

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Martin Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 Martin 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 Martin 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 Martin 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

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Martin Community College
Williamston, North Carolina

We have audited the accompanying basic financial statements of Martin Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, 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 Martin Community College as of June 30, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2004 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), as listed in the table of contents, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

June 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The overall financial position of Martin Community College at the end of fiscal year 2002-2003 has improved considerably in comparison to the previous year. Net assets in fiscal year 2002-2003 report an increase of \$260,050. There has been a significant increase in revenues including student tuition and fees, federal and State grant monies and sales and services. These increases have helped the College to sustain its financial position when governmental revenues have remained constant or fallen.

	<u>AMOUNTS</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Capital Assets	\$ 4,882,744.24	\$ 4,905,518.44
Other Assets	<u>1,840,980.66</u>	<u>1,618,789.76</u>
Total Assets	<u>6,723,724.90</u>	<u>6,524,308.20</u>
Liabilities		
Long Term Liabilities	155,786.67	159,038.25
Other Liabilities	<u>167,345.60</u>	<u>224,727.04</u>
Total Liabilities	<u>323,132.27</u>	<u>383,765.29</u>
Net Assets		
Invested in Capital Assets	4,882,744.24	4,905,518.44
Restricted	592,358.77	383,103.23
Unrestricted	925,489.62	728,921.24
Restatement	<u> </u>	<u>123,000.00</u>
Total Net Assets	<u>\$ 6,400,592.63</u>	<u>\$ 6,140,542.91</u>
Operating Revenues		
Federal Grants and Contracts	1,328,107.43	1,177,157.91
Sales and Services	617,278.94	437,638.10
Other	<u>753,702.44</u>	<u>405,567.28</u>
Total Operating Revenues	<u>2,699,088.81</u>	<u>2,020,363.29</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

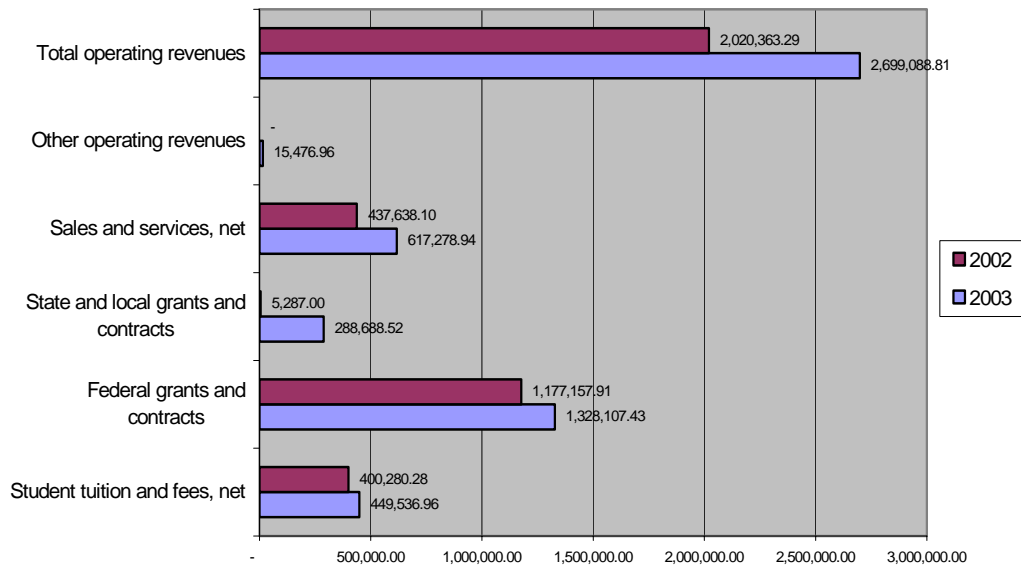
Nonoperating Revenues		
State Aid	4,574,097.10	4,169,574.67
Other	<u>1,435,745.69</u>	<u>1,240,990.99</u>
Total Nonoperating Revenues	<u>6,009,842.79</u>	<u>5,410,565.66</u>
Capital Contributions	<u>410,060.94</u>	<u>561,747.27</u>
Total Revenues	<u>9,118,992.54</u>	<u>7,992,676.22</u>
Operating Expenses		
Personal Services	4,363,056.36	4,493,113.96
Scholarships and Fellowships	1,131,944.89	1,008,343.81
Other Expenses	<u>3,363,941.57</u>	<u>2,498,119.71</u>
Total Operating Expenses	<u>8,858,942.82</u>	<u>7,999,577.48</u>
Increase (decrease) in Net Assets	<u>260,049.72</u>	<u>(6,901.26)</u>
Net Assets, July 1	6,140,542.91	6,024,444.17
Restatement	<u> </u>	<u>123,000.00</u>
Net Assets, June 30	<u>\$ 6,400,592.63</u>	<u>\$ 6,140,542.91</u>

