# STATE OF
# NORTH CAROLINA

## FINANCIAL STATEMENT REVIEW REPORT OF

## MARTIN COMMUNITY COLLEGE

## WILLIAMSTON, NORTH CAROLINA

### FOR THE YEAR ENDED JUNE 30, 2002


OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

# FINANCIAL STATEMENT REVIEW REPORT OF

## MARTIN COMMUNITY COLLEGE

## WILLIAMSTON, NORTH CAROLINA

### FOR THE YEAR ENDED JUNE 30, 2002

STATE OF NORTH CAROLINA
# Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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## REVIEWER'S TRANSMITTAL

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

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

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

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

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

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

   **Results** - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

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

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

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Martin Community College
Williamston, North Carolina

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

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

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

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor
May 6, 2003

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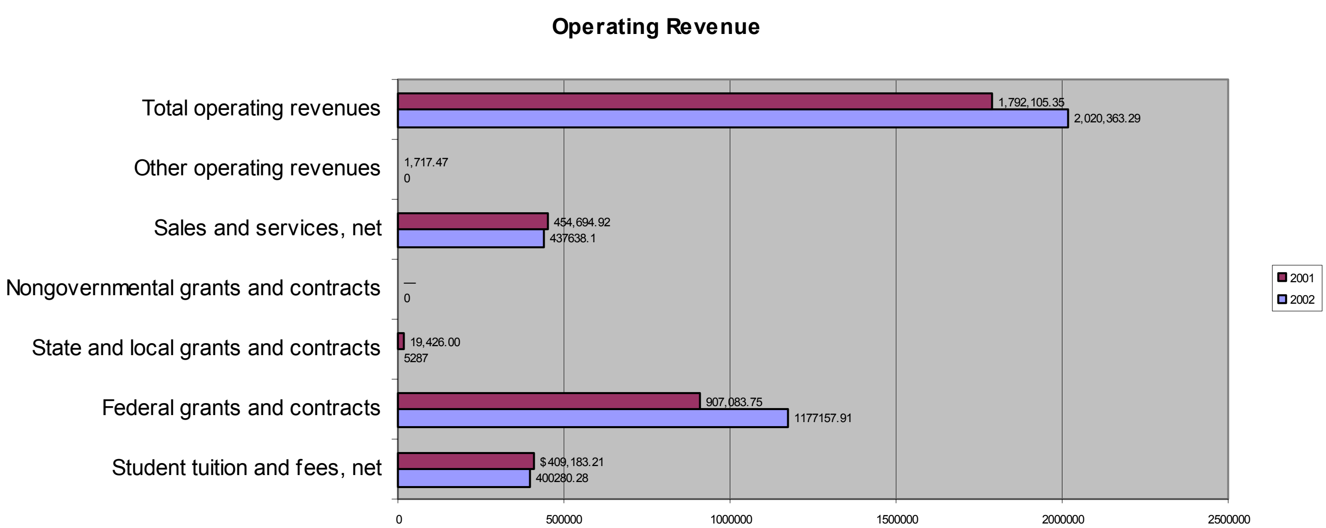
The overall financial position of Martin Community College at the end of fiscal year 2001-2002 remains fairly constant with the previous year. Net assets in fiscal year 2001-2002 report a decrease of only $6,901. Increases in outside grant funds have helped the College to sustain its financial position when governmental revenues have remained constant or fallen.

