STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
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, Vance-Granville Community College

This report presents the results of our financial statement audit of Vance-Granville 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 Vance-Granville 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 Vance-Granville 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 Vance-Granville 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.

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.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
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
Vance-Granville Community College
Henderson, North Carolina

We have audited the accompanying basic financial statements of Vance-Granville 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 Vance-Granville 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 Statement No. 38, *Certain Financial Statement Note Disclosures,* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 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.

Ralph Campbell, Jr.
State Auditor

February 5, 2003

The Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. The State of North Carolina adopted these new standards in fiscal year 2001 – 2002 and, as a component unit of State government, Vance-Granville Community College has adopted these standards as well.

The financial statements of prior years focused on the accountability of fund groups, while the enclosed statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. Since this is a transition year, the College is not required to present prior year data on the statements or in the Management's Discussion and Analysis. As required by the newly adopted accounting principles, this report contains three basic financial statements and the Notes to the Financial Statements:

> <u>Statement of Net Assets</u>: This Statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels.
>
> <u>Statement of Revenues, Expenses, and Changes in Net Assets</u>: This Statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public.
>
> <u>Statement of Cash Flows</u>: This Statement presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability of the College to meet financial obligations as they mature.
>
> <u>Notes to the Financial Statements</u>: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

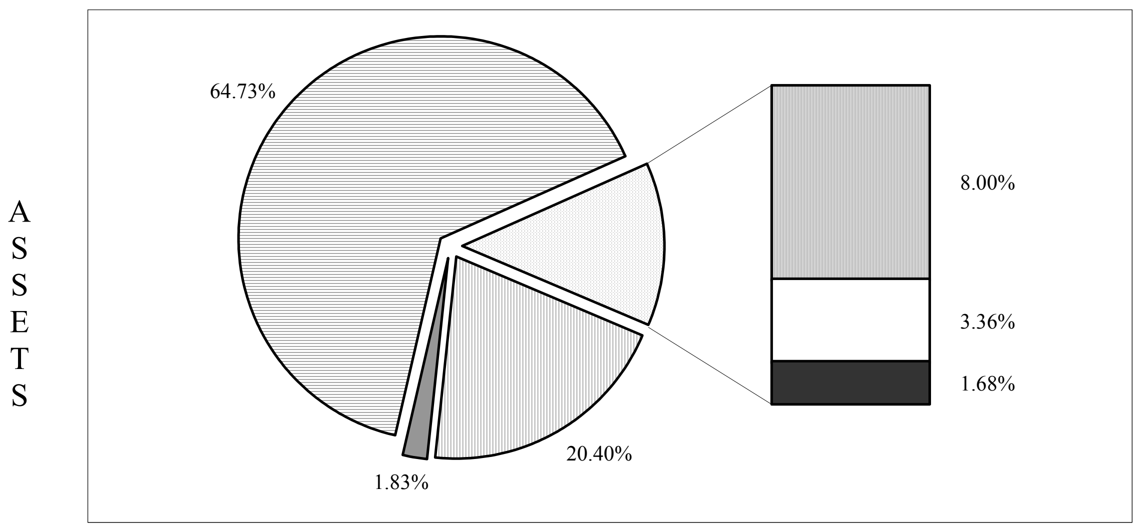
Financial Highlights

The College classifies its assets as current and noncurrent. Current assets include cash, receivables, and inventories. Noncurrent assets include the nonexpendable principle of the Vance-Granville Community College Endowment Fund Corporation, cash and short-term investments of the College's Scholarship Fund, as well as, buildings, infrastructure, and equipment with a historical cost of $5,000 or more. The composition of assets is presented in the table below:

Current Assets		
Cash and Cash Equivalents	$	1,475,840.88
Receivables, Net		619,391.96
Inventories		310,112.41
Sub-Total Current		2,405,345.25
Noncurrent Assets		
Cash and Cash Equivalents		3,765,821.03
Short-term Investments		337,631.66
Capital Assets, Net		11,945,888.94
Sub-Total Noncurrent		16,049,341.63
TOTAL ASSETS	**$**	**18,454,686.88**

Additional details for the composition of assets are available in Exhibit A and Notes 1, 2, 3, and 4.