Total operating revenues for the current year have increased 33.59%. All operating revenue sources increased in the current year. The increased issuance of scholarships and loans based on increased student need represents a noteworthy part. There was also a significant increase in State and local grant revenue due to the addition of several new grants including the Professional Development Award, Faculty Development Grant, and an On Line Instruction Grant. Student tuition and fees increased by 12.31% due to increased enrollment partly in relation to the struggling economy, and also a mandated increase in tuition costs.

Sales and services increased 41.05% due largely in part to increased bookstore sales. The College also changed from leasing our facility for cafeteria usage to operating a College run cafeteria.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenue

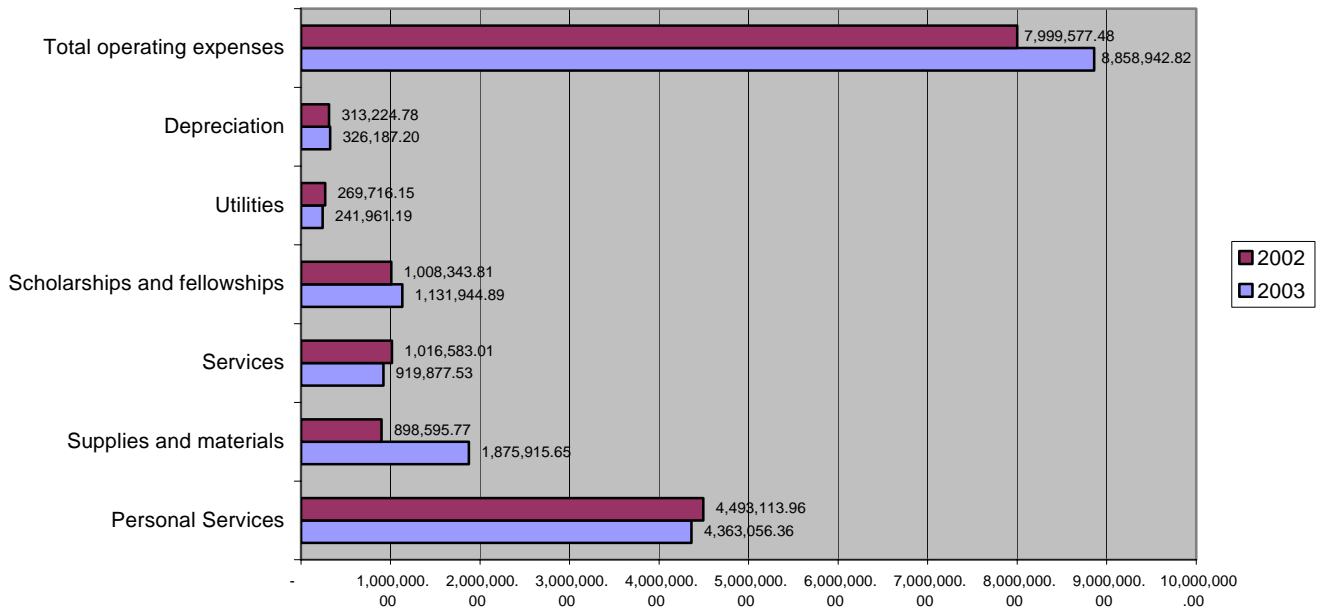


Total operating expenses increased 10.74%. Our largest increase occurred in the supplies and materials category. This category increased \$977,320. This increase in expense was due in part