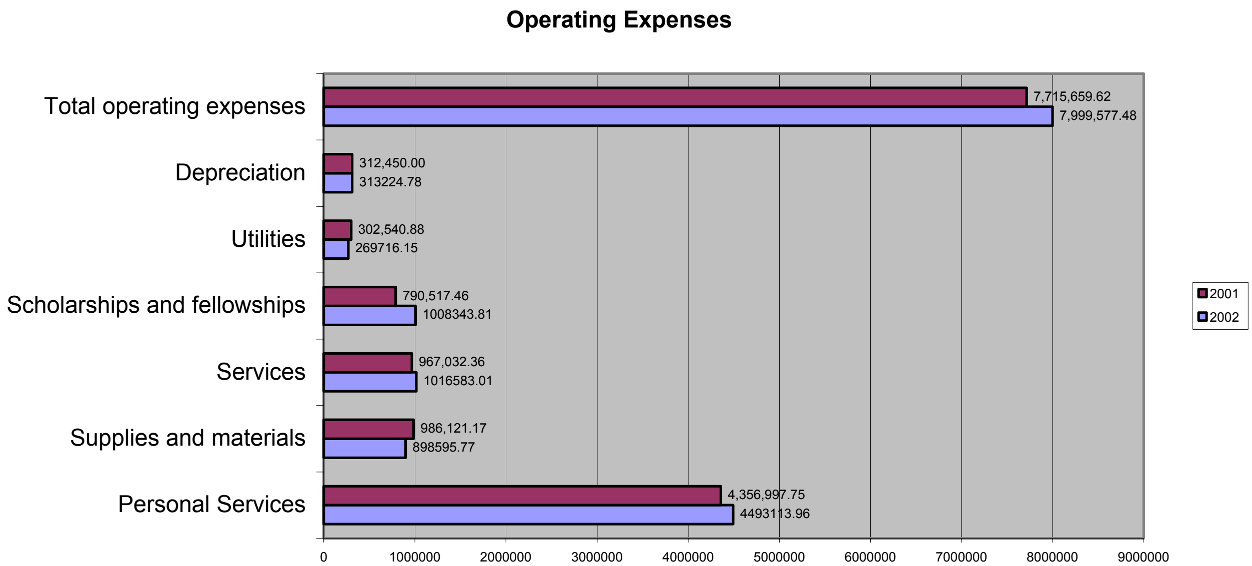
Total operating revenues for the current year have increased 12.74%. However, all operating revenue sources have decreased in the current year except for federal grants & contracts. The increase in federal grants and contracts, $270,074, is wholly due to the increase in Pell awards during the current year. The number of students who qualified for financial aid increased as well as the award amount itself. For example, a full-time eligible student could be awarded $1,875 in the prior year and $2,000 in the current year.

Operating revenues for State and local grants and contracts decreased by $14,139. These revenues represent various types of student financial aid available from state sources.




Total operating expenses increased 3.68%. Our biggest expense increase was in the scholarships and fellowships category. This category increased $217,826. This increase in expense almost entirely offsets the increase realized in federal grants and contracts revenue.

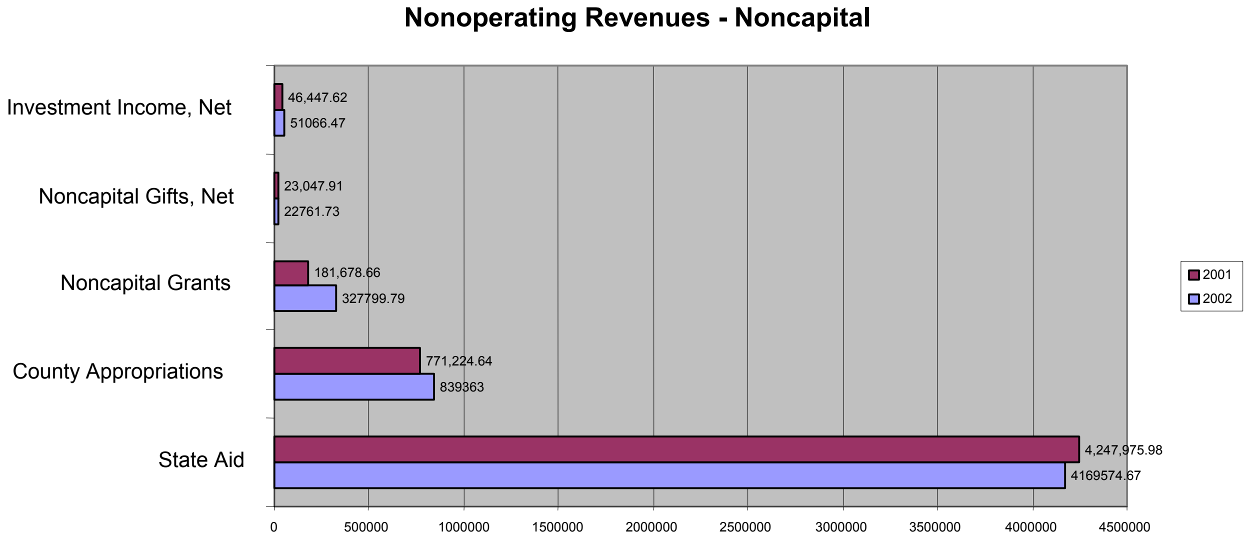
Two areas that decreased significantly are supplies and materials, and utilities. The College aggressively looked for ways to save in the supply area. Paper was recycled, postage scrutinized, and a HUB vendor was located that offered substantial savings in office supplies. The decrease in utilities expense can simply be explained by the mild winter weather that we experienced in eastern North Carolina this year.



