



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

JOSEPH H. TROUTMAN, CHAIRMAN

MARVIN NORMAN, VICE CHAIRMAN

**RALPH L. BENTLEY
GEORGE W. BRAWLEY
FRANK P. FIELDS
HANNA C. KUTTEH
DAVID P. PARKER**

**KAREN B. RAY
D. WALLACE RIDDLE
PAM STAMEY
C. LAVETTE TEETER
R. GODFREY WILLIAMS**

ADMINISTRATIVE OFFICERS

DR. DOUGLAS O. EASON, PRESIDENT

RICHARD J. LEFEVRE, VICE PRESIDENT FOR FINANCE AND ADMINISTRATION



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

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

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

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

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

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

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



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	8
B Statement of Revenues, Expenses, and Changes in Net Assets	9
C Statement of Cash Flows	10
Notes to the Financial Statements.....	13
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	30
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
DISTRIBUTION OF AUDIT REPORT	33



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Mitchell Community College
Statesville, North Carolina

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

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

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

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2003 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



Ralph Campbell, Jr.
State Auditor

April 25, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Mitchell Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2002. Please read it in conjunction with the financial statements and notes to the financial statements.

The year ending June 30, 2002 is the first year that public colleges and universities are required by GASB Statement No. 35 to include in the financials a statement of MD&A. This new section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The MD&A is required to include condensed financial information comparing the current year to the prior year, but in the first year of the implementation of GASB Statement No. 35, a statewide decision was made to not present comparative totals in the MD&A. In future years, the MD&A will include a comparative analysis.

Institutional Financial Highlights

- During the year the State of North Carolina experienced severe budget and cash flow problems. This affected all State agencies, including the community colleges. As a result, Mitchell Community College had to revert or was instructed not to spend \$414,506 of its allocated State budget.
- Iredell County, despite the downturn in the economy, allocated the College \$1,547,470 for operational expenses, an additional 5% or \$73,690 over the previous year. In addition, the county allocated \$550,000 in capital funds, equaling the previous year.
- The College's financial position improved during the fiscal year ended June 30, 2002. Its combined net assets, taking into account the GASB Statement No. 35 restatement of \$5,580,932 for depreciation and library books, increased by \$2,098,982, or 16.8% from the previous year
- The College experienced a 16.8% increase in full-time equivalent curriculum students for the year ended June 30, 2002. Tuition was increased to \$27.50 from \$26.75 per semester hour, or 3%, for in-State students with a maximum charge of \$440.00 per semester.
- Mitchell Community College Endowment for Excellence (a blended component unit) received major gifts in real estate and land with appraised values of \$815,000. Current and noncurrent liabilities include \$608,400 of deferred revenue, which represents ninety percent of the value of donated buildings and land that will be deeded to the College in equal installments over the next nine years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Overview of the Financial Statements

Three basic financial statements are included with this report along with the MD&A and required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These three basic financial statements provide information on the whole operations of the College.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the institution as a whole and on its activities. These two reports help the users of this report to analyze the current year's operations to determine if the institution is better or worse off than the prior year. When revenues and other support exceed expenses, the result is an increase in net assets. When expenses exceed revenues and support, the result is a decrease in net assets.

The College's net assets are the difference between assets and liabilities and are one of the measures of the financial health of the institution. Over a period of time, increases or decreases in the College's net assets are one of several indicators that determine if its financial situation is improving or deteriorating. The user will need to take into account other financial and non-financial factors to assess the complete health of the College. The age and condition of its buildings and grounds are just a couple of the non-financial factors that could have an impact on the total health of the institution.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets use the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Revenues and expenses of the current year are taken into account regardless of when cash is received or paid.

Condensed Statement of Net Assets June 30, 2002

	<u>Amount</u>
Current Assets	\$ 1,456,807
Noncurrent Assets	5,162,217
Capital Assets	<u>8,958,196</u>
Total Assets	<u>15,577,220</u>
Current Liabilities	255,235
Noncurrent Liabilities	<u>743,187</u>
Total Liabilities	<u>998,422</u>
Net Assets:	
Invested in Capital Assets	8,958,196
Restricted	5,391,527
Unrestricted	<u>229,075</u>
Total Net Assets	<u>\$ 14,578,798</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Year Ended June 30, 2002