to the planned implementation of the State's new software program for the North Carolina Community College System. There was also a significant effort exerted to upgrade some dated equipment and furniture. A 12.26% increase in expenses associated with scholarships and fellowships is in direct correlation to the increase in federal grants and contract revenue, which increased 12.82%.

Two areas that decreased at approximately the same rate were services and utilities. The College has tried to conserve energy costs by reducing our summer schedule to a ten-hour, four-day workweek. We were also fortunate to have a somewhat mild winter while fuel costs remained constant. In regard to services, numerous restrictions were imposed on the College to try to conserve our budget due to reduced revenues at the State level.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses



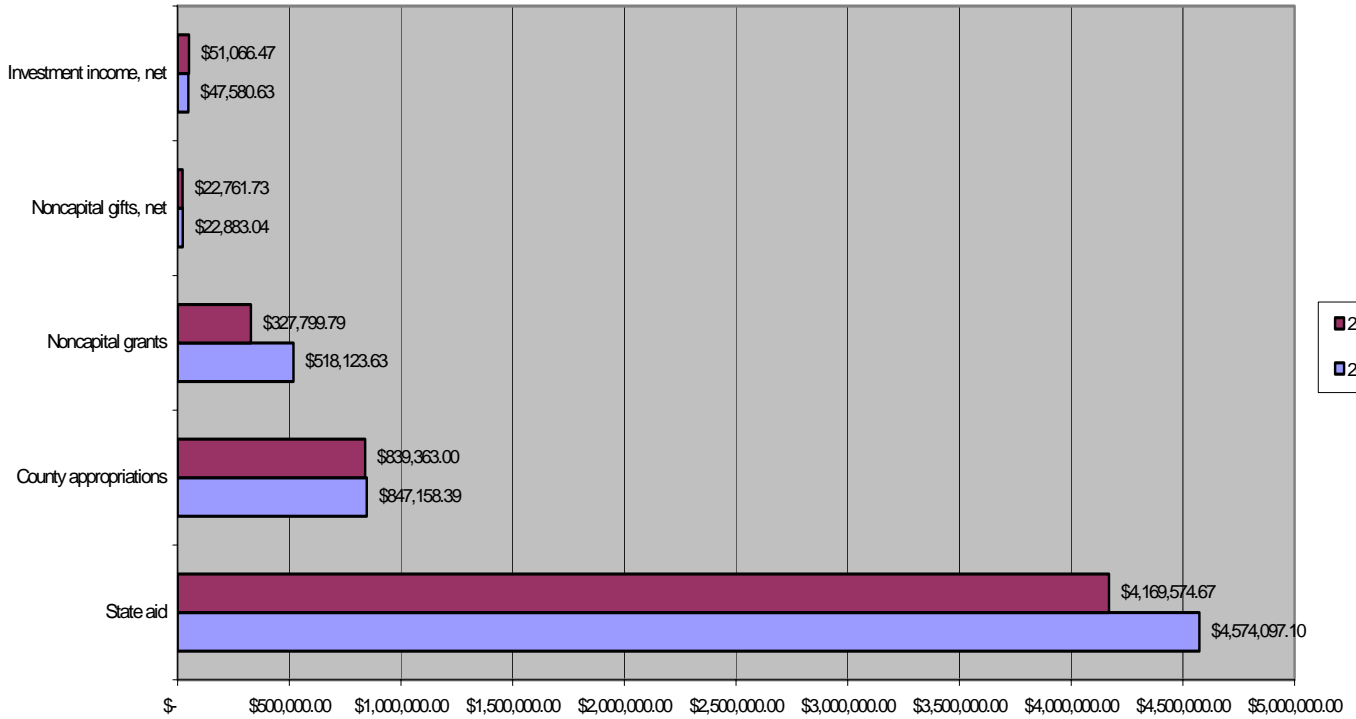
Therefore the operating loss for the current year increased 3.02%. Fiscal Year 2002-2003 shows an operating loss of \$6,159,854, and the prior year shows an operating loss of \$5,979,214.