The implementation of GASB 34/35 resulted in the recording of depreciation for the first time this year. Also, library books that were previously capitalized were expensed. These changes resulted in a restatement of the beginning balance of capital assets in the amount of $7,620,038.47.

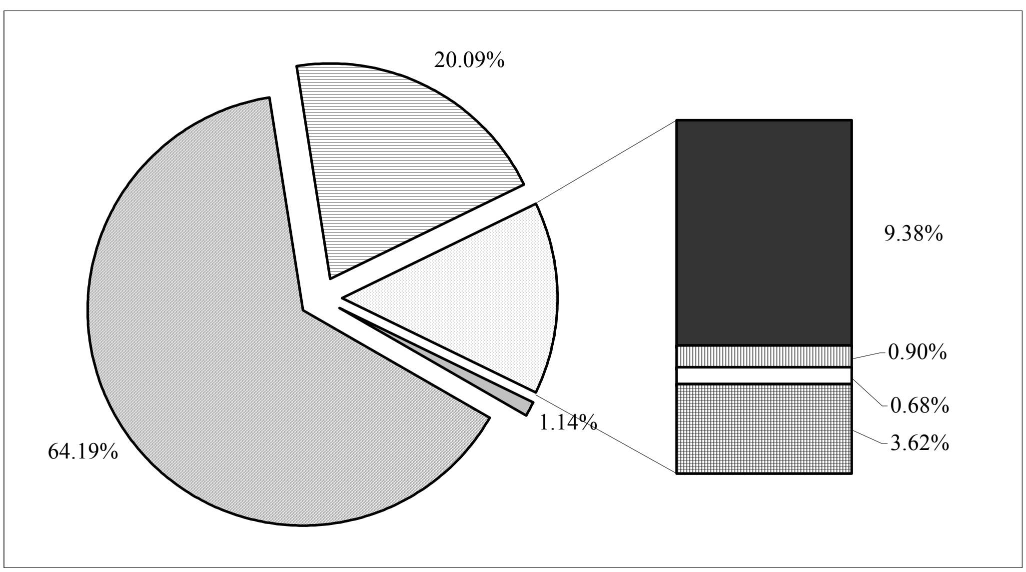


Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements. The composition of liabilities is presented in the table on the right.

Additional details for the composition of liabilities are available in Exhibit A and Notes 1, 5, and 6.

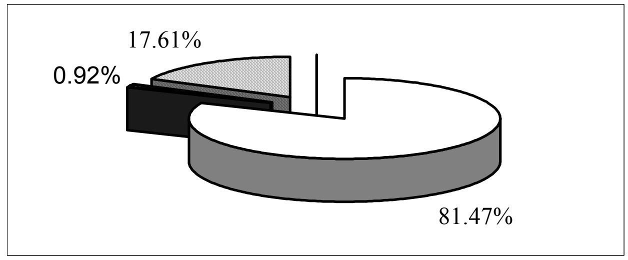
Current Liabilities		
Accounts Payable	$	355,768.50
Deferred Revenue		33,968.13
Funds Held for Others		25,878.11
Compensated Absences		137,000.00
Sub-Total Current		552,614.74
Noncurrent Liabilities		
Deferred Revenue		43,224.56
Funds Held for Others		2,433,630.66
Compensated Absences		761,544.96
Sub-Total Noncurrent		3,238,400.18
TOTAL LIABILITIES	**$**	**3,791,014.92**

LIABILITIES



Total net assets are the difference between assets and liabilities. The College's net assets include:

Invested in Capital Assets	$	11,945,888.94
Restricted - Expendable		134,856.12
Unrestricted		2,582,926.90
TOTAL NET ASSETS	**$**	**14,663,671.96**



Additional detailed information on the composition of net assets is available in Exhibit A and Notes 1 and 4.

On the accompanying statements, revenues are presented as operating and nonoperating.