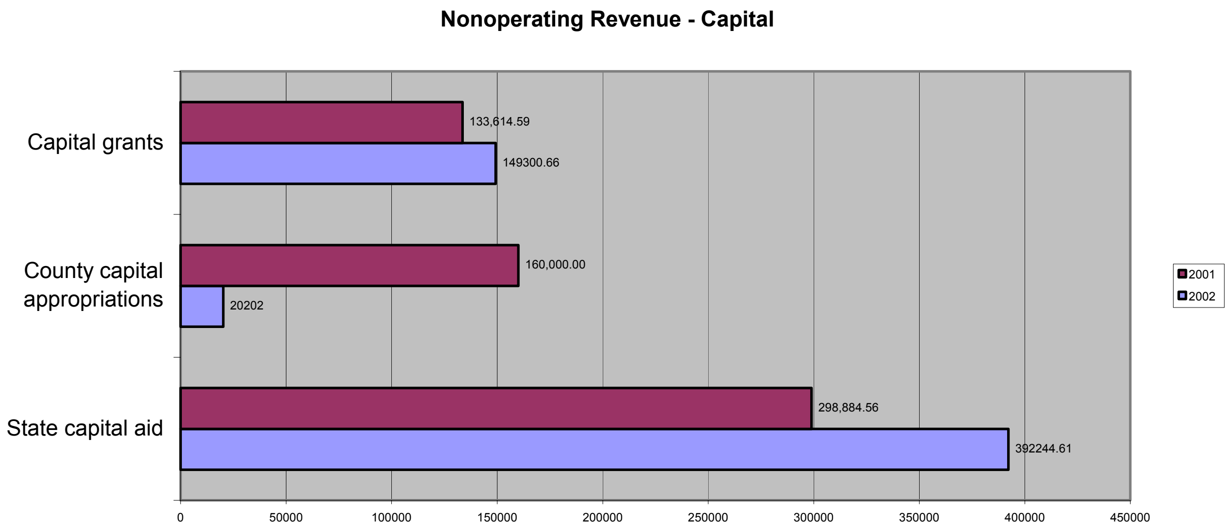

Therefore the operating loss for the two years differed by less than 1%. Fiscal Year 2001-2002 shows an operating loss of $5, 979,214, and the prior year shows an operating loss of $5,923,554.

In the category of nonoperating/noncapital revenues is our largest source of revenue, State aid. In the previous year we received $4,247,976 from the state for current operating expenses. In the current year we received $4,169,575, a decrease of $78,401. Transfers in the current year from the current budget to the capital budget can easily explain the decrease. These are transfers requested by the College. As shown later in this discussion, our state capital aid shows an increase from prior year to current, also due to these requested transfers.