In the category of nonoperating/noncapital revenues, state aid represents our largest source of revenue. State Aid for fiscal year 2003 increased 9.70% over the prior year.

County noncapital appropriations shows an increase of less than 1%, accounting for approximately \$7,795. This sustained level is the direct result of the economy of the State of North Carolina and the nation as a whole, where small counties are trying to maintain a level of service with reduced funding. Another significant increase in this revenue category is our noncapital grants. Revenue increased \$190,324 in this category, an increase of 58.06%. The majority of this increase is due to continued grants from various sources, either from prior year new curriculum programs, or newly acquired grant sources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

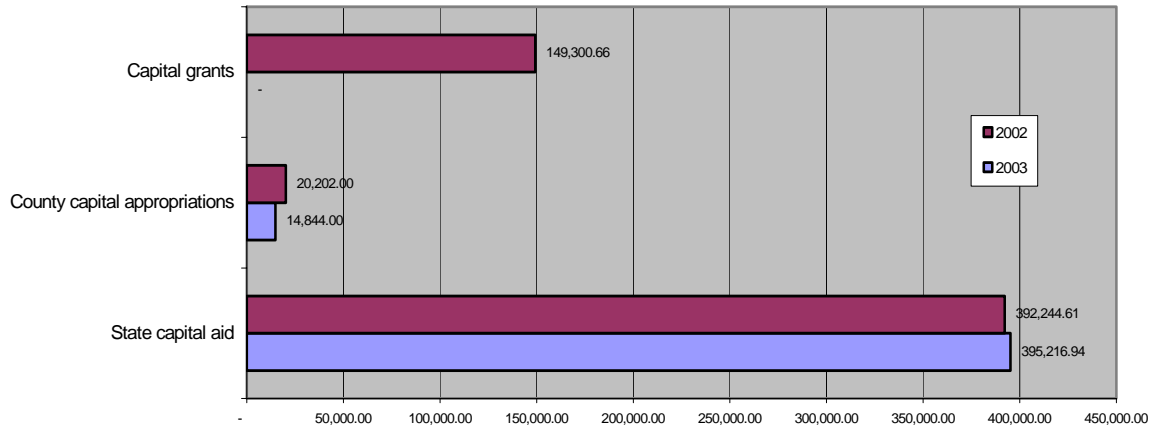
NonOperating Revenues - Non Capital



Nonoperating capital revenue had an overall decrease of \$151,686 in the current fiscal year compared to the prior fiscal year. Capital grants decreased largely due to the expenditure of the capital portion of the Kate B. Reynolds Grant. However, State capital aid increased \$2,972. Most of this increase was due to the transferring of current operating money into capital appropriations to sustain our large increase in capital expenditures. Our county capital funds showed a decrease of \$5,358, in direct relation to the above mentioned revenue shortfalls currently being experienced by our counties.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

NonOperating Revenue - Capital



As previously stated, the result of our financial operations for the year caused an increase in our net assets of \$260,050, which is a change over the prior year of \$266,951.

In looking at the balance sheet, all categories of current assets increased, except for cash and cash equivalents. This is due in part to our reduction in accounts payable and accrued liabilities that were paid at the end of the fiscal year. Other than restricted cash and cash equivalents, Martin Community College only has two categories of noncurrent assets, restricted due from primary government, and net capital assets. Restricted due from primary government represents the amount due to the College from the system office for the capital projects financed by the bond referendum. The net capital assets decrease of \$22,774 is explained by the amount of the depreciation expense over our additions for the year.

