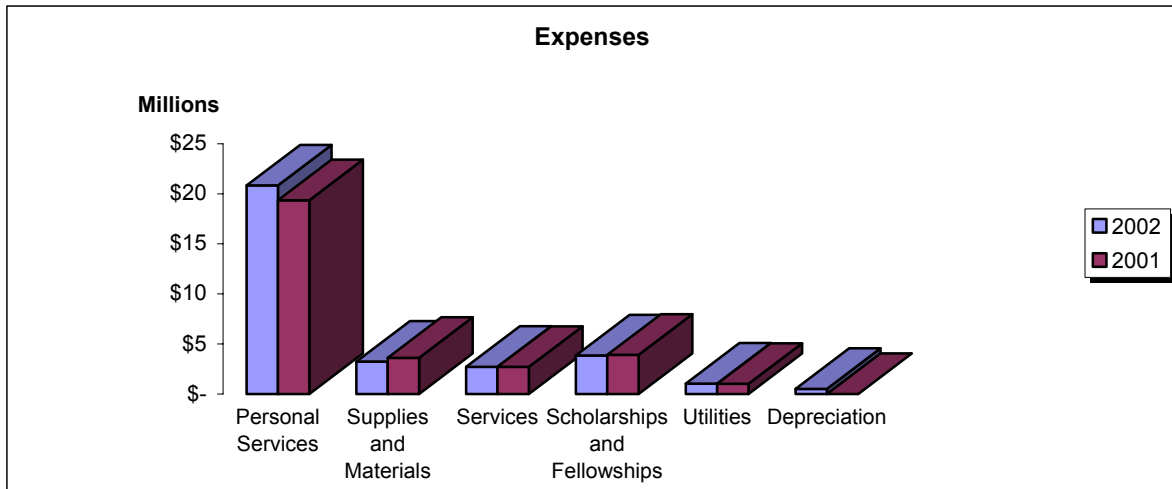
**Expenses**

The expenditures increased by \$1.6 million, or 5.18%, from fiscal year 2001 to 2002. The majority of the increase is in personal services and depreciation is recorded for the first time.

|                                 | <u>2002</u>                    | <u>2001</u>                    | <u>Increase<br/>(Decrease)</u> |
|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Personal Services               | \$ 20,832,178.05               | \$ 19,358,015.04               | \$ 1,474,163.01                |
| Supplies and Materials          | 3,237,726.59                   | 3,620,303.96                   | (382,577.37)                   |
| Services                        | 2,719,393.32                   | 2,709,739.04                   | 9,654.28                       |
| Scholarships and Fellowships    | 3,854,887.91                   | 3,915,523.59                   | (60,635.68)                    |
| Utilities                       | 1,046,485.15                   | 1,017,825.66                   | 28,659.49                      |
| Depreciation                    | <u>516,915.83</u>              |                                | <u>516,915.83</u>              |
| <b>Total Operating Expenses</b> | <u><u>\$ 32,207,586.85</u></u> | <u><u>\$ 30,621,407.29</u></u> | <u><u>\$ 1,586,179.56</u></u>  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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This report is designed to provide the College's Community, Students, Donors, and Creditors with a general overview of its finances. And, to demonstrate its accountability for funds received from tax-dollars, tuition, and gifts.