County noncapital appropriations show an increase of 8.84%, $68,138. However, our largest increase in this revenue category is our noncapital grants. Revenue increased $146,121 in this category, an increase of 80.43%. The majority of this increase is due to grants from the Golden Leaf Foundation and the Kate B. Reynolds Foundation. These grants were awarded to fund new curriculum programs.




Nonoperating capital revenue had an overall decrease of $30,752 in the current fiscal year compared to the prior fiscal year. However, fund categories, capital grants and state capital aid increased $15,686 and $93,360 respectively. Our county capital funds showed a significant decrease of $139,798. Our county is experiencing revenue shortfalls which has been common to most counties during the past year or so. Our slow economy is not only affecting the State but these governmental entities as well. In turn, our budget is affected when governmental revenues fall.




As previously stated, the result of our financial operations for the year caused a decrease of our net assets by $6,901, which is only .11%. Therefore, our balance sheet remained relatively unchanged.

In looking at the balance sheet, all categories of current assets increased. However, noncurrent assets decreased by approximately the same amount. Martin Community College only has two categories of noncurrent assets, restricted due from primary government, and net capital assets. Restricted due from primary government represents the amount due to the College from the system office for the capital projects financed by the bond referendum. The net capital assets decrease of $125,930 is explained by the amount of the depreciation expense over our additions for the year.

In the liabilities section, current liabilities remained fairly constant. Our only noncurrent liability, long-term liabilities, represents employee leave accruals that are not expected to be utilized in the coming year.

Under the net assets our expendable scholarships and fellowships, and loan categories showed significant decreases due to a greater number of scholarships and loans in the current year over the prior year. We have seen a greater number of students needing assistance over the past year due to the slowdown of the economy. Many of our scholarship funds are based on financial need. These funds have not been replenished at the current time.

Therefore, total net assets remain relatively unchanged at the end of the current fiscal year. Martin Community College has managed to sustain its financial position by the increase in grant monies received during the current year.

***Martin Community College***

***Statement of Net Assets***

***June 30, 2002*** ***Exhibit A***

| | | |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ | 676,170.92 |
| Restricted Cash and Cash Equivalents | | 68,457.84 |
| Receivables, Net (Note 3) | | 100,133.21 |
| Inventories | | 158,648.25 |
| Total Current Assets | | 1,003,410.22 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 391,967.47 |
| Restricted Due from Primary Government | | 100,412.07 |
| Capital Assets, Net (Note 4) | | 4,905,518.44 |
| Total Noncurrent Assets | | 5,397,897.98 |
| Total Assets | | 6,401,308.20 |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities (Note 5) | | 150,820.06 |
| Due to Primary Government | | 4,156.71 |
| Deferred Revenue | | 57,215.16 |
| Funds Held for Others | | 12,535.11 |
| Long-Term Liabilities - Current Portion (Note 6) | | 55,170.37 |
| Total Current Liabilities | | 279,897.41 |
| Noncurrent Liabilities: | | |
| Long-Term Liabilities (Note 6) | | 103,867.88 |
| Total Liabilities | | 383,765.29 |
| **NET ASSETS** | | |
| Invested in Capital Assets, Net of Related Debt | | 5,218,743.22 |
| Restricted For: | | |
| Nonexpendable: | | |
| Scholarships and Fellowships | | 32,015.87 |
| Expendable: | | |
| Scholarships and Fellowships | | 3,964.39 |
| Loans | | 6,704.98 |
| Capital Projects | | 339,447.22 |
| Other | | 970.77 |
| Unrestricted | | 415,696.46 |
| Total Net Assets | $ | 6,017,542.91 |