In the liabilities section, current liabilities decreased slightly. There was a reduction in accounts payable and accrued liabilities, due to a diligent effort to pay our short-term liabilities prior to year-end. There was also a decrease of \$14,389 in deferred revenue, representing grant funds received that were measurable under the accrual basis of accounting, but not available for use. Our only noncurrent liability, long-term liabilities, represents employee leave accruals that are not expected to be utilized in the coming year.

Under the net assets category our expendable scholarships and fellowships and loan categories showed significant increases due to several grants classified as deferred revenue in the prior year now meeting revenue recognition criteria. Also a slight increase in loans occurred due to additional funds received from the North Carolina Community College System Loan.

Therefore, total net assets showed improvement at the end of the current fiscal year. Martin Community College has managed to uphold our previous financial position and progress toward improvement while North Carolina has been faced with providing an economic outlook that is sustainable in light of a large economic recovery, which has been sidetracked by numerous national external events.

<i>Martin Community College</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2003</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 675,421.42	
Receivables (Note 4)	127,366.46	
Due from State of North Carolina Component Units	175,573.51	
Inventories	167,131.73	
Total Current Assets	1,145,493.12	
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	406,984.20	
Restricted Due from Primary Government	288,503.34	
Capital Assets - Nondepreciable (Note 5)	132,767.66	
Capital Assets - Depreciable, Net (Note 5)	4,749,976.58	
Total Noncurrent Assets	5,578,231.78	
Total Assets	6,723,724.90	
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)	111,599.75	
Deferred Revenue	42,826.03	
Funds Held for Others	12,919.82	
Long-Term Liabilities - Current Portion (Note 7)	55,170.37	
Total Current Liabilities	222,515.97	
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)	100,616.30	
Total Liabilities	323,132.27	
NET ASSETS		
Invested in Capital Assets	4,882,744.24	
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships	32,515.87	
Expendable:		
Scholarships and Fellowships	16,526.88	
Loans	11,107.06	
Capital Projects	405,177.48	
Other	127,031.48	
Unrestricted	925,489.62	
Total Net Assets	\$ 6,400,592.63	
The accompanying notes to the financial statements are an integral part of this statement.		

Martin Community College		
Statement of Revenues, Expenses, and Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	449,536.96
Federal Grants and Contracts		1,328,107.43
State and Local Grants and Contracts		288,688.52
Sales and Services, Net (Note 9)		617,278.94
Other Operating Revenues		15,476.96
Total Operating Revenues		2,699,088.81
EXPENSES		
Operating Expenses:		
Personal Services		4,363,056.36
Supplies and Materials		1,875,915.65
Services		919,877.53
Scholarships and Fellowships		1,131,944.89
Utilities		241,961.19
Depreciation		326,187.20
Total Operating Expenses		8,858,942.82
Operating Loss		(6,159,854.01)
NONOPERATING REVENUES:		
State Aid		4,574,097.10
County Appropriations		847,158.39
Noncapital Grants		518,123.63
Noncapital Gifts		22,883.04
Investment Income, Net		47,580.63
Net Nonoperating Revenues		6,009,842.79
Loss Before Other Revenues, Expenses, Gains, and Losses		(150,011.22)
State Capital Aid		395,216.94
County Capital Appropriations		14,844.00
Increase in Net Assets		260,049.72
NET ASSETS		
Net Assets, July 1, 2002 as Restated (Note 16)		6,140,542.91
Net Assets, June 30, 2003	\$	6,400,592.63
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Martin Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	2,742,326.81
Payments to Employees and Fringe Benefits		(4,353,479.57)
Payments to Vendors and Suppliers		(3,038,130.19)
Payments for Scholarships and Fellowships		(1,235,175.99)
Collection of Loans to Students		15,476.96
Other Receipts		384.71
Net Cash Used by Operating Activities		(5,868,597.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		4,574,097.10
County Appropriations		847,158.39
Noncapital Grants Received		293,787.62
Noncapital Gifts and Endowments Received		8,493.91
Net Cash Provided by Noncapital Financing Activities		5,723,537.02
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		395,216.94
County Capital Appropriations		14,844.00
Acquisition and Construction of Capital Assets		(367,726.05)
Net Cash Provided by Capital and Related Financing Activities		42,334.89
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		48,534.75
Net Cash Provided by Investing Activities		48,534.75
Net Decrease in Cash and Cash Equivalents		(54,190.61)
Cash and Cash Equivalents, July 1, 2002		1,136,596.23
Cash and Cash Equivalents, June 30, 2003	\$	1,082,405.62