| <b>Cape Fear Community College</b>   |                         |                  |
|--|-------------------------|------------------|
| <b>Statement of Net Assets</b>   |                         |                  |
| <b>June 30, 2002</b>   |                         | <b>Exhibit A</b> |
| <b>ASSETS</b>  |                         |                  |
| Current Assets:  |                         |                  |
| Cash and Cash Equivalents  | \$ 1,474,286.17         |                  |
| Restricted Cash and Cash Equivalents   | 232,782.42              |                  |
| Receivables, Net (Note 3)  | 9,467,171.03            |                  |
| Restricted Due from Primary Government   | 493,891.38              |                  |
| Inventories  | 855,589.27              |                  |
| Prepaid Items  | 74,885.04               |                  |
| Notes Receivable, Net (Note 3)   | 318.92                  |                  |
| <b>Total Current Assets</b>  | <b>12,598,924.23</b>    |                  |
| Noncurrent Assets:   |                         |                  |
| Restricted Cash and Cash Equivalents   | 380,992.97              |                  |
| Capital Assets, Net (Note 4)   | 59,959,289.38           |                  |
| <b>Total Noncurrent Assets</b>   | <b>60,340,282.35</b>    |                  |
| <b>Total Assets</b>  | <b>72,939,206.58</b>    |                  |
| <b>LIABILITIES</b>   |                         |                  |
| Current Liabilities:   |                         |                  |
| Accounts Payable and Accrued Liabilities (Note 5)  | 2,633,214.28            |                  |
| Funds Held for Others  | 383,160.16              |                  |
| Long-Term Liabilities - Current Portion (Note 6)   | 33,305.88               |                  |
| <b>Total Current Liabilities</b>   | <b>3,049,680.32</b>     |                  |
| Noncurrent Liabilities:  |                         |                  |
| Long-Term Liabilities (Note 6)   | 603,975.49              |                  |
| <b>Total Noncurrent Liabilities</b>  | <b>603,975.49</b>       |                  |
| <b>Total Liabilities</b>   | <b>3,653,655.81</b>     |                  |
| <b>NET ASSETS</b>  |                         |                  |
| Invested in Capital Assets   | 59,959,289.38           |                  |
| Restricted For:  |                         |                  |
| Expendable:  |                         |                  |
| Capital Projects   | 6,969,824.91            |                  |
| Other  | 326,175.88              |                  |
| Unrestricted   | 2,030,260.60            |                  |
| <b>Total Net Assets</b>  | <b>\$ 69,285,550.77</b> |                  |
| The accompanying notes to the financial statements are an integral part of this statement. |                         |                  |

| <b><i>Cape Fear Community College</i></b>  |    |                         |
|--|----|-------------------------|
| <b><i>Statement of Revenues, Expenses, and Changes in Net Assets</i></b>                   |    |                         |
| <b><i>For the Fiscal Year Ended June 30, 2002</i></b>                                      |    | <b><i>Exhibit B</i></b> |
| <b>REVENUES</b>  |    |                         |
| Operating Revenues:  |    |                         |
| Student Tuition and Fees, Net (Note 8)   | \$ | 4,640,316.06            |
| Federal Grants and Contracts   |    | 4,747,531.03            |
| State and Local Grants and Contracts   |    | 338,814.34              |
| Sales and Services, Net (Note 8)   |    | 1,320,525.25            |
| Total Operating Revenues   |    | 11,047,186.68           |
| <b>EXPENSES</b>  |    |                         |
| Operating Expenses:  |    |                         |
| Personal Services  |    | 20,832,178.05           |
| Supplies and Materials   |    | 3,237,726.59            |
| Services   |    | 2,719,393.32            |
| Scholarships and Fellowships   |    | 3,854,887.91            |
| Utilities  |    | 1,046,485.15            |
| Depreciation   |    | 516,915.83              |
| Total Operating Expenses   |    | 32,207,586.85           |
| Operating Loss   |    | (21,160,400.17)         |
| <b>NONOPERATING REVENUES:</b>  |    |                         |
| State Aid  |    | 15,935,731.02           |
| County Appropriations  |    | 2,720,402.12            |
| Noncapital Grants  |    | 103,580.07              |
| Noncapital Gifts, Net (Note 8)   |    | 391,814.87              |
| Investment Income, Net   |    | 126,730.45              |
| Other Nonoperating Revenues  |    | 102,811.61              |
| Net Nonoperating Revenues  |    | 19,381,070.14           |
| Loss Before Other Revenues   |    | (1,779,330.03)          |
| State Capital Aid  |    | 2,161,409.29            |
| County Capital Appropriations  |    | 14,838,899.60           |
| Increase in Net Assets   |    | 15,220,978.86           |
| <b>NET ASSETS</b>  |    |                         |
| Net Assets, July 1, 2001 as Restated   |    | 54,064,571.91           |
| Net Assets, June 30, 2002  | \$ | 69,285,550.77           |
| The accompanying notes to the financial statements are an integral part of this statement. |    |                         |

