



STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT REVIEW REPORT OF
MCDOWELL TECHNICAL COMMUNITY COLLEGE
MARION, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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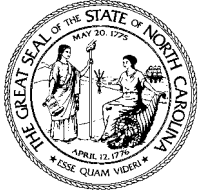
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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of McDowell Technical 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 McDowell Technical 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 McDowell Technical 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.

REVIEWER'S TRANSMITTAL (CONCLUDED)

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

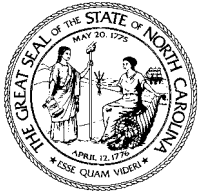
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
McDowell Technical Community College
Marion, North Carolina

We have reviewed the accompanying Statement of Net Assets of McDowell Technical 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 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.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

May 23, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of McDowell Technical Community College's Financial Statement Review Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2002. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes, and currently known facts, please read it in conjunction with the College's basic financial statements and related notes. Responsibility for the completeness and fairness of this information rests with the College.

Using This Report

This 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 College and Universities*. These financial statements differ significantly, in both form and the accounting principles utilized, from prior financial statements. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of the College, results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. 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. In summary, the new reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are featured with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement, for the first time, combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities which are supported mainly by State, local, federal, and other revenues. This Statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community 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, which amortizes the cost of an asset over its expected useful life.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement.

Financial Information

In future years, when prior year information is available, a comparative analysis will be presented.

Financial Highlights

Capital Improvement projects commenced this year, as approved by the General Assembly's general obligation bond issuance in 1999-2000. The College incurred expenses for repairs and renovations in the amount of \$268,714.00 during the fiscal year. The projects were fully funded by general obligation bond funds. The College's June 30, 2002 commitment for repair and renovation projects was \$169,986.00.

Budgeted FTE for fiscal year 2002 remained the same from fiscal year 2001.

Tuition increased 10.5% per credit hour for in-State students.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2002, the College's net assets have decreased largely due to new reporting requirements of recording all accumulated depreciation to this fiscal year's report as well as adjusting amounts previously recorded for Artwork, Artifacts, and Literature.

Analysis of Net Capital Assets

This account includes the College's capital assets which are presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Analysis of Liabilities

Long-term debt includes accrued vacation of \$392,686.87 of which \$157,074.75 is shown as current. In addition, the College sustained a 31% increase in accounts payable.

Analysis of Revenues

The major decline in Student Tuition and Fees is due to new reporting requirements of eliminating tuition waivers for non-employees previously recorded as tuition revenues. In addition, the new requirement of reporting scholarships net of allowances reduced revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Expenditures

The College experienced an overall decrease in expenditures from fiscal year ended June 30, 2001 greatly due to the new reporting requirements of eliminating tuition waivers for non-employees previously recorded as tuition expenditures. In addition, the new requirement to report scholarship amounts net of allowances decreased expenditures.

Condensed Financial Statements

Statement of Net Assets

	<u>2002</u>
Assets	
Current Assets	\$ 672,761.61
Noncurrent Assets	
Capital Assets, Net	3,840,701.77
Other	<u>63,382.96</u>
 Total Assets	 <u>4,576,846.34</u>
 Liabilities	
Current Liabilities	271,238.94
Noncurrent Liabilities	<u>235,612.12</u>
 Total Liabilities	 <u>506,851.06</u>
 Net Assets	
Invested in Capital Assets	3,840,701.77
Restricted	205,219.69
Unrestricted	<u>24,073.82</u>
 Total Net Assets	 <u>\$ 4,069,995.28</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Statement of Revenues, Expenses, and Changes in Net Assets

	Amount
Operating Revenues	
Student Tuition and Fees, Net	\$ 641,964.62
Federal Grants and Contracts	1,437,410.42
Sales and Services, Net	561,514.89
	<hr/>
Total Operating Revenues	2,640,889.93
	<hr/>
Less Operating Expenses	9,243,007.26
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Net Operating Loss	(6,602,117.33)
	<hr/>
Nonoperating and Other Revenues	
State Aid	4,991,175.65
County Appropriations	509,372.16
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Noncapital Contributions	741,689.14
Investment Income	2,550.90
Other Nonoperating Revenues	2,709.29
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Total Nonoperating Revenues	6,247,497.14
	<hr/>
Other Revenues	360,213.24
	<hr/>
Increase in Net Assets	5,593.05
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Net Assets Restated	4,064,402.23
	<hr/>
Net Assets Ending	\$ 4,069,995.28
	<hr/> <hr/>