Operating Revenues		
Student Tuition & Fees	$	1,159,511.62
Grants & Contracts (State & Federal)		6,292,152.96
Sales and Services		1,736,447.03
Sub-Total Operating		9,188,111.61
Nonoperating Revenues		
State Aid		13,255,685.02
County Appropriation		1,219,653.00
Grants (Noncapital)		298,590.52
Investment Income		47,157.37
Sub-Total Nonoperating		14,821,085.91
Other Revenues		
State Capital Aid		1,035,269.38
County Capital Appropriations		194,063.04
Sub-Total Other Revenues		1,229,332.42
TOTAL REVENUES	**$**	**25,238,529.94**

Operating revenues are derived from activities that are necessary and essential to the mission of the College. Operating revenues are presented net of internally funded transactions (Notes 1M and 1O). The College's largest operating revenues are Pell Grants at 42.68% or $3,921,624.13 of the total operating revenue. Nonoperating revenues are primarily State and county appropriations, with minor amounts earned from investments and receipt of noncapital grants. The State is by far the College's major source for nonoperating revenues as presented in the table above. More information on the composition of revenues can be found in Exhibit B and Notes 1 and 8.

Operating expenses are all expenses except for those related to investing, capital and related financing and noncapital financing activities. Operating expenses are presented in Exhibit B by "natural" classification - salaries, supplies, services, etc. An analysis of expenses by their functional classification (i.e. instruction, financial aid, etc.) is shown below and in Note 9.

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,485,281.86	$ 1,212,628.68	$ 807,153.73	$ 0.00	$ 0.00	$ 0.00	$ 11,505,064.27
Academic Support	827,557.43	231,379.53	78,014.08				1,136,951.04
Student Services	1,487,496.20	30,832.71	171,925.80				1,690,254.71
Institutional Support	2,697,653.27	299,789.71	496,264.62				3,493,707.60
Operations and Maintenance of Plant	512,977.80	368,166.38	140,221.83		489,081.12		1,510,447.13
Student Financial Aid			149,374.30	3,373,397.98			3,522,772.28
Auxiliary Enterprises	84,050.02	945,700.50	86,365.80				1,116,116.32
Depreciation						551,582.45	551,582.45
Total Operating Expenses	$ 15,095,016.58	$ 3,088,497.51	$ 1,929,320.16	$ 3,373,397.98	$ 489,081.12	$ 551,582.45	$ 24,526,895.80

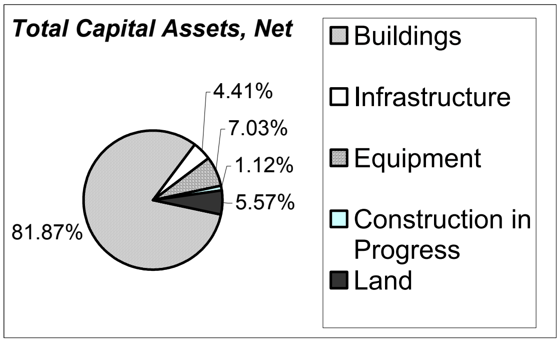
The change in net assets, as presented in Exhibit B, is an increase of $573,188.78, bringing the College's total net assets to $14,663,671.96 as follows:

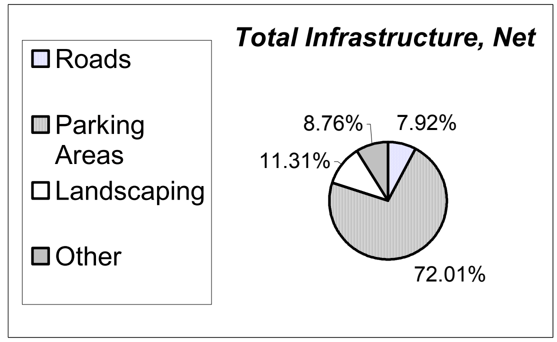
Beginning Net Assets	$ 14,090,483.18
Revenues	
Operating	9,188,111.61
Nonoperating	14,821,085.91
Other	1,229,332.42
Sub-Total - Revenues	25,238,529.94
Expenses	
Operating	24,526,895.80
Nonoperating	138,445.36
Sub-Total - Expenses	24,665,341.16
Change in Net Assets	573,188.78
ENDING NET ASSETS	**$ 14,663,671.96**

Increases in net assets are directly tied to increases in receipts derived by the College from its auxiliary services. Unexpended State appropriations revert at fiscal year end and, therefore, only increase the College's net assets through capital asset additions. On the other hand, County appropriations do not revert and therefore affect the change in net assets. Federal funding does not typically affect the change in net assets since federal awards are primarily for financial assistance. Other federal grants are funded on a reimbursement basis and therefore do not significantly contribute to the College's financial position.