|   |    |                         |
|---|----|-------------------------|
| <b><i>Cape Fear Community College</i></b>                       |    |                         |
| <b><i>Statement of Cash Flows</i></b>                           |    |                         |
| <b><i>For the Fiscal Year Ended June 30, 2002</i></b>           |    | <b><i>Exhibit C</i></b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |    |                         |
| Received from Customers   | \$ | 10,191,715.83           |
| Payments to Employees and Fringe Benefits                       |    | (20,821,097.54)         |
| Payments to Vendors and Suppliers                               |    | (7,163,624.18)          |
| Payments for Scholarships and Fellowships                       |    | (3,854,887.91)          |
| Loans Issued to Students  |    | (318.92)                |
| Collection of Loans to Students                                 |    | 331.09                  |
| Other Receipts  |    | 316,133.65              |
| Net Cash Used by Operating Activities                           |    | (21,331,747.98)         |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |    |                         |
| State Aid Received  |    | 15,935,731.02           |
| County Appropriations   |    | 2,720,402.12            |
| Noncapital Grants Received                                      |    | 103,580.07              |
| Noncapital Gifts and Endowments Received                        |    | 391,814.87              |
| Net Cash Provided by Noncapital Financing Activities            |    | 19,151,528.08           |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |    |                         |
| State Capital Aid Received                                      |    | 1,823,315.98            |
| County Capital Appropriations                                   |    | 14,838,899.60           |
| Acquisition and Construction of Capital Assets                  |    | (15,365,924.57)         |
| Principal Paid on Capital Debt and Leases                       |    | 164,754.97              |
| Net Cash Provided by Capital and Related Financing Activities   |    | 1,461,045.98            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |    |                         |
| Interest on Investments   |    | 126,730.45              |
| Net Cash Provided by Investing Activities                       |    | 126,730.45              |
| Net Decrease in Cash and Cash Equivalents                       |    | (592,443.47)            |
| Cash and Cash Equivalents, July 1, 2001                         |    | 2,680,505.03            |
| Cash and Cash Equivalents, June 30, 2002                        | \$ | 2,088,061.56            |

|  |  |                           |
|--|--|---------------------------|
| <b><i>Cape Fear Community College</i></b>  |  |                           |
| <b><i>Statement of Cash Flows</i></b>  |  | <b><i>Exhibit C</i></b>   |
| <b><i>For the Fiscal Year Ended June 30, 2002</i></b>                                      |  | <b><i>Page 2</i></b>      |
|  |  |                           |
|  |  |                           |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH</b>  |  |                           |
| <b>USED BY OPERATING ACTIVITIES:</b>   |  |                           |
| Operating Loss   |  | \$ (21,160,400.17)        |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:          |  |                           |
| Depreciation Expense   |  | 516,915.83                |
| Miscellaneous Nonoperating Income  |  | 123,569.42                |
| Changes in Assets and Liabilities:   |  |                           |
| Receivables, Net   |  | (855,470.85)              |
| Inventories  |  | (719,478.80)              |
| Prepaid Items  |  | 33,950.78                 |
| Notes Receivable, Net  |  | 12.17                     |
| Accounts Payable and Accrued Liabilities   |  | 528,788.12                |
| Due to Primary Government  |  | (3,279.22)                |
| Funds Held for Others  |  | 192,564.23                |
| Compensated Absences   |  | 11,080.51                 |
| Net Cash Used by Operating Activities  |  | <u>\$ (21,331,747.98)</u> |
| <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</b>                               |  |                           |
| Increase in Receivables Related to Nonoperating Income                                     |  | \$ 338,093.31             |
|  |  |                           |
| The accompanying notes to the financial statements are an integral part of this statement. |  |                           |



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**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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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. Cape Fear 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the Federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at the 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 one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 20 to 40 years for buildings and 5 to 15 years for equipment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- H. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and 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 January 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. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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 – 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- N. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments as well as to its customers. These institutional auxiliary operations include activities such as the Bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**NOTE 2 - DEPOSITS**