<i>Martin Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (6,159,854.01)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		326,187.20
Changes in Assets and Liabilities:		
Receivables, Net		(44,516.14)
Inventories		(8,483.48)
Accounts Payable and Accrued Liabilities		25,092.74
Due to Primary Government		(4,156.71)
Funds Held for Others		384.71
Compensated Absences		(3,251.58)
Net Cash Used by Operating Activities		<u>\$ (5,868,597.27)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		675,421.42
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		406,984.20
Total Cash and Cash Equivalents - June 30, 2003		<u>\$ 1,082,405.62</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income		\$ 224,336.01
The accompanying notes to the financial statements are an integral part of this statement.		

MARTIN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Martin Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit 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*, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded at book value with no provision for uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued using the retail inventory method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

The art collection is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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

Restricted Net Assets – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

M. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

N. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$573.00. The carrying amount of cash on deposit was \$1,081,832.62 and the bank balance was \$1,139,335.97.

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

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 1,081,832.62	\$ 1,045,427.07
Cash on Deposit with Private Financial Institutions		<u>93,908.90</u>
	<u>\$ 1,081,832.62</u>	<u>\$ 1,139,335.97</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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

All of the cash on deposit with private financial institutions at June 30, 2003 was covered by federal depository insurance.

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Receivables</u>
Current Receivables:	
Students	\$ 77,567.21
Accounts	42,706.34
Intergovernmental	572.39
Interest on Loans	3,288.32
Other	<u>3,232.20</u>
Total Current Receivables	<u><u>\$ 127,366.46</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 100,000.00	\$ 0.00	\$ 0.00	\$ 100,000.00
Art, Literature, and Artifacts	9,500.00			9,500.00
Construction in Progress		23,267.66		23,267.66
Total Capital Assets, Nondepreciable	109,500.00	23,267.66		132,767.66
Capital Assets, Depreciable:				
Buildings	6,862,137.83			6,862,137.83
Machinery and Equipment	1,073,820.38	280,145.34	17,680.88	1,336,284.84
General Infrastructure	1,048,055.65			1,048,055.65
Total Capital Assets, Depreciable	8,984,013.86	280,145.34	17,680.88	9,246,478.32
Less Accumulated Depreciation:				
Buildings	3,274,494.56	169,271.74		3,443,766.30
Machinery and Equipment	719,685.91	133,779.58	17,680.88	835,784.61
General Infrastructure	193,814.95	23,135.88		216,950.83
Total Accumulated Depreciation	4,187,995.42	326,187.20	17,680.88	4,496,501.74
Total Capital Assets, Depreciable, Net	4,796,018.44	(46,041.86)		4,749,976.58
Capital Assets, Net	\$ 4,905,518.44	\$ (22,774.20)	\$ 0.00	\$ 4,882,744.24

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 12,264.37
Accrued Payroll	99,335.38
Total Accounts Payable and Accrued Liabilities	\$ 111,599.75