Capital Assets

As of June 30, 2002, the College recorded $18,662,755.32 million invested in capital assets, $6,716,866.38 in accumulated depreciation, and $11,945,888.94 in net capital assets. The composition of net capital assets is detailed in Note 4 and is summarized below.





In the 1999 – 2000 Session, the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State to provide for capital improvements to community colleges. Vance-Granville Community College's share of the general obligation bonds is $17,070,446.00 with $15,797,311.00 designated for new construction and $1,273,135.00 designated for repairs and renovations. The State Board of Community Colleges approved the College's request to use the bond proceeds to add an additional instructional facility at the Main Campus and at the three satellite campuses, as well as, using any remaining proceeds for miscellaneous construction. The Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures within the supplementary information contains additional information on the approved projects.

During fiscal year 2001 – 2002, the College entered into contracts for constructing an instructional facility at its Main Campus amounting to $5,291,910.00 with an additional $958,090.00 held in reserve. Construction of this 51,921 square foot facility began in August 2002.

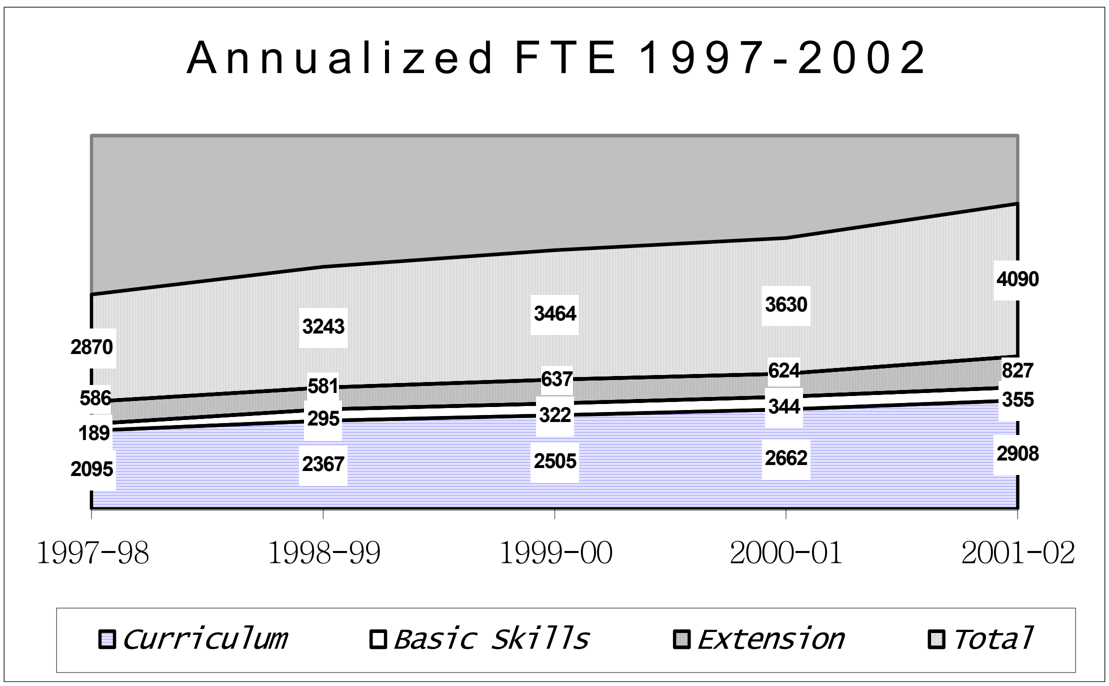
In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with positive experience rating, and to temporarily reduce the unemployment insurance tax by twenty percent for most employers and substitute an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to purchase equipment. At June 30, 2002, the College has not expended its HB275 equipment appropriation of $1,354,182.00. The College intends to carry this appropriation into future years in order to purchase equipment and furniture for its new facilities.

The College does not issue debt to fund capital assets. The primary funding sources for capital expenditures are State and county appropriations.