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,675.00. The carrying amount of cash on deposit was \$2,086,386.56 and the bank balance was \$2,377,511.23.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

|  | <u>Book<br/>Balance</u> | <u>Bank<br/>Balance</u> |
|--|-------------------------|-------------------------|
| Cash on Deposit with State Treasurer                   | \$ 1,957,448.10         | \$ 1,737,448.10         |
| Cash on Deposit with Private<br>Financial Institutions | <u>128,938.46</u>       | <u>640,063.13</u>       |
|  | <u>\$ 2,086,386.56</u>  | <u>\$ 2,377,511.23</u>  |

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or its agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Cash and Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$100,000.00 of the bank balance was covered by federal depository insurance and \$540,063.13 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2002 were as follows:

|                                       | <u>Gross</u><br><u>Receivables</u> | <u>Allowance</u><br><u>for Doubtful</u><br><u>Accounts</u> | <u>Net</u><br><u>Receivables</u> |
|---------------------------------------|------------------------------------|--|----------------------------------|
| <b>Current Receivables:</b>           |                                    |  |                                  |
| Students                              | \$ 137,994.44                      | \$ 0.00  | \$ 137,994.44                    |
| Accounts                              | 304,002.38                         |  | 304,002.38                       |
| Intergovernmental                     | 8,639,171.39                       |  | 8,639,171.39                     |
| Investment Earnings                   | 3,781.01                           |  | 3,781.01                         |
| Other                                 | <u>382,221.81</u>                  |  | <u>382,221.81</u>                |
| <b>Total Current Receivables</b>      | <u><u>9,467,171.03</u></u>         | <u><u>0.00</u></u>   | <u><u>9,467,171.03</u></u>       |
| <b>Notes Receivables:</b>             |                                    |  |                                  |
| Notes Receivable - Current            | <u>318.92</u>                      | <u>0.00</u>  | <u>318.92</u>                    |
| <b>Total Notes Receivable Current</b> | <u><u>\$ 318.92</u></u>            | <u><u>\$ 0.00</u></u>                                      | <u><u>\$ 318.92</u></u>          |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

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

|   | Balance<br>July 1, 2001 | Increases               | Decreases              | Balance<br>June 30, 2002 |
|---|-------------------------|-------------------------|------------------------|--------------------------|
| Capital Assets, Non-Depreciable:              |                         |                         |                        |                          |
| Land  | \$ 8,109,491.04         | \$ 0.00                 | \$ 0.00                | \$ 8,109,491.04          |
| Construction in Progress                      | 9,668,274.99            | 14,569,872.01           | 6,965,295.05           | 17,272,851.95            |
| <b>Total Capital Assets, Non-Depreciable</b>  | <b>17,777,766.03</b>    | <b>14,569,872.01</b>    | <b>6,965,295.05</b>    | <b>25,382,342.99</b>     |
| Capital Assets, Depreciable:                  |                         |                         |                        |                          |
| Buildings                                     | 30,212,900.78           | 6,704,220.80            |                        | 36,917,121.58            |
| Machinery and Equipment                       | 4,143,338.14            | 796,052.56              | 363,724.84             | 4,575,665.86             |
| General Infrastructure                        | 1,078,232.56            | 261,074.25              |                        | 1,339,306.81             |
| <b>Totals</b>                                 | <b>35,434,471.48</b>    | <b>7,761,347.61</b>     | <b>363,724.84</b>      | <b>42,832,094.25</b>     |
| Less Accumulated Depreciation:                |                         |                         |                        |                          |
| Buildings                                     | 5,857,289.60            | 140,915.55              |                        | 5,998,205.15             |
| Machinery and Equipment                       | 1,736,067.89            | 344,656.70              | 342,967.03             | 1,737,757.56             |
| General Infrastructure                        | 487,841.57              | 31,343.58               |                        | 519,185.15               |
| <b>Totals</b>                                 | <b>8,081,199.06</b>     | <b>516,915.83</b>       | <b>342,967.03</b>      | <b>8,255,147.86</b>      |
| <b>Total Capital Assets, Depreciable, Net</b> | <b>27,353,272.42</b>    | <b>7,244,431.78</b>     | <b>20,757.81</b>       | <b>34,576,946.39</b>     |
| <b>Capital Assets, net</b>                    | <b>\$ 45,131,038.45</b> | <b>\$ 21,814,303.79</b> | <b>\$ 6,986,052.86</b> | <b>\$ 59,959,289.38</b>  |