	<u>Amount</u>
Operating Revenues:	
Student Tuition and Fees, Net	\$ 1,296,192
Federal Grants and Contracts	1,597,177
State and Local Grants	60,738
Sales and Services, Net	911,123
Other	297,668
	<hr/>
Total Operating Revenues	4,162,898
	<hr/>
Total Operating Expenses	12,699,972
	<hr/>
Operating Loss	(8,537,074)
	<hr/>
Nonoperating Revenues:	
State Aid	6,190,204
County Appropriations	1,547,470
Noncapital Gifts	386,356
Investment Income, Net	31,132
	<hr/>
Net Nonoperating Revenues	8,155,162
	<hr/>
Loss Before Other Revenues	(381,912)
	<hr/>
State Capital Aid	327,656
County Capital Appropriations	550,000
Capital Grants	132,820
Capital Gifts	258,637
Additions to Permanent Endowment	1,211,781
	<hr/>
Increase in Net Assets	2,098,982
	<hr/>
Net Assets - Beginning of the Year	18,060,748
Restatements	(5,580,932)
	<hr/>
Net Assets - End of Year	<u>\$ 14,578,798</u>

Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about cash receipts and cash payments of an entity during a period. The increase in cash flow was due primarily to the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

College spending only a small portion of the county's capital allocation for the year. This was due to the delay in the construction of a building project.

**Condensed Cash Flow Statement
For the Fiscal Year Ended June 30, 2002**

	<u>Amount</u>
Cash Provided (Used) by:	
Operating Activities	\$ (8,205,440)
Noncapital Financing Activities	9,335,812
Capital and Related Financing Activities	709,508
Investing Activities	<u>(1,311,948)</u>
Net Increase in Cash	527,932
Cash – Beginning of Year	<u>2,793,510</u>
Cash – End of Year	<u><u>\$ 3,321,442</u></u>

Capital Assets

At June 30, 2002 the College's capital assets totaled \$8,958,196, net of accumulated depreciation of \$4,748,388. This balance was significantly lower than the \$13,770,119 in capital assets shown on the College's June 30, 2001 financial statements due to the GASB Statement No. 35 requirements put into effect this year. Adjustments reducing nets assets by \$4,337,826 and \$1,243,107 for prior years depreciation and the reclassification of library books, respectively, were necessary. Details of capital assets at June 30, 2002 are shown below.

Capital Assets

	<u>Amount</u>
Capital Assets, Nondepreciable:	
Land	\$ 617,956
Construction-in-Progress	<u>261,477</u>
Total Capital Assets, Nondepreciable	<u>879,433</u>
Capital Assets, Depreciable:	
Buildings	7,520,119
General Infrastructure	91,854
Machinery and Equipment	<u>466,790</u>
Total Capital Assets, Depreciable	<u>8,078,763</u>
Total Capital Assets	<u><u>\$ 8,958,196</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State and to a lesser degree to the county. As of the date of this report the State budget has not been approved and all indications are that it may be several more weeks before a final appropriations bill is passed. The College is currently operating at approximately the same level of expenditures as the prior year and will continue to do so until a State budget is approved.

Planning material from the North Carolina Community College System suggests that the College may receive an estimated \$500,000 more than the prior year. This is a very volatile number so the College is not counting on any additional State funding for the 2002-2003 fiscal year.

The Mitchell Community College Endowment for Excellence is in its final year of a \$4 million campaign and received over \$1.2 million in gifts for the year ended June 30, 2002. The earnings from these endowed funds will assist the College in improving the educational programs offered at the College in the years ahead.

Mitchell Community College
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 400,604.73
Restricted Cash and Cash Equivalents	459,542.94
Short-Term Investments	152,312.39
Restricted Short-Term Investments	150,597.20
Receivables, Net (Note 4)	133,956.62
Inventories	142,210.11
Prepaid Items	16,881.43
Notes Receivable, Net (Note 4)	701.50
Total Current Assets	1,456,806.92

Noncurrent Assets:

Restricted Cash and Cash Equivalents	2,461,293.86
Restricted Due from Primary Government	43,197.32
Endowment Investments	2,120,956.26
Other Long-Term Investments	536,769.47
Capital Assets, Net (Note 5)	8,958,196.22
Total Noncurrent Assets	14,120,413.13
Total Assets	15,577,220.05

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	157,458.53
Deferred Revenue	67,600.00
Long-Term Liabilities - Current Portion (Note 7)	30,176.06
Total Current Liabilities	255,234.59

Noncurrent Liabilities:

Funds Held for Others	17,019.95
Deferred Revenue	540,800.00
Long-Term Liabilities (Note 7)	185,367.25
Total Noncurrent Liabilities	743,187.20
Total Liabilities	998,421.79