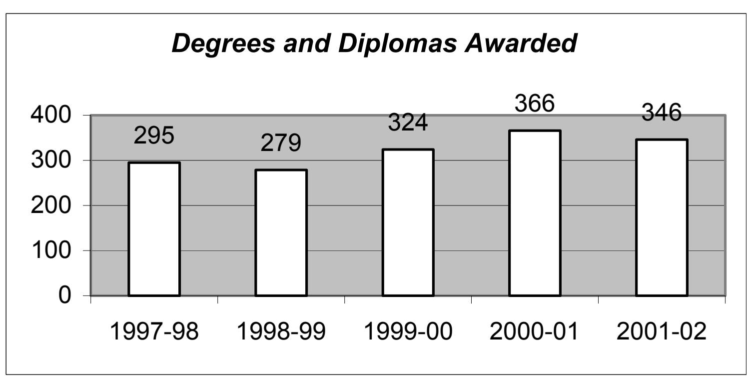
The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, federal, and county support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year. The State's support of community colleges is based on the total enrollment of the year prior to the budget year. That is, the College's 2001 – 2002 State appropriation was based on enrollment during 2000 – 2001. As the graph below presents, the College has experienced enrollment growth over the past several years.



In spite of the lag in funding and the rate of growth, the College continues to meet the needs of its students as demonstrated in the number of graduates during the last five years.



In conjunction with the country's economic downturn, the State of North Carolina is currently experiencing a budget deficit in excess of one billion dollars. The State's budget crisis directly effects the College's funding. During the 2001 – 2002 fiscal year, the College reverted $421,242.00 of its State support; this reversion equates to 152 full-time curriculum enrollment units. Additionally, the State levied purchasing and travel restrictions in the fourth quarter of the fiscal year. Although the College adhered to these restrictions, it did not significantly impact the College's ability to provide instructional services through the remainder of the fiscal year.

Because the North Carolina General Assembly anticipated a decline in the economy, a 15.8% tuition increase was implemented during fiscal year 2001 – 2002. Expecting further revenue shortfalls in the upcoming fiscal year, the State's General Assembly enacted an additional 10.5% increase for the fiscal year 2002 - 2003. While these increases will positively effect the State's financial position, the effect on the College is negligible at best since the State support will be proportionally reduced by the increased amount of tuition collected.

The country's economic downturn also effected the College's county appropriations. Appropriations from Vance, Granville, Warren, and Franklin counties are primarily for plant operations and plant maintenance. The 2002 – 2003 total actual county appropriations are 9.98% less than the Board of Trustees requested. To offset this reduction in actual versus requested appropriations, the College has taken measures to reduce operating costs and shift planned expenditures to later years.

Historically a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. This factor along with the addition of two new curriculum programs – e-commerce and internet technician - the expansion of the College's bio-processing technician program and the increased number of classes available through distance education, is expected to result in substantial enrollment growth in the upcoming year.

The poor economic climate also increases the number of students who need financial assistance to attend college. As the College begins registering students for the upcoming fall semester, two noteworthy items have become apparent:

- There is an increase in the number of Pell Grant awards over the prior year at this time, and
- The number of students whose tuition is paid by a third party (someone other than the student, College, or Federal Pell Grant) has decreased.

These points further indicate that the poor economy is forcing business "cut backs" in educational expenses. Although the upswing in Pell Grant recipients will more than offset the decrease in third party sponsorship, the Vance-Granville Community College Endowment Fund Corporation has also increased its scholarship offerings by six scholarships per year.

The College's Financial Future

Looking ahead…how does the increase in enrollment, poor economic climate, and a rising need for student financial assistance affect the College's future? Through continuous budgetary planning and analysis, the College was prepared for this economic downturn, and is confident that it will successfully steer through this economic crisis. The College's Board and administration persist in its efforts toward program assessment, cost containment, continuous improvement, expansion of occupational training and continuing education, and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to goals and freeing up resources to support change. The College's ongoing strategic planning initiative and efforts to identify resource reallocation opportunities have expanded to new activities to enhance revenues and control expenses over the short and long term. As a result, Vance-Granville Community College is well positioned to increase enrollment, strategically add, and when appropriate eliminate programs, partner with the State in economic development and meet public expectations, while remaining financially sound.