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

See Independent Accountant's Review Report

## *Martin Community College*
## *Statement of Revenues, Expenses, and Changes in Net Assets*
## *For the Fiscal Year Ended June 30, 2002* — *Exhibit B*

| | | |
|---|---|---|
| **REVENUES** | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 8) | $ | 400,280.28 |
| Federal Grants and Contracts | | 1,177,157.91 |
| State and Local Grants and Contracts | | 5,287.00 |
| Sales and Services, Net (Note 8) | | 437,638.10 |
| Total Operating Revenues | | 2,020,363.29 |
| **EXPENSES** | | |
| Operating Expenses: | | |
| Personal Services | | 4,493,113.96 |
| Supplies and Materials | | 898,595.77 |
| Services | | 1,016,583.01 |
| Scholarships and Fellowships | | 1,008,343.81 |
| Utilities | | 269,716.15 |
| Depreciation | | 313,224.78 |
| Total Operating Expenses | | 7,999,577.48 |
| Operating Loss | | (5,979,214.19) |
| **NONOPERATING REVENUES (EXPENSES):** | | |
| State Aid | | 4,169,574.67 |
| County Appropriations | | 839,363.00 |
| Noncapital Grants | | 327,799.79 |
| Noncapital Gifts, Net (Note 8) | | 22,761.73 |
| Investment Income, Net | | 51,066.47 |
| Net Nonoperating Revenues | | 5,410,565.66 |
| Loss Before Other Revenues, Expenses, Gains, and Losses | | (568,648.53) |
| State Capital Aid | | 392,244.61 |
| County Capital Appropriations | | 20,202.00 |
| Capital Grants | | 149,300.66 |
| Decrease in Net Assets | | (6,901.26) |
| **NET ASSETS** | | |
| Net Assets, July 1, 2001 as Restated | | 6,024,444.17 |
| Net Assets, June 30, 2002 | $ | 6,017,542.91 |

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

See Independent Accountant's Review Report

***Martin Community College***
***Statement of Cash Flows***
***For the Fiscal Year Ended June 30, 2002*** ***Exhibit C***

| | | |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Received from Customers | $ | 2,015,317.37 |
| Payments to Employees and Fringe Benefits | | (4,473,057.42) |
| Payments to Vendors and Suppliers | | (2,205,371.39) |
| Payments for Scholarships and Fellowships | | (1,008,343.81) |
| Other Receipts | | 3,277.96 |
| Net Cash Used by Operating Activities | | (5,668,177.29) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State Aid Received | | 4,169,574.67 |
| County Appropriations | | 839,363.00 |
| Noncapital Grants Received | | 357,546.89 |
| Noncapital Gifts and Endowments Received | | (8,753.82) |
| Net Cash Provided by Noncapital Financing Activities | | 5,357,730.74 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| State Capital Aid Received | | 392,244.61 |
| County Capital Appropriations | | 20,202.00 |
| Capital Grants Received | | 149,300.66 |
| Acquisition and Construction of Capital Assets | | (172,603.27) |
| Net Cash Provided by Capital and Related Financing Activities | | 389,144.00 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest on Investments | | 51,393.03 |
| Net Increase in Cash and Cash Equivalents | | 130,090.48 |
| Cash and Cash Equivalents, July 1, 2001 | | 1,006,505.75 |
| Cash and Cash Equivalents, June 30, 2002 | $ | 1,136,596.23 |
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING LOSS** | | |
| Operating Loss | $ | (5,979,214.19) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 313,224.78 |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | (5,045.92) |
| Inventories | | (24,633.17) |
| Accounts Payable and Accrued Liabilities | | 7,782.70 |
| Due to Primary Government | | 4,156.71 |
| Funds Held for Others | | 3,277.96 |
| Compensated Absences | | 12,273.84 |
| Net Cash Used by Operating Activities | $ | (5,668,177.29) |
| **NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES** | | |
| Assets Acquired through Assumption of a Liability | | 14,691.56 |

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

See Independent Accountant's Review Report

## 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. Martin 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.

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, 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 recorded net of estimated uncollectible amounts.

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 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 75 years for infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment. The useful lives of certain infrastructure and equipment items were extended to 31 years and 19 years, respectively, to allow them to be depreciated in the year of implementation of GASB Statements 34/35. The art collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

**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, capital lease obligations, 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 July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 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, Net of Related Debt** – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities.

Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. **Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. **Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

N. **County Appropriations -** County Appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicles 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 AND INVESTMENTS

**A. 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 $373.00. The carrying amount of cash on deposit was $1,136,223.23 and the bank balance was $1,178,396.10.

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:

| | Book Balance | Bank Balance |
|---|---|---|
| Cash on Deposit with State Treasurer | $ 1,136,223.23 | $ 1,121,011.93 |
| Cash on Deposit with Private Financial Institutions | | 57,384.17 |
| | $ 1,136,223.23 | $ 1,178,396.10 |

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 Statute 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or 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.

All of the cash on deposit with private financial institutions at June 30, 2002 was covered by federal depository insurance.

## NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|---|---|---|---|
| **Current Receivables:** | | | |
| Students | $ 92,070.61 | $ 0.00 | $ 92,070.61 |
| Intergovernmental | 3,820.16 | | 3,820.16 |
| Investment Earnings | 4,242.44 | | 4,242.44 |
| **Total Current Receivables** | $ 100,133.21 | $ 0.00 | $ 100,133.21 |
| **Noncurrent Receivables:** | | | |
| Due From Primary Government | $ 100,412.07 | $ 0.00 | $ 100,412.07 |

## NOTE 4 - CAPITAL ASSETS

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

| Capital Assets, Non-Depreciable: | Balance July 1, 2001 | Adjustments | Increases | Decreases | Balance June 30, 2002 |
|---|---|---|---|---|---|
| Land | $ 100,000.00 | $ 0.00 | $ 0.00 | $ 0.00 | $ 100,000.00 |
| Art, Literature, and Artifacts | | | 9,500.00 | | 9,500.00 |
| Total Capital Assets, Non-Depreciable | 100,000.00 | | 9,500.00 | | 109,500.00 |
| Capital Assets, Depreciable: | | | | | |
| Buildings | 6,862,137.83 | | | | 6,862,137.83 |
| Machinery and Equipment | 896,521.35 | | 187,294.83 | 9,995.80 | 1,073,820.38 |
| General Infrastructure | 1,048,055.65 | | | | 1,048,055.65 |
| Total Capital Assets, Depreciable | 8,806,714.83 | | 187,294.83 | 9,995.80 | 8,984,013.86 |
| Less Accumulated Depreciation: | | | | | |
| Buildings | 3,104,991.56 | | 169,503.00 | | 3,274,494.56 |
| Machinery and Equipment | 611,073.59 | | 118,608.12 | 9,995.80 | 719,685.91 |
| General Infrastructure | 168,701.29 | | 25,113.66 | | 193,814.95 |
| Total Accumulated Depreciation | 3,884,766.44 | | 313,224.78 | 9,995.80 | 4,187,995.42 |
| Total Capital Assets, Depreciable, Net | 4,921,948.39 | | (125,929.95) | | 4,796,018.44 |
| **Capital Assets, Net** | $ 5,021,948.39 | $ 0.00 | $ (116,429.95) | $ 0.00 | $ 4,905,518.44 |

## NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | Amount |
|---|---|
| Accounts Payable | $ 64,313.05 |
| Accrued Payroll | 86,507.01 |
| Contract Retainage | |
| Intergovernmental Payables | |
| Other | |
| **Total Accounts Payable and Accrued Liabilities** | $ 150,820.06 |

## NOTE 6 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2001 | Additions | Reductions | Balance June 30, 2002 | Current Portion |
|---|---|---|---|---|---|
| Compensated Absences | 146,764.41 | 150,916.62 | 138,642.78 | 159,038.25 | 55,170.37 |
| **Total Long-Term Liabilities** | $ 146,764.41 | $ 150,916.62 | $ 138,642.78 | $ 159,038.25 | $ 55,170.37 |

## NOTE 7 - LEASE OBLIGATIONS

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

| Fiscal Year | Amount |
|---|---|
| 2003 | $ 34,153.20 |
| 2004 | |
| 2005 | |
| 2006 | |
| 2007 | |
| 2008-2013 | |
| 2014-2019 | |
| Total Minimum Lease Payments | $ 34,153.20 |

Rental expense for all operating leases during the year was $34,153.20.

