



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Mitchell Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review 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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Mitchell Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

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

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

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

REVIEWER'S TRANSMITTAL (CONCLUDED)

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

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

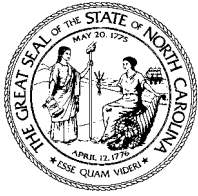
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Mitchell Community College
Statesville, North Carolina

We have reviewed the accompanying Statement of Net Assets of Mitchell Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services*, issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

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

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

The Management's Discussion and Analysis (MD&A), 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

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

A handwritten signature in black ink that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

May 26, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Mitchell Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2003. Please read it in conjunction with the financial statements and notes to the financial statements.

The year ending June 30, 2003 is the second year that public colleges and universities are required by GASB Statement 34 to include in the financials a statement of MD&A. This new section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The MD&A is required to include condensed financial information comparing the current year to the prior year.

Institutional Financial Highlights

During the year the State of North Carolina again experienced severe budget and cash flow problems. This affected all State agencies, including the community colleges. As a result, Mitchell Community College had to revert or was instructed not to spend \$691,210, or 6.9% of its allocated State budget.

The College's financial position improved during the fiscal year ended June 30, 2003. Its combined net assets, increased by \$1,464,964 or 10% from the previous year. The increase was largely due to an increase in State and local grants, capital gifts and grants, and gifts to the endowment.

The College experienced a 7.2% increase in full time equivalent curriculum students for the year ended June 30, 2003. Tuition was increased to \$34.25 from \$31.00 or 9.4% for in-State students and to \$190.75 from \$173.25 or 10.1% for out-of-State students per semester hour with a maximum charge of \$548.00 and \$3,052.00 per semester, respectively.

Mitchell Community College Endowment for Excellence (a blended component unit) received gifts in cash, real estate and land for the year totaling \$609,592.

Overview of the Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

Statement of Net Assets

	<u>6/30/03</u>	<u>6/30/02</u>
Current Assets	\$ 1,764,697	\$ 1,456,807
Noncurrent Assets	5,389,352	5,162,217
Capital Assets	<u>9,609,860</u>	<u>8,958,196</u>
Total Assets	<u>16,763,909</u>	<u>15,577,220</u>
Current Liabilities	427,850	255,235
Noncurrent Liabilities	<u>292,297</u>	<u>743,187</u>
Total Liabilities	<u>720,147</u>	<u>998,422</u>
Net Assets:		
Invested in Capital Assets	9,456,176	8,958,196
Restricted	6,022,563	5,391,527
Unrestricted	<u>565,023</u>	<u>229,075</u>
Total Net Assets	<u>\$ 16,043,762</u>	<u>\$ 14,578,798</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

	6/30/03	6/30/02
Operating Revenues		
Tuition and Fees	\$ 1,642,207	\$ 1,296,192
Federal Grants and Contracts	1,888,717	1,597,177
State and Local Grants	338,493	60,738
Sales and Services	659,665	911,123
Other	5,742	297,668
Total Operating Revenues	<u>4,534,824</u>	<u>4,162,898</u>
Total Operating Expenses	<u>14,577,010</u>	<u>12,699,972</u>
Operating Loss	<u>(10,042,186)</u>	<u>(8,537,074)</u>
Nonoperating Revenues (Expenses)		
State Appropriations	6,682,490	6,190,204
County Appropriations	1,609,370	1,547,470
Noncapital Grants	356,917	
Noncapital Gifts	435,730	386,356
Investment Income	188,918	31,132
Other Nonoperating Revenues (Expenses)	<u>(99,593)</u>	
Net Nonoperating Revenues	<u>9,173,832</u>	<u>8,155,162</u>
Loss Before Other Revenues, Expenses, Gains, and Losses	(868,354)	(381,912)
State Capital Appropriations	616,775	327,656
County Capital Appropriations	22,460	550,000
Capital Grants	529,879	132,820
Capital Gifts	619,207	258,637
Additions to Permanent Endowment	<u>544,997</u>	<u>1,211,781</u>
Increase in Net Assets	1,464,964	2,098,982
Net Assets-Beginning of the Year	<u>14,578,798</u>	<u>12,479,816</u>
Net Assets-End of Year	<u>\$ 16,043,762</u>	<u>\$ 14,578,798</u>

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about cash receipts and cash payments of an entity during a period. The increase in cash flow for the current fiscal year was primarily due to endowment gifts, the sale of investment real estate and unspent county capital funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Cash Flow Statement

	6/30/03	6/30/02
Cash Provided (Used) By:		
Operating Activities	\$ (9,653,619)	\$ (8,205,440)
Noncapital Financing Activities	9,629,505	9,335,812
Capital and Related Financing Activities	199,850	709,508
Investment Activities	591,686	(1,311,948)
Net Increase in Cash	767,422	527,932
Cash-Beginning of Year	3,321,442	2,793,510
Cash-End of Year	\$ 4,088,864	\$ 3,321,442

Capital Assets

At June 30, 2003 the College's capital assets totaled \$9,609,860, net of accumulated depreciation of \$5,192,982. The increase in capital assets was mainly due to an additional \$1,048,175 in construction in progress at the Mooresville Center. The Mooresville addition was completed in the fall, 2003.