Vance-Granville Community College
Statement of Net Assets
June 30, 2002 ***Exhibit A***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,419,654.26
Restricted Cash and Cash Equivalents		56,186.62
Receivables, Net (Note 3)		433,215.71
Restricted Due from Primary Government		186,176.25
Inventories		310,112.41
Total Current Assets		2,405,345.25
Noncurrent Assets:		
Cash and Cash Equivalents		1,332,190.37
Restricted Cash and Cash Equivalents		2,433,630.66
Investments		337,631.66
Capital Assets, Net (Note 4)		11,945,888.94
Total Noncurrent Assets		16,049,341.63
Total Assets		18,454,686.88
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		354,017.89
Due to State of North Carolina Component Units		1,750.61
Deferred Revenue		33,968.13
Funds Held for Others		25,878.11
Long-Term Liabilities - Current Portion (Note 6)		137,000.00
Total Current Liabilities		552,614.74
Noncurrent Liabilities:		
Funds Held for Others		2,433,630.66
Deferred Revenue		43,224.56
Long-Term Liabilities		761,544.96
Total Noncurrent Liabilities		3,238,400.18
Total Liabilities		3,791,014.92
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		11,945,888.94
Restricted for:		
Expendable:		
Scholarships and Fellowships		10,723.57
Loans		14,922.00
Capital Projects		81,262.48
Other		27,948.07
Unrestricted		2,582,926.90
Total Net Assets	$	14,663,671.96

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

Vance-Granville 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)	$	1,159,511.62
Federal Grants and Contracts		5,717,015.61
State and Local Grants and Contracts		575,137.35
Sales and Services, Net (Note 8)		1,736,447.03
Total Operating Revenues		9,188,111.61
EXPENSES		
Operating Expenses:		
Personal Services		15,095,016.58
Supplies and Materials		3,088,497.51
Services		1,929,320.16
Scholarships and Fellowships		3,373,397.98
Utilities		489,081.12
Depreciation		551,582.45
Total Operating Expenses		24,526,895.80
Operating Loss		(15,338,784.19)
NONOPERATING REVENUES (EXPENSES)		
State Aid		13,255,685.02
County Appropriations		1,219,653.00
Noncapital Grants		298,590.52
Investment Income, Net		47,157.37
Other Nonoperating Expenses		(138,445.36)
Net Nonoperating Revenues		14,682,640.55
Loss Before Other Revenues, Expenses, Gains, and Losses		(656,143.64)
State Capital Aid		1,035,269.38
County Capital Appropriations		194,063.04
Increase in Net Assets		573,188.78
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		14,090,483.18
Net Assets, June 30, 2002	$	14,663,671.96

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

Vance-Granville Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002 — ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	9,196,362.52
Payments to Employees and Fringe Benefits		(15,042,182.51)
Payments to Vendors and Suppliers		(5,627,573.73)
Payments for Scholarships and Fellowships		(3,415,162.44)
Other Receipts		68,813.84
Net Cash Used by Operating Activities		(14,819,742.32)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		13,225,685.02
County Appropriations		1,219,653.00
Noncapital Grants Received		298,944.79
Net Cash Provided by Noncapital Financing Activities		14,744,282.81
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		971,497.33
County Capital Appropriations		194,063.04
Capital Grants Received		2,650.67
Proceeds from Sale of Capital Assets		7,461.58
Acquisition and Construction of Capital Assets		(658,032.47)
Net Cash Provided by Capital and Related Financing Activities		517,640.15
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		127,766.90
Interest on Investments		138,772.66
Net Cash Provided by Investing Activities		266,539.56
Net Increase in Cash and Cash Equivalents		708,720.20
Cash and Cash Equivalents, July 1, 2001		4,532,941.71
Cash and Cash Equivalents, June 30, 2002	$	5,241,661.91
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(15,338,784.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		551,582.45
Miscellaneous Nonoperating Income		(137,226.79)
Changes in Assets and Liabilities:		
Receivables, Net		(66,702.94)
Inventories		15,533.42
Accounts Payable and Accrued Liabilities		(122,687.64)
Due to Primary Government		883.68
Deferred Revenue		33,968.13
Funds Held for Others		206,040.63
Compensated Absences		37,650.93
Net Cash Used by Operating Activities	$	(14,819,742.32)

Vance-Granville Community College
Statement of Cash Flows — ***Exhibit C***
For the Fiscal Year Ended June 30, 2002 — ***Page 2***

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	83,180.00
Change in Fair Value of Investments		(122,733.17)
Increase in Receivables Related to Nonoperating Income		63,772.05

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

[This Page Left Blank Intentionally]

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. Vance-Granville Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

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

D. **Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes 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 donated corporate stocks. The stocks are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of the stock is recognized as a component of investment income.