Economic Factors and Next Year's Budget

At fiscal year ended June 30, 2002, the College had not received any official information on the 2002-2003 budget. However, both the State of North Carolina and the County of McDowell are encountering a budget crisis which will likely further decrease revenues in the upcoming year. The College will complete the remaining repair and renovation projects provided by the General Obligation Bonds currently in process during the next fiscal year which will amount to \$169,986.00 in capital improvements.

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

McDowell Technical Community College		
Statement of Net Assets		
June 30, 2002		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	125,357.06
Restricted Cash and Cash Equivalents		108,822.10
Short-Term Investments		2,235.52
Restricted Short-Term Investments		2,990.03
Receivables, Net (Note 4)		226,656.56
Due from Primary Government		45,078.96
Inventories		161,621.38
Total Current Assets		672,761.61
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		30,903.96
Restricted Due from Primary Government		16,414.00
Endowment Investments		16,065.00
Capital Assets, Net (Note 5)		3,840,701.77
Total Noncurrent Assets		3,904,084.73
Total Assets		4,576,846.34
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		106,245.81
Due to Primary Government		174.06
Deferred Revenue		33.61
Funds Held for Others		7,710.71
Long-Term Liabilities - Current Portion (Note 7)		157,074.75
Total Current Liabilities		271,238.94
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		235,612.12
Total Noncurrent Liabilities		235,612.12
Total Liabilities		506,851.06
NET ASSETS		
Invested in Capital Assets		3,840,701.77
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		5,335.00
Other		28,690.00
Expendable:		
Scholarships and Fellowships		117,211.07
Loans		3,669.09
Capital Projects		25,007.96
Other		25,306.57
Unrestricted		24,073.82
Total Net Assets	\$	4,069,995.28
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

McDowell Technical 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 9)	\$	641,964.62
Federal Grants and Contracts		1,437,410.42
Sales and Services, Net (Note 9)		561,514.89
Total Operating Revenues		2,640,889.93
EXPENSES		
Operating Expenses:		
Personal Services		5,981,902.64
Supplies and Materials		971,701.80
Services		814,710.85
Scholarships and Fellowships		1,096,369.28
Utilities		167,301.85
Depreciation		211,020.84
Total Operating Expenses		9,243,007.26
Operating Loss		(6,602,117.33)
NONOPERATING REVENUES		
State Aid		4,991,175.65
County Appropriations		509,372.16
Noncapital Grants		630,023.58
Noncapital Gifts, Net (Note 9)		111,665.56
Investment Income, Net		2,550.90
Other Nonoperating Revenues		2,709.29
Net Nonoperating Revenues		6,247,497.14
Loss Before Other Revenues, Expenses, Gains, and Losses		(354,620.19)
State Capital Aid		319,685.88
County Capital Appropriations		40,527.36
Increase in Net Assets		5,593.05
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		4,064,402.23
Net Assets, June 30, 2002	\$	4,069,995.28
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

McDowell Technical Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2002		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	2,571,101.70
Payments to Employees and Fringe Benefits		(5,964,995.58)
Payments to Vendors and Suppliers		(1,983,212.09)
Payments for Scholarships and Fellowships		(1,096,369.28)
Other Receipts		2,931.29
Net Cash Used by Operating Activities		(6,470,543.96)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		4,991,175.65
County Appropriations		509,372.16
Noncapital Grants Received		603,339.53
Noncapital Gifts and Endowments Received		111,665.56
Net Cash Provided by Noncapital Financing Activities		6,215,552.90
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		319,685.88
County Capital Appropriations		40,527.36
Acquisition and Construction of Capital Assets		(13,845.00)
Net Cash Provided by Capital and Related Financing Activities		346,368.24
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		2,721.88
Purchase of Investments and Related Fees		(649.66)
Net Cash Provided by Investing Activities		2,072.22
Net Increase in Cash and Cash Equivalents		93,449.40
Cash and Cash Equivalents, July 1, 2001		171,633.72
Cash and Cash Equivalents, June 30, 2002	\$	265,083.12
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(6,602,117.33)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		211,020.84
Miscellaneous Nonoperating Income		2,709.29
Changes in Assets and Liabilities:		
Receivables, Net		(69,507.77)
Inventories		(22,674.16)
Accounts Payable and Accrued Liabilities		(3,928.92)
Due to Primary Government		174.06
Deferred Revenue		(280.46)
Funds Held for Others		222.00
Compensated Absences		13,838.49
Net Cash Used by Operating Activities	\$	(6,470,543.96)