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

|   | Amount                 |
|---|------------------------|
| Accounts Payable                                      | \$ 1,419,201.09        |
| Accrued Payroll                                       | 294,410.75             |
| Contract Retainage                                    | 886,192.06             |
| Other   | 33,410.38              |
| <b>Total Accounts Payable and Accrued Liabilities</b> | <b>\$ 2,633,214.28</b> |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

|                                    | Balance<br>July 1, 2001 | Additions            | Reductions           | Balance<br>June 30, 2002 | Current<br>Portion  |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|---------------------|
| Notes Payable                      | \$ 0.00                 | \$ 178,227.00        | \$ 13,472.03         | \$ 164,754.97            | \$ 33,305.88        |
| Compensated Absences               | 461,445.89              | 444,229.11           | 433,148.60           | 472,526.40               |                     |
| <b>Total Long-Term Liabilities</b> | <u>\$ 461,445.89</u>    | <u>\$ 622,456.11</u> | <u>\$ 446,620.63</u> | <u>\$ 637,281.37</u>     | <u>\$ 33,305.88</u> |

**B. Notes Payable** - The College was indebted for notes payable for the purposes shown in the following table:

| Purpose                            | Financial<br>Institution | Interest<br>Rate | Final<br>Maturity<br>Date | Original<br>Amount<br>Of Issue | Principal<br>Paid<br>Through<br>6/30/2002 | Principal<br>Outstanding<br>6/30/2002 |
|------------------------------------|--------------------------|------------------|---------------------------|--------------------------------|---|---------------------------------------|
| To Purchase a New Telephone System | BB&T                     | 4.18             | 1/31/2007                 | \$ 178,227.00                  | \$ 13,472.03                              | \$ 164,754.97                         |
| <b>Total Notes Payable</b>         |                          |                  |                           | <u>\$ 178,227.00</u>           | <u>\$ 13,472.03</u>                       | <u>\$ 164,754.97</u>                  |

The annual requirements to pay principal and interest on the notes payable at June 30, 2002 are as follows:

| Fiscal Year               | Annual Requirements  |                     |
|---------------------------|----------------------|---------------------|
|                           | Notes Payable        |                     |
|                           | Principal            | Interest            |
| 2003                      | \$ 33,305.88         | \$ 6,260.52         |
| 2004                      | 34,726.68            | 4,839.73            |
| 2005                      | 36,208.08            | 3,358.30            |
| 2006                      | 37,752.69            | 1,813.72            |
| 2007                      | 22,761.64            | 318.76              |
| <b>Total Requirements</b> | <u>\$ 164,754.97</u> | <u>\$ 16,591.03</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

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

| <u>Fiscal Year</u>                  | <u>Amount</u>                      |
|-------------------------------------|------------------------------------|
| 2003                                | \$ 83,551.17                       |
| 2004                                | 83,279.04                          |
| 2005                                | 83,279.04                          |
| 2006                                | <u>33,850.39</u>                   |
| <b>Total Minimum Lease Payments</b> | <b><u><u>\$ 283,959.64</u></u></b> |

Rental expense for all operating leases during the year was \$108,202.56.