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2003</u>	<u>Current</u> <u>Portion</u>
Compensated Absences	\$ 159,038.25	\$ 114,964.23	\$ 118,215.81	\$ 155,786.67	\$ 55,170.37

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 29,820.00
2005	29,820.00
2006	29,820.00
2007	29,820.00
2008	7,455.00
Total Minimum Lease Payments	<u>\$ 126,735.00</u>

Rental expense for all operating leases during the year was \$29,970.00.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 661,631.64	\$ 212,094.68	\$ 449,536.96
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Dining	\$ 63,249.80	\$ 0.00	63,249.80
Bookstore	650,550.99	212,094.67	438,456.32
Parking	45.00		45.00
Other	115,527.82		115,527.82
Total Sales and Services	\$ 829,373.61	\$ 212,094.67	\$ 617,278.94

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 2,701,401.31	\$ 642,787.03	\$ 443,251.59	\$ 211,630.00	\$ 17,205.14	\$ 0.00	\$ 4,016,275.07
Academic Support	254,394.32	61,263.55	49,058.87				364,716.74
Student Services	257,255.42	55,735.54	32,376.34				345,367.30
Institutional Support	753,424.85	122,435.07	308,478.60				1,184,338.52
Operations and Maintenance of Plant	297,154.74	585,447.27	72,135.66		224,756.05		1,179,493.72
Student Financial Aid				920,314.89			920,314.89
Auxiliary Enterprises	99,425.72	408,247.19	14,576.47				522,249.38
Depreciation						326,187.20	326,187.20
Total Operating Expenses	\$ 4,363,056.36	\$ 1,875,915.65	\$ 919,877.53	\$ 1,131,944.89	\$ 241,961.19	\$ 326,187.20	\$ 8,858,942.82

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$3,780,629.57, of which \$2,841,160.71 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$170,469.64. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$60,528.71, and \$210,988.18, 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. Supplemental Retirement Income Plans - IRC Section 401(k) Plan** - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$78,674.00 for the year ended June 30, 2003.

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 nonprofit 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 \$16,720.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs, which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2003, the College's total contribution to the Plan was \$66,767.28. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$14,774.04. 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 13 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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 is protected from losses from employee dishonesty and computer fraud for employees paid entirely from county and institutional funds by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 14 - 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 were authorized for issuance 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 of \$1,442,912.71 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - MARTIN COMMUNITY COLLEGE FOUNDATION, INC.

The Martin Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to or operational transactions of the Foundation, except for the distributions made

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$30,678.68 for the year ended June 30, 2003.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 6,017,542.91
Restatement:	
Unrecorded Golden Leaf Grant Revenue	<u>123,000.00</u>
July 1, 2002 Net Assets as Restated	<u><u>\$ 6,140,542.91</u></u>

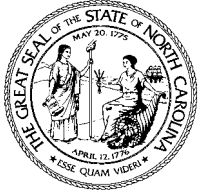
***Martin Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003***

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Miscellaneous Repair and Renovation	May 2001	\$ 118,500.00	\$ 0.00	\$ 118,500.00	\$ 99,712.69	100.00%	Jul 2002
Re-roofing Project	Aug 2002	258,540.00		258,540.00	21,270.60	8.23%	Jun 2004
<i>Projects Not Started - To Be Funded in Future Years</i>							
Repair and Replacement Project		1,186,856.00		1,186,856.00			
Total All Projects		\$ 1,563,896.00	\$ 0.00	\$ 1,563,896.00	\$ 120,983.29		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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**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
Martin Community College
Williamston, North Carolina

We have audited the financial statements of Martin Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated June 23, 2004.

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*.

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 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

**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)**

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

June 23, 2004

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.

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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. Ann R. Britt	President, Martin Community College
Ms. Susan Rawls, CPA	Dean of Administrative Services, Martin Community College
Ms. Helen Newsome	Chairman, Board of Trustees Martin Community College

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Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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June 30, 2004

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