<i>McDowell Technical Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Increase in Receivables Related to Nonoperating Income	55,595.96
The accompanying notes to the financial statements are an integral part of this statement.		
See Independent Accountant's Review Report		

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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. McDowell Technical Community College is a component unit of the North Carolina Community College System which is a part of the primary government of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, McDowell Technical Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 25-member board consisting of two members of the McDowell Technical Community College Board of Trustees and one student of the McDowell Technical Community College. The Foundation's purpose is to promote, develop, and encourage public support of the programs, faculty, and facilities of McDowell Technical Community College and to seek to raise funds to provide to the College to advance the mission and goals of the College. Since virtually all fiscal activity of the Foundation must be approved by the College's Board of Trustees and the College's Board of Trustees may remove any appointed director of the Foundation's Board with or without cause, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Business Office, 54 College Drive, Marion, North Carolina 28752, or by calling (828) 652-0627. Other related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, savings accounts, and money market accounts.
- E. Investments** - This classification includes certificates of deposit and real estate. The real estate investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

G. 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.

H. 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 method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 40 years for buildings, and 3 to 15 years for equipment.

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities consist of compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. Net Assets – The College's net assets are classified as follows:

Invested in Capital Assets – This represents the College's total investment in capital assets.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- M. 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.
- N. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- O. 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 Central Store and 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.
- P. 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 as approved by the county commissioners.

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 \$900.00. The carrying amount of cash on deposit was \$284,873.67 and the bank balance was \$347,253.50. All of the cash was on deposit with private financial institutions.

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.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool are included in the State of North Carolina's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, \$162,244.30 of the bank balance was covered by federal depository insurance and \$185,009.20 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** –In addition to donated real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

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

Investments of the College's component unit, the McDowell Technical Community College Foundation, Inc., are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2002 is presented below:

	<u>Total Fair Value</u>
Investments Not Categorized:	
Certificates of Deposit	20,690.55
Real Estate	<u>600.00</u>
Total Investments	<u><u>\$ 21,290.55</u></u>

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to endowment income. At June 30, 2002, net appreciation of \$8,808.54 was available to be spent, of which \$5,543.18 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 154,636.95	\$ 24,592.63	\$ 130,044.32
Accounts	48,761.82	1,497.05	47,264.77
Intergovernmental	37,447.09		37,447.09
Investment Earnings	272.44		272.44
Other	11,627.94		11,627.94
Total Current Receivables	\$ 252,746.24	\$ 26,089.68	\$ 226,656.56

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 123,184.88	\$ 0.00	\$ 0.00	\$ 123,184.88
Total Capital Assets, Non-Depreciable	123,184.88			123,184.88
Capital Assets, Depreciable:				
Buildings	6,085,695.88			6,085,695.88
Machinery and Equipment	919,774.50	13,845.00	6,682.00	926,937.50
Total Capital Assets, Depreciable	7,005,470.38	13,845.00	6,682.00	7,012,633.38
Less Accumulated Depreciation:				
Buildings	2,558,128.32	152,142.24		2,710,270.56
Machinery and Equipment	532,649.33	58,878.60	6,682.00	584,845.93
Total Accumulated Depreciation	3,090,777.65	211,020.84	6,682.00	3,295,116.49
Total Capital Assets, Depreciable, Net	3,914,692.73	(197,175.84)		3,717,516.89
Capital Assets, Net	\$ 4,037,877.61	\$ (197,175.84)	\$ 0.00	\$ 3,840,701.77

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 37,701.74
Accrued Payroll	39,632.16
Intergovernmental Payables	28,911.91
Total Accounts Payable and Accrued Liabilities	\$ 106,245.81

NOTE 7 - 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	\$ 378,848.38	\$ 351,691.11	\$ 337,852.62	\$ 392,686.87	\$ 157,074.75

NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$131,545.61.