NET ASSETS

Invested in Capital Assets	8,958,196.22
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	872,034.68
Other	3,073,052.92
Expendable:	
Scholarships and Fellowships	275,692.17
Loans	18,820.21
Capital Projects	782,472.66
Other	369,453.89
Unrestricted	229,075.51
Total Net Assets	\$ 14,578,798.26

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

Mitchell 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)	\$	1,296,191.97
Federal Grants and Contracts		1,597,176.94
State and Local Grants and Contracts		60,738.38
Nongovernmental Grants and Contracts		258,411.64
Sales and Services, Net (Note 8)		911,122.45
Other Operating Revenues		39,256.63
Total Operating Revenues		4,162,898.01
EXPENSES		
Operating Expenses:		
Personal Services		8,322,100.00
Supplies and Materials		1,329,559.08
Services		1,238,606.22
Scholarships and Fellowships		965,325.01
Utilities		409,318.69
Depreciation		435,062.96
Total Operating Expenses		12,699,971.96
Operating Loss		(8,537,073.95)
NONOPERATING REVENUES		
State Aid		6,190,203.64
County Appropriations		1,547,470.00
Noncapital Gifts		386,356.28
Investment Income, Net		31,132.27
Net Nonoperating Revenues		8,155,162.19
Loss Before Other Revenues, Expenses, Gains, and Losses		(381,911.76)
State Capital Aid		327,656.10
County Capital Appropriations		550,000.00
Capital Grants		132,819.69
Capital Gifts		258,637.00
Additions to Permanent Endowments		1,211,781.71
Increase in Net Assets		2,098,982.74
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		12,479,815.52
Net Assets, June 30, 2002	\$	14,578,798.26
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Mitchell Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 4,106,741.88
Payments to Employees and Fringe Benefits		(8,355,873.36)
Payments to Vendors and Suppliers		(2,984,165.02)
Payments for Scholarships and Fellowships		(965,325.01)
Loans Issued to Students		(1,082.05)
Collection of Loans to Students		1,656.55
Other Payments		(7,392.70)
Net Cash Used by Operating Activities		(8,205,439.71)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,190,203.64
County Appropriations		1,547,470.00
Noncapital Gifts and Endowments Received		1,598,137.99
Net Cash Provided by Noncapital Financing Activities		9,335,811.63
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		362,389.78
County Capital Appropriations		550,000.00
Capital Grants Received		132,819.69
Capital Gifts Received		52,037.00
Acquisition and Construction of Capital Assets		(387,738.54)
Net Cash Provided by Capital and Related Financing Activities		709,507.93
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		2,717,607.48
Interest on Investments		151,188.54
Purchase of Investments and Related Fees		(4,180,743.92)
Net Cash Used by Investing Activities		(1,311,947.90)
Net Increase in Cash and Cash Equivalents		527,931.95
Cash and Cash Equivalents, July 1, 2001		2,793,509.58
Cash and Cash Equivalents, June 30, 2002		\$ 3,321,441.53

<i>Mitchell 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>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (8,537,073.95)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		435,062.96
Provision for Uncollectible Loans and Writeoffs		(717.00)
Changes in Assets and Liabilities:		
Receivables, Net		(51,576.13)
Inventories		30,778.43
Prepaid Items		1,073.13
Notes Receivable, Net		574.50
Accounts Payable and Accrued Liabilities		(82,033.23)
Due to Primary Government		(104.55)
Deferred Revenue		(4,580.00)
Funds Held for Others		(7,392.70)
Compensated Absences		10,548.83
Net Cash Used by Operating Activities		<u>\$ (8,205,439.71)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability		\$ 1,334.60
Assets Acquired through a Gift		815,000.00
Change in Fair Value of Investments		(126,773.40)
The accompanying notes to the financial statements are an integral part of this statement.		

[This Page Left Blank Intentionally]

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. Mitchell 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, Mitchell Community College Endowment for Excellence (Endowment) is reported as if it were part of the College.

The Endowment is governed by a minimum of twenty-five elected directors. The Endowment's purpose is to aid, support, and promote the educational endeavors of the College. Because the elected directors of the Endowment must first be nominated by the Executive Committee of the Mitchell Community College Board of Trustees and the Endowment's sole purpose is to benefit Mitchell Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Endowment may be obtained from the office of the Vice President for Finance and Administration of the College at 500 West Broad Street, Statesville, North Carolina 28677, or by calling (704) 878-3202. 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, 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. Investments** - This classification includes mutual funds, money market funds, certificates of deposit, and real estate holdings by the College. Mutual fund 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.