## NOTE 8 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Less: Allowance for Uncollectibles | Net Revenues |
|---|---|---|---|---|---|
| **Operating revenues:** | | | | | |
| **Student tuition and fees** | $ 787,325.04 | $ 0.00 | $ (387,044.76) | $ 0.00 | $ 400,280.28 |
| Bookstore | 437,638.10 | | | | 437,638.10 |
| **Total sales and services** | $ 437,638.10 | $ 0.00 | $ 0.00 | $ 0.00 | $ 437,683.10 |
| **Nonoperating - Noncapital gifts** | $ 22,761.73 | $ 0.00 | $ 0.00 | $ 0.00 | $ 22,761.73 |

## NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

| | Salaries and Benefits | Supplies and Materials | Services | Scholarships and Fellowships | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instruction | $ 2,680,104.03 | $ 259,345.89 | $ 540,735.95 | $ 191,905.00 | $ 720.00 | $ 0.00 | $ 3,672,810.87 |
| Academic Support | 301,329.95 | 19,937.62 | 25,239.81 | | | | 346,507.38 |
| Student Services | 17,266.57 | (3,587.15) | 7,684.32 | (352,492.76) | | | (331,129.02) |
| Institutional Support | 909,707.88 | 57,164.38 | 271,921.52 | | | | 1,238,793.78 |
| Operations and Maintenance of Pla | 321,376.29 | 285,106.43 | 144,159.87 | | 267,154.50 | | 1,017,797.09 |
| Student Financial Aid | 263,329.24 | | 2,929.74 | 1,168,931.57 | | | 1,435,190.55 |
| Auxiliary Enterprises | | 280,628.60 | 23,911.80 | | 1,841.65 | | 306,382.05 |
| Depreciation | | | | | | 313,224.78 | 313,224.78 |
| Total Operating Expenses | $ 4,493,113.96 | $ 898,595.77 | $ 1,016,583.01 | $ 1,008,343.81 | $ 269,716.15 | $ 313,224.78 | $ 7,999,577.48 |

## 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 Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contributions rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 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 $3,785,183.44, of which $3,072,523.53 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $184,351.43 and $60,528.71, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $60,528.71, $210,988.18, and $232,912.89, 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. Supplemental Retirement Income Plans -** IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $68,004.00 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 $29,620.00 for the year ended June 30, 2002.

## NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

**A. Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible 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 $72,204.31. 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 the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was $15,977.13. 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 is protected from losses from employee dishonesty and computer fraud for employees paid entirely from County and Special funds by contracts with private insurance companies.

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

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

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

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. There were no outstanding commitments at June 30, 2002.

B. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization $1,464,183.17 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 Martin 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 $8,748.95 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.

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 RESTATEMENT

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 | 10,893,497.48 |
| Implementation of GASB 34/35 | (4,869,053.31) |
| July 1, 2001 Net Assets as Restated | 6,017,542.91 |

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

***Schedule 1***

| Capital Improvement Project | Projected Start Date | General Obligation Bonds Authorized | Other Sources | Total Project Budget | Amount Expended | Percent Completed | Expected Completion Date |
|---|---|---|---|---|---|---|---|
| ***Projects Approved by the State Board*** | | | | | | | |
| Miscellaneous Repair and Renovation | May 2001 | $ 118,500.00 | $ 0.00 | $ 118,500.00 | $ 99,712.83 | 0.84 % | Nov 2002 |
| Re-roofing | Aug 2002 | 258,540.00 | | 258,540.00 | | 0.00 % | Jun 2003 |
| ***Projects To Be Determined*** | | | | | | | |
| Repair and Replacement Projects | | 1,186,856.00 | | 1,186,856.00 | | | |
| **Total All Projects** | | 1,563,896.00 | 0.00 | 1,563,896.00 | 99,712.83 | | |

*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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May 19, 2003

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