### NOTE 8 - REVENUES

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

|  | <u>Gross<br/>Revenues</u> | <u>Less<br/>Scholarship<br/>Discounts</u> | <u>Net<br/>Revenues</u> |
|--|---------------------------|---|-------------------------|
| <b>Operating Revenues:</b>                   |                           |   |                         |
| Student Tuition and Fees                     | <u>\$ 6,139,322.45</u>    | <u>\$ 1,499,006.39</u>                    | <u>\$ 4,640,316.06</u>  |
| <b>Sales and Services:</b>                   |                           |   |                         |
| Sales and Services of Auxiliary Enterprises: |                           |   |                         |
| Day Care                                     | 255,680.12                |   | 255,680.12              |
| Activity Fees                                | 115,368.80                |   | 115,368.80              |
| Bookstore                                    | 735,218.53                |   | 735,218.53              |
| Parking                                      | 71,616.00                 |   | 71,616.00               |
| Vending                                      | 85,419.71                 |   | 85,419.71               |
| Other  | <u>57,222.09</u>          |   | <u>57,222.09</u>        |
| <b>Total Sales and Services</b>              | <u>1,320,525.25</u>       | <u>0.00</u>                               | <u>1,320,525.25</u>     |
| <b>Nonoperating - Noncapital Gifts</b>       | <u>\$ 391,814.87</u>      | <u>\$ 0.00</u>                            | <u>\$ 391,814.87</u>    |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

|                                     | Personal<br>Services    | Supplies<br>and<br>Materials | Services               | Scholarships<br>and<br>Fellowships | Utilities              | Depreciation         | Total                   |
|-------------------------------------|-------------------------|------------------------------|------------------------|------------------------------------|------------------------|----------------------|-------------------------|
| Instruction                         | \$ 13,894,754.29        | \$ 1,996,776.07              | \$ 900,263.03          | \$ 0.00                            | \$ 0.00                | \$ 0.00              | \$ 16,791,793.39        |
| Academic Support                    | 2,116,628.64            | 159,850.00                   | 134,290.55             |                                    |                        |                      | 2,410,769.19            |
| Student Services                    | 1,020,602.91            | 51,936.40                    | 132,844.09             |                                    |                        |                      | 1,205,383.40            |
| Institutional Support               | 2,455,581.88            |                              | 734,478.68             |                                    |                        |                      | 3,190,060.56            |
| Operations and Maintenance of Plant | 883,330.47              | 687,256.01                   | 630,269.26             |                                    | 1,046,485.15           |                      | 3,247,340.89            |
| Student Financial Aid               |                         |                              |                        | 3,854,887.91                       |                        |                      | 3,854,887.91            |
| Auxiliary Enterprises               | 461,279.86              | 341,908.11                   | 187,247.71             |                                    |                        |                      | 990,435.68              |
| Depreciation                        |                         |                              |                        |                                    |                        | 516,915.83           | 516,915.83              |
| Total Operating Expenses            | <u>\$ 20,832,178.05</u> | <u>\$ 3,237,726.59</u>       | <u>\$ 2,719,393.32</u> | <u>\$ 3,854,887.91</u>             | <u>\$ 1,046,485.15</u> | <u>\$ 516,915.83</u> | <u>\$ 32,207,586.85</u> |

### NOTE 10 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$17,854,585.69 of which \$13,851,193.07 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$831,071.59 and \$272,868.51, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$272,868.51, \$692,694.53, and \$849,305.43, respectively.

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

### **B. 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 \$84,296.95 for the year ended June 30, 2002.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to \$282,214.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$76,307.12 for the year ended June 30, 2002.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$325,503.04. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$72,026.21. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

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

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

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 are 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. The College purchases coverage for losses from employee dishonesty for County and Institutional Fund paid employees under an employee dishonesty bond.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$4,499,506.19 and on other purchases were \$187,369.01 at June 30, 2002.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO),

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$35,631,097.00 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.

### NOTE 14 - RELATED PARTIES

**Foundation** – The Cape Fear Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$160,949.56 for the year ended June 30, 2002.