Money market funds, certificates of deposit, and real estate not held by a governmental external investment pool are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.
- G. Inventories** – Inventories, consisting of expendable supplies and postage are stated at the lower of cost or market value using the first-in, first-out method. The Point-of-System installed by the Bookstore during the summer of 2001 uses a perpetual inventory system with a weighted average method of calculating cost of inventory for merchandise for resale.
- 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, 10 to 50 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 include 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 fiscal 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTE 2 - DEPOSITS 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 \$2,844.00. The carrying amount of cash on deposit was \$3,368,597.53 and the bank balance was \$3,473,929.64.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 2,845,962.43	\$ 2,340,990.31
Cash on Deposit with Private Financial Institutions	<u>522,635.10</u>	<u>1,132,939.33</u>
	<u>\$ 3,368,597.53</u>	<u>\$ 3,473,929.64</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

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

Of the cash on deposit with private financial institutions at June 30, 2002, \$150,000.00 of the bank balance was covered by federal depository insurance, and \$982,939.33 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Endowment, 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.

Long-Term Investment Pool – This is an internal investment pool that is utilized for the investment of various institutional and endowment funds. Fund ownership is based on the equity interest that each fund holds in the internal investment pool. The investment strategy, including the selection of investments managers, is based on the directives of the College's Board of Trustees.

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 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. None of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College's investments at June 30, 2002 met the reporting requirements of either of these categories.

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

	Fair Value		
	Pooled	Nonpooled	
	Investments	Investments	Total
Investments Not Categorized:			
Certificates of Deposit	\$ 0.00	\$ 50,000.00	\$ 50,000.00
Mutual Funds	378,680.04	1,101,046.22	1,479,726.26
Money Market Funds	839,679.06		839,679.06
Real Estate		591,230.00	591,230.00
Total Investments Not Categorized	<u>\$ 1,218,359.10</u>	<u>\$ 1,742,276.22</u>	<u>\$ 2,960,635.32</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 separately invested or 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 on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to no more than 5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 110,490.01	\$ 14,275.96	\$ 96,214.05
Accounts	24,178.06		24,178.06
Intergovernmental	11,782.66		11,782.66
Investment Earnings	265.72		265.72
Other	1,516.13		1,516.13
Total Current Receivables	<u>\$ 148,232.58</u>	<u>\$ 14,275.96</u>	<u>\$ 133,956.62</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 1,296.93</u>	<u>\$ 595.43</u>	<u>\$ 701.50</u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2002</u>
Capital Assets, Non-Depreciable:				
Land	\$ 549,655.89	\$ 68,300.00	\$ 0.00	\$ 617,955.89
Construction in Progress	20,217.70	241,259.55		261,477.25
Total Capital Assets, Non-Depreciable	<u>569,873.59</u>	<u>309,559.55</u>		<u>879,433.14</u>
Capital Assets, Depreciable:				
Buildings	10,453,075.42	746,700.00		11,199,775.42
Machinery and Equipment	997,334.63	147,813.59	24,500.78	1,120,647.44
General Infrastructure	506,728.07			506,728.07
Total Capital Assets, Depreciable	<u>11,957,138.12</u>	<u>894,513.59</u>	<u>24,500.78</u>	<u>12,827,150.93</u>
Less Accumulated Depreciation:				
Buildings	3,348,903.48	330,753.10		3,679,656.58
Machinery and Equipment	606,281.25	96,577.98	24,500.78	678,358.45
General Infrastructure	382,640.94	7,731.88		390,372.82
Total Accumulated Depreciation	<u>4,337,825.67</u>	<u>435,062.96</u>	<u>24,500.78</u>	<u>4,748,387.85</u>
Total Capital Assets, Depreciable, Net	<u>7,619,312.45</u>	<u>459,450.63</u>		<u>8,078,763.08</u>
Capital Assets, Net	<u>\$ 8,189,186.04</u>	<u>\$ 769,010.18</u>	<u>\$ 0.00</u>	<u>\$ 8,958,196.22</u>

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	\$ 75,431.52
Accrued Payroll	79,969.72
Contract Retainage	1,334.60
Other	722.69
Total Accounts Payable and Accrued Liabilities	\$ 157,458.53

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	\$ 204,994.48	\$ 226,471.30	\$ 215,922.47	\$ 215,543.31	\$ 30,176.06