Capital Assets

	6/30/03	6/30/02
Capital Assets, Nondepreciable		
Land	\$ 521,307	\$ 617,956
Construction in Progress	1,309,652	261,477
Total Capital Assets, Nondepreciable	1,830,959	879,433
Capital Assets, Depreciable		
Buildings	7,179,243	7,520,119
General Infrastructure	108,040	91,855
Machinery and Equipment	491,618	466,789
Total Capital Assets, Depreciable	7,778,901	8,078,763
Total Capital Assets	\$ 9,609,860	\$ 8,958,196

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State and to a lesser degree to the county. The College received its 2003-2004 State budget allocation of \$9,457,806 in July 2004. While this represented an increase of \$163,720 or 1.8% from the previous year, it also reflected a permanent reduction in the State allocation formula for each full time equivalent student and for academic and administrative support. For the 2003-2004 fiscal

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

year these reductions amounted to \$227,795. Academic programs will have \$110,432 less while the support function was given \$117,363 less funds than the 2002-2003 formula allocation would have given.

Coupled with the 2003-2004 formula reduction, the North Carolina Community College System has instructed all community colleges to establish a reserve of 4.5% for possible reversion. This reserve request represents \$332,831 for Mitchell Community College.

Mitchell Community College, like many other community colleges in the State, is experiencing enrollment growth at the same time that State funding is being reduced. These factors will affect the number and the quality of classes offered at the College.

On a positive note, the county's 2003-2004 operational appropriation is \$1,689,840; an \$80,470 or 5% increase over the 2002-2003 allocation. In addition, the county appropriated \$629,795 for capital projects in 2003-2004, an increase of \$79,795 over the prior year's capital allocation of \$550,000.

The Mitchell Community College Endowment for Excellence successfully completed its \$4 million campaign during the 2002-2003 fiscal year. The earnings from these endowed funds will assist the College in improving the educational programs offered at the College in the years ahead.

Mitchell Community College		
Statement of Net Assets		
June 30, 2003		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	601,937.11
Restricted Cash and Cash Equivalents		402,673.38
Short-Term Investments		154,240.92
Restricted Short-Term Investments		129,617.85
Receivables, Net (Note 4)		305,251.62
Inventories		148,866.58
Prepaid Items		21,977.50
Notes Receivable, Net (Note 4)		131.82
Total Current Assets		1,764,696.78
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,084,253.57
Restricted Due from Primary Government		31,093.75
Endowment Investments		2,051,858.17
Other Long-Term Investments		222,147.04
Capital Assets - Nondepreciable, Net (Note 5)		1,830,958.89
Capital Assets - Depreciable, Net (Note 5)		7,778,900.85
Total Noncurrent Assets		14,999,212.27
Total Assets		16,763,909.05
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		299,769.18
Funds Held for Others		33,312.80
Long-Term Liabilities - Current Portion (Note 7A)		94,768.06
Total Current Liabilities		427,850.04
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7A)		292,296.84
Total Noncurrent Liabilities		292,296.84
Total Liabilities		720,146.88
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		9,456,175.74
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		873,489.51
Other		3,421,680.80
Expendable:		
Scholarships and Fellowships		265,668.48
Loans		18,696.45
Capital Projects		1,009,371.18
Other		433,657.04
Unrestricted		565,022.97
Total Net Assets	\$	16,043,762.17
The accompanying notes to the financial statements are an integral part of this statement.		

Mitchell Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,642,206.66
Federal Grants and Contracts		1,888,716.92
State and Local Grants and Contracts		338,493.41
Sales and Services, Net (Note 9)		659,664.98
Independent Operations		5,742.39
Total Operating Revenues		4,534,824.36
EXPENSES		
Operating Expenses:		
Personal Services		9,033,176.00
Supplies and Materials		2,182,318.15
Services		1,335,224.80
Scholarships and Fellowships		1,271,742.52
Utilities		308,555.54
Depreciation		445,993.69
Total Operating Expenses		14,577,010.70
Operating Loss		(10,042,186.34)
NONOPERATING REVENUES (EXPENSES)		
State Aid		6,682,490.35
County Appropriations		1,609,370.00
Noncapital Grants		356,917.16
Noncapital Gifts		435,730.32
Investment Income, Net		188,918.05
Other Nonoperating Expenses		(99,593.74)
Net Nonoperating Revenues		9,173,832.14
Loss Before Other Revenues, Expenses, Gains, and Losses		(868,354.20)
State Capital Aid		616,775.19
County Capital Appropriations		22,460.43
Capital Grants		529,878.31
Capital Gifts		619,207.00
Additions to Endowments		544,997.18
Increase in Net Assets		1,464,963.91
NET ASSETS		
Net Assets, July 1, 2002		14,578,798.26
Net Assets, June 30, 2003	\$	16,043,762.17
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Mitchell Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 4,391,600.53
Payments to Employees and Fringe Benefits		(8,987,082.91)
Payments to Vendors and Suppliers		(3,770,187.02)
Payments for Scholarships and Fellowships		(1,271,742.52)
Collection of Loans to Students		224.63
Other Payments		(16,431.49)
Net Cash Used by Operating Activities		(9,653,618.78)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,682,490.35
County Appropriations		1,609,370.00
Noncapital Grants Received		356,917.16
Noncapital Gifts and Endowments Received		980,727.50
Net Cash Provided by Noncapital Financing Activities		9,629,505.01
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		628,878.76
County Capital Appropriations		22,460.43
Capital Grants Received		507,110.31
Proceeds from Sale of Capital Assets		167,725.85
Acquisition and Construction of Capital Assets		(1,059,725.71)
Principal Paid on Capital Debt and Leases		(66,600.00)
Net Cash Provided by Capital and Related Financing Activities		199,849.64
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		620,627.46
Investment Income		150,009.60
Purchase of Investments and Related Fees		(178,950.40)
Net Cash Provided by Investing Activities		591,686.66
Net Increase in Cash and Cash Equivalents		767,422.53
Cash and Cash Equivalents, July 1, 2002		3,321,441.53
Cash and Cash Equivalents, June 30, 2003		\$ 4,088,864.06