NOTE 9 - 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	\$ 879,160.41	\$ 0.00	\$ 235,672.38	\$ 1,523.41	\$ 641,964.62
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 437,826.08	\$ 8,705.00	\$ 117,130.59	\$ (2,187.98)	\$ 314,178.47
Child Development Center	144,021.20			1,016.30	143,004.90
Other	54,555.68	8,445.62		(589.65)	46,699.71
Sales and Services of Educational and Related Activities	57,626.81			(5.00)	57,631.81
Total Sales and Services	\$ 694,029.77	\$ 17,150.62	\$ 117,130.59	\$ (1,766.33)	\$ 561,514.89
Nonoperating - Noncapital Gifts	\$ 111,665.56	\$ 0.00	\$ 0.00	\$ 0.00	\$ 111,665.56

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,472,584.82	\$ 118,390.29	\$ 397,414.26	\$ 0.00	\$ 362.00	\$ 0.00	\$ 3,988,751.37
Public Service	94,901.77	8,697.44	46,411.16	941.47	666.14		151,617.98
Academic Support	623,350.41	11,386.49	16,210.24				650,947.14
Student Services	414,593.76	6,224.17	32,868.53				453,686.46
Institutional Support	1,016,037.41	54,491.87	254,628.02				1,325,157.30
Operations and Maintenance of Plant	175,964.66	389,607.47	58,741.28		165,657.71		789,971.12
Student Financial Aid	25,632.87			1,095,427.81	616.00		1,121,676.68
Auxiliary Enterprises	158,836.94	382,904.07	8,437.36				550,178.37
Depreciation						211,020.84	211,020.84
Total Operating Expenses	<u>\$ 5,981,902.64</u>	<u>\$ 971,701.80</u>	<u>\$ 814,710.85</u>	<u>\$ 1,096,369.28</u>	<u>\$ 167,301.85</u>	<u>\$ 211,020.84</u>	<u>\$ 9,243,007.26</u>

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a 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 valuations. For the year ended June 30, 2002, these rates were set at

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,147,005.53, of which \$4,402,503.01 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$264,150.18 and \$86,729.31, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$86,729.31, \$230,234.93, and \$318,550.79, 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 \$2,808.00 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 plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$45,260.00 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$22,872.00 for the year ended June 30, 2002.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 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 \$103,458.82. 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 \$22,893.02. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. In addition, losses for all employees are covered by contracts with private insurance companies with coverage of \$10,000 per occurrence and no deductible.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$169,986.00 and on other purchases were \$13,198.02 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization \$2,578,789.00 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 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*. New disclosures include 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	\$ 7,818,363.92
Implementation of GASB 34/35	<u>(3,753,961.69)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 4,064,402.23</u>

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

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Approved by the State Board</i>							
Replace Exit Doors and Fire Alarm System	Jul 2001	\$ 166,200.00	\$ 0.00	\$ 166,200.00	\$ 166,200.00	100.00%	Jul 2002
Roof Replacement	Jul 2001	98,000.00		98,000.00	98,000.00	100.00%	Jun 2002
Campus Repairs and Renovations	Apr 2002	174,500.00		174,500.00	4,514.00	2.59%	Mar 2003
<i>Projects Pending Approval by the State Board</i>							
Classroom Building	Nov 2003	2,138,279.00		2,138,279.00			Jan 2006
Renovations to Areas Vacated with Priority 1	Oct 2005	282,588.00		282,588.00			Jan 2006
Total All Projects		\$ 2,859,567.00	\$ 0.00	\$ 2,859,567.00	\$ 268,714.00		
<p>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.</p>							

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June 25, 2003

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