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. Accounts receivables are shown at book value with no provision for doubtful accounts considered necessary.

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, 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 are 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 January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

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

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – 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. 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. 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 bookstore and childcare services. 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 vehicles and maintenance 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 $2,115.75. The carrying amount of cash on deposit was $5,239,546.16 and the bank balance was $5,566,367.68.

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

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 4,977,864.11	$ 5,223,109.95
Cash on Deposit with Private Financial Institutions	261,682.05	343,257.73
	$ 5,239,546.16	$ 5,566,367.68

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, $104,964.66 of the bank balance was covered by federal depository insurance and $238,293.07 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 securities, 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; 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.

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.

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

	Fair Value			
	Risk Category			
	1	2	3	Total
Investments Categorized:				
Corporate Stocks	$ 337,631.66	$ 0.00	$ 0.00	$ 337,631.66

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Receivables
Current Receivables:	
Students	$ 222,696.75
Private Grantors	85,754.67
Vendors	82,276.99
Intergovernmental	17,846.69
Investment Earnings	10,934.16
Other	13,706.45
Total Current Receivables	$ 433,215.71

NOTE 4 - 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	$ 664,976.99	$ 0.00	$ 0.00	$ 664,976.99
Construction in Progress	3,483.75	130,188.30		133,672.05
Total Capital Assets, Non-Depreciable	668,460.74	130,188.30		798,649.04
Capital Assets, Depreciable:				
Buildings	15,029,262.18	9,806.45		15,039,068.63
Machinery and Equipment	1,473,185.23	450,956.02	64,581.98	1,859,559.27
General Infrastructure	767,575.69	197,902.69		965,478.38
Total Capital Assets, Depreciable	17,270,023.10	658,665.16	64,581.98	17,864,106.28
Less Accumulated Depreciation:				
Buildings	4,890,425.76	368,622.39		5,259,048.15
Machinery and Equipment	917,095.03	140,780.88	38,261.14	1,019,614.77
General Infrastructure	396,024.28	42,179.18		438,203.46
Total Accumulated Depreciation	6,203,545.07	551,582.45	38,261.14	6,716,866.38
Total Capital Assets, Depreciable, net	11,066,478.03	107,082.71	26,320.84	11,147,239.90
Capital Assets, Net	$ 11,734,938.77	$ 237,271.01	$ 26,320.84	$ 11,945,888.94

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Totals
Accounts Payable	$ 87,720.52
Accrued Payroll	110,817.81
Contracts Payable	126,000.00
Intergovernmental Payables	589.91
Other	28,889.65
Total Accounts Payable and Accrued Liabilities	$ 354,017.89

NOTE 6 - 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	$ 860,894.03	$ 171,285.47	$ 133,634.54	$ 898,544.96	$ 137,000.00

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

	Amount
Facility Rentals	$ 17,100.00
Equipment Rentals	780.60
Total Rental Expense	$ 17,880.60

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,219,222.29	$ 0.00	$ (1,059,710.67)	$ 1,159,511.62
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,188,593.40	$ (29,531.90)	$ 0.00	$ 1,159,061.50
Day Care and Cosmetology Fees	279,504.90	(14,579.00)		264,925.90
Facilities Rental	72,335.00			72,335.00
Vending	43,983.05			43,983.05
Vocational House Project	94,881.00			94,881.00
Other	101,260.58			101,260.58
Total Sales and Services	$ 1,780,557.93	$ (44,110.90)	$ 0.00	$ 1,736,447.03

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,485,281.86	$ 1,212,628.68	$ 807,153.73	$ 0.00	$ 0.00	$ 0.00	$ 11,505,064.27
Academic Support	827,557.43	231,379.53	78,014.08				1,136,951.04
Student Services	1,487,496.20	30,832.71	171,925.80				1,690,254.71
Institutional Support	2,697,653.27	299,789.71	496,264.62				3,493,707.60
Operations and Maintenance of Plant	512,977.80	368,166.38	140,221.83		489,081.12		1,510,447.13
Student Financial Aid			149,374.30	3,373,397.98			3,522,772.28
Auxiliary Enterprises	84,050.02	945,700.50	86,365.80				1,116,116.32
Depreciation						551,582.45	551,582.45
Total Operating Expenses	$ 15,095,016.58	$ 3,088,497.51	$ 1,929,320.16	$ 3,373,397.98	$ 489,081.12	$ 551,582.45	$ 24,526,895.80

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 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 $12,901,712.21 of which $11,010,682.67 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $660,640.96 and $216,910.45, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $216,910.45, $563,693.32, and $773,769.14, 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 $13,932.00 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 $223,341.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $38,990.00 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 $258,751.04. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System 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 $57,255.55. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

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

North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by 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. The College purchases dishonesty/crime insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

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

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

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

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $4,639,910.00 and on other purchases were $47,773.30 at June 30, 2002.

B. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization $16,657,645.00 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.

C. **Other Contingent Receivables** – The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied. In accordance with generally accepted accounting principles these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Vance-Granville Community College Scholarship Fund	$ 112,397.40

NOTE 14 - VANCE-GRANVILLE COMMUNITY COLLEGE ENDOWMENT FUND CORPORATION

The Vance-Granville Community College Endowment Fund Corporation is a separately incorporated non-profit corporation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the corporation, except for the distributions made and benefits provided by the corporation. The distributions received and/or benefits provided approximated $139,665.19 for the year ended June 30, 2002. The balance of cash held by the State Treasurer was $2,453,876.50 at June 30, 2002 as recorded in the College's agency fund.

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.* Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 16 - NET ASSET RESTATEMENTS

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

July 1, 2001 Fund Equity as previously reported	$ 21,996,975.97
Implementation of GASB 34/35	(7,620,038.47)
Correction of Capital Asset Errors	(286,454.32)
July 1, 2001 Net Assets as Restated	$ 14,090,483.18

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
Classroom/Instructional Facility (#1093)	Jan 2001	$ 6,250,000.00	$ 250,000.00	$ 6,500,000.00	$ 133,672.05	2.06%	Sep 2003
Classroom/Instructional Facility (#1096)	Mar 2002	1,512,000.00	100,000.00	1,612,000.00			Jul 2004
Repairs and Renovations, Phase 1 (#1157)	May 2001	191,680.00	6,223.00	197,903.00	197,902.69	100.00%	Oct 2001
Projects Approved by the State Board							
Repairs and Renovations, Phase II	Mar 2003	660,000.00		660,000.00			Dec 2003
Projects Not Started - To Be Funded in Future Years							
Classroom/Instructional Facility (#1095)	May 2003	1,919,250.00		1,919,250.00			Jul 2005
Miscellaneous Construction - Main Campus	Aug 2003	1,191,886.00		1,191,886.00			Jun 2006
Classroom/Instructional Facility (#1094)	Oct 2003	2,518,000.00		2,518,000.00			Dec 2005
Miscellaneous Construction - South Campus	Jul 2004	1,361,202.00		1,361,202.00			May 2006
Miscellaneous Construction - Franklin Campus	Jul 2004	450,022.00		450,022.00			May 2006
Miscellaneous Construction - Warren Campus	Jul 2004	403,271.00		403,271.00			May 2006
Repairs and Renovations, Phase III	Jan 2005	330,000.00		330,000.00			Oct 2005
Repairs and Renovations, Phase IV	Jul 2005	283,135.00		283,135.00			Apr 2006
Total All Projects		$ 17,070,446.00	$ 356,223.00	$ 17,426,669.00	$ 331,574.74		

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.

[This Page Left Blank Intentionally]

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
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
Vance-Granville Community College
Henderson, North Carolina

We have audited the financial statements of Vance-Granville 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 February 5, 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 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.

Ralph Campbell, Jr.
State Auditor

February 5, 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
Mr. Robert A. Miller	President, Vance-Granville Community College
Mr. Gary W. Morgan	Business Manager, Vance-Granville Community College
Mr. John K. Nelms	Chairman, Board of Trustees Vance-Granville 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 Martha B. Alexander
Senator Kever M. Clark	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Stanley H. Fox
Senator Kay R. Hagan	Representative R. Phillip Haire
Senator David W. Hoyle	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Edd Nye
Senator William N. Martin	Representative William C. Owens, Jr.
Senator Stephen M. Metcalf	Representative Drew P. Saunders
Senator Eric M. Reeves	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Thomas E. Wright
Senator David F. Weinstein	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	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

April 4, 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