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 1,600,037.29	\$ 303,845.32	\$ 0.00	\$ 1,296,191.97
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Health, Physical Education, and Recreation Services	\$ 52,527.41	\$ 0.00	\$ 0.00	\$ 52,527.41
Bookstore	972,690.40	239,714.54	963.54	732,012.32
Other	126,582.72			126,582.72
Total Sales and Services	\$ 1,151,800.53	\$ 239,714.54	\$ 963.54	\$ 911,122.45

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,806,115.57	\$ 230,846.10	\$ 383,223.87	\$ 4,250.00	\$ 820.00	\$ 0.00	\$ 5,425,255.54
Research	427.50	4,197.60					4,625.10
Public Service	5,642.62	2,709.24	8,666.84				17,018.70
Academic Support	799,929.26	5,622.24	45,267.90		26,930.88		877,750.28
Student Services	692,494.76	25,862.42	75,825.66				794,182.84
Institutional Support	1,557,798.36	96,802.60	340,223.38	894.00	1,069.14		1,996,787.48
Operations and Maintenance of Plant	380,325.72	278,938.86	347,608.35		380,498.67		1,387,371.60
Student Financial Aid			2,085.25	960,181.01			962,266.26
Auxiliary Enterprises	79,366.21	684,580.02	35,704.97				799,651.20
Depreciation						435,062.96	435,062.96
Total Operating Expenses	<u>\$ 8,322,100.00</u>	<u>\$ 1,329,559.08</u>	<u>\$ 1,238,606.22</u>	<u>\$ 965,325.01</u>	<u>\$ 409,318.69</u>	<u>\$ 435,062.96</u>	<u>\$ 12,699,971.96</u>

NOTE 10 - PENSION PLANS

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

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial 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 \$7,126,151.65, of which \$5,853,457.99 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$351,207.57 and \$115,313.12, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$115,313.12, \$305,459.12, and \$416,490.68, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet 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 \$3,400.20 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. The voluntary contributions by employees amounted to \$25,835.00 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 \$43,746.00 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 \$137,556.37. 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 and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$30,437.98. 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 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 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. Losses for employees paid from County and Institutional Funds are covered through a contract with a private company with coverage of \$100,000 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 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$698,429.00 and on other purchases were \$33,449.78 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 (CONTINUED)

community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$5,441,001.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - MITCHELL COLLEGE FOUNDATION, INC.

The Mitchell College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as a fundraising arm of the College through which individuals, corporations, and other organizations support the College's programs. 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 \$452,804.41 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 interfund 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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	\$ 18,060,748.01
Implementation of GASB 34/35	<u>(5,580,932.49)</u>
July 1, 2001 Net Assets as Restated	<u><u>\$ 12,479,815.52</u></u>

Mitchell 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>							
Mooreville Center Second Floor Addition	Nov 2000	\$ 216,851.00	\$ 784,000.00	\$ 1,000,851.00	\$ 104,565.25	10.45%	Apr 2003
Renovation of Continuing Education Center - HVAC, Restrooms, and Offices	Oct 2000	250,000.00		250,000.00	105,692.00	42.28%	Jul 2003
Advanced Technology Buildings	Apr 2001	3,178,788.00		3,178,788.00	51,220.00	1.61%	Oct 2004
Renovation of Continuing Education Center - General	May 2003	142,562.00		142,562.00			May 2004
<i>Projects Pending Approval by the State Board</i>							
Renovation of Library	Sep 2003	415,993.00		415,993.00			
Renovation of Student Center	Jan 2004	153,604.00		153,604.00			
Renovation of Vocation Building	Jul 2005	1,293,953.00		1,293,953.00			
Total All Projects		\$ 5,651,751.00	\$ 784,000.00	\$ 6,435,751.00	\$ 261,477.25		
<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>							



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
Mitchell Community College
Statesville, North Carolina

We have audited the financial statements of Mitchell Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 25, 2003.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

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

Compliance

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

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

Internal Control Over Financial Reporting

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

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



Ralph Campbell, Jr.
State Auditor

April 25, 2003

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Douglas O. Eason	President, Mitchell Community College
Mr. Richard J. Lefevre	Vice President for Finance and Administration Mitchell Community College
Mr. Joseph H. Troutman	Chairman, Board of Trustees Mitchell Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Beverly M. Earle
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Ellie Kinnaird	Representative Dewey L. Hill
Senator Jeanne H. Lucas	Representative Maggie Jeffus
Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

June 3, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647