### NOTE 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

### NOTE 16 - NET ASSET RESTATEMENTS

As referred to in Note 15, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*

|   |                         |
|---|-------------------------|
| July 1, 2001 Fund Equity as previously reported | \$ 63,709,844.07        |
| Implementation of GASB 34/35                    | <u>(9,645,272.16)</u>   |
| July 1, 2001 Net Assets as Restated             | <u>\$ 54,064,571.91</u> |

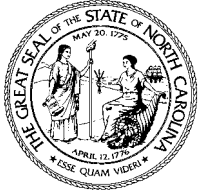
***Cape Fear Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2002***

***Schedule 1***

|   | <b>Projected<br/>Start<br/>Date</b> | <b>General<br/>Obligation Bonds<br/>Authorized</b> | <b>Other<br/>Sources</b> | <b>Total<br/>Project<br/>Budget</b> | <b>Amount<br/>Expended</b> | <b>Percent<br/>Completed</b> | <b>Expected<br/>Completion<br/>Date</b> |
|---|-------------------------------------|--|--------------------------|-------------------------------------|----------------------------|------------------------------|---|
| <b>Capital Improvement Projects</b>                     |                                     |  |                          |                                     |                            |                              |   |
| <i>Projects Started</i>                                 |                                     |  |                          |                                     |                            |                              |   |
| Pier and Dock Replacement-Emergency - # 1147            | Jan 2001                            | \$ 1,000,000.00                                    | \$ 0.00                  | \$ 1,000,000.00                     | \$ 157,797.50              | 15.78%                       | Mar 2003                                |
| New Elevator and Elevator Repairs-Emergency - # 1148    | Jan 2001                            | 1,300,000.00                                       |                          | 1,300,000.00                        | 160,998.00                 | 12.39%                       | Mar 2003                                |
| Engineering Technology Building - # 1215                | Aug 2001                            | 15,845,000.00                                      |                          | 15,845,000.00                       | 645,050.00                 | 4.08%                        | Aug 2004                                |
| Renovations - Emmart Bldg., Burnett Bldg., Machine Shop | July 2001                           | 2,040,957.00                                       |                          | 2,040,957.00                        | 46,360.00                  | 2.28%                        | May 2005                                |
| <i>Projects Approved by the State Board</i>             |                                     |  |                          |                                     |                            |                              |   |
| Information Technology Building                         | May 2003                            | 13,315,000.00                                      |                          | 13,315,000.00                       |                            | 0.00%                        | May 2006                                |
| Public Safety Training Center                           | Jan 2004                            | 3,140,000.00                                       |                          | 3,140,000.00                        |                            | 0.00%                        | Mar 2006                                |
| <b>Total All Projects</b>                               |                                     | <b>\$ 36,640,957.00</b>                            | <b>\$ 0.00</b>           | <b>\$ 36,640,957.00</b>             | <b>\$ 1,010,205.50</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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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.osa.state.nc.us>

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

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Board of Trustees  
Cape Fear Community College  
Wilmington, North Carolina

We have audited the financial statements of Cape Fear Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated January 17, 2003.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

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

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Internal Control Over Financial Reporting

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

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



Ralph Campbell, Jr.  
State Auditor

January 17, 2003

## DISTRIBUTION OF AUDIT REPORT

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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.

### EXECUTIVE BRANCH

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| The Honorable Michael F. Easley  | Governor of North Carolina  |
| The Honorable Beverly M. Perdue  | Lieutenant Governor of North Carolina                               |
| The Honorable Richard H. Moore   | State Treasurer   |
| The Honorable Roy A. Cooper, III | Attorney General  |
| Mr. David T. McCoy               | State Budget Officer  |
| Mr. Robert L. Powell             | State Controller  |
| Mr. H. Martin Lancaster          | President, North Carolina Community College System                  |
| Dr. Eric B. McKeithan            | President, Cape Fear Community College                              |
| Mrs. N. Camellia Rice            | Vice President for Business Services<br>Cape Fear Community College |
| Mr. Robert W. Martenis           | Chairman, Board of Trustees<br>Cape Fear Community College          |

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Senator Anthony E. Rand  
Senator Patrick J. Ballantine  
Representative N. Leo Daughtry  
Representative Joe Hackney  
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives  
Majority Leader of the N.C. Senate  
Minority Leader of the N.C. Senate  
Minority Leader of the N.C. House of Representatives  
N. C. House Speaker Pro-Tem  
Director, Fiscal Research Division

February 12, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

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