Mitchell Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (10,042,186.34)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		445,993.69
Provision for Uncollectible Loans and Write-Offs		345.05
Miscellaneous Nonoperating Income		(4,655.90)
Changes in Assets and Liabilities:		
Receivables, Net		(171,292.27)
Inventories		(6,656.47)
Prepaid Items		(5,096.07)
Notes Receivable, Net		224.63
Accounts Payable and Accrued Liabilities		95,574.46
Funds Held for Others		16,292.85
Compensated Absences		17,837.59
Net Cash Used by Operating Activities		\$ (9,653,618.78)
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 601,937.11
Restricted Cash and Cash Equivalents		402,673.38
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,084,253.57
Total Cash and Cash Equivalents - June 30, 2003		\$ 4,088,864.06
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability		\$ 147,020.19
Assets Acquired through a Gift		33,575.00
Change in Fair Value of Investments		34,179.48
The accompanying notes to the financial statements are an integral part of this statement.		

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MITCHELL 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. Mitchell 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 of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Mitchell Community College Endowment for Excellence (Endowment) is reported as if it were part of the College.

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

Separate financial statements for the Endowment may be obtained from the office of the Vice President for Finance and Administration of the College at 500 West Broad Street, Statesville, North Carolina 28677, or by calling (704) 878-3202. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. Inventories – Inventories, consisting of expendable supplies and postage, are valued at cost using either the first-in, first-out, last invoice cost, or average cost method. The Point-of-System installed by the bookstore during the summer of 2001 uses a perpetual inventory system with a weighted average method of calculating cost of inventory for merchandise for resale.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of 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 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

I. 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.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

- 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- O. Internal Sales Activities** – The College bookstore provides goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the College bookstore have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the College bookstore and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use 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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,944.00. The carrying amount of cash on deposit was \$4,135,920.06 and the bank balance was \$3,804,279.48.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 3,384,806.56	\$ 3,384,806.56
Cash on Deposit with Private Financial Institutions	751,113.50	419,472.92
	\$ 4,135,920.06	\$ 3,804,279.48

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.

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.

Of the cash on deposit with private financial institutions at June 30, 2003, \$150,000.00 of the bank balance was covered by federal depository insurance and \$269,472.92 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name. None of the College's investments at June 30, 2003 met the reporting requirements of either of these categories.

A summary of the College's investments at June 30, 2003 is presented below:

	Fair Value		Total
	Pooled Investments	Nonpooled Investments	
Investments Not Categorized:			
Certificates of Deposit	\$ 0.00	\$ 50,000.00	\$ 50,000.00
Mutual Funds	384,304.17	1,285,324.00	1,669,628.17
Money Market Funds	506,005.81		506,005.81
Real Estate		332,230.00	332,230.00
Total Investments Not Categorized	\$ 890,309.98	\$ 1,667,554.00	\$ 2,557,863.98

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

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to no more than 5% of the endowment principal's market value. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 119,306.38	\$ 15,765.97	\$ 103,540.41
Investment Earnings	268.45		268.45
Other	201,442.76		201,442.76
Total Current Receivables	<u>\$ 321,017.59</u>	<u>\$ 15,765.97</u>	<u>\$ 305,251.62</u>
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 1,072.30</u>	<u>\$ 940.48</u>	<u>\$ 131.82</u>

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital Assets, Nondepreciable:				
Land	\$ 617,955.89	\$ 50,351.00	\$ 147,000.00	\$ 521,306.89
Construction in Progress	261,477.25	1,048,174.75		1,309,652.00
Total Capital Assets, Nondepreciable	<u>879,433.14</u>	<u>1,098,525.75</u>	<u>147,000.00</u>	<u>1,830,958.89</u>
Capital Assets, Depreciable:				
Buildings	11,199,775.42	106,824.00	112,000.00	11,194,599.42
Machinery and Equipment	1,120,647.44	154,971.15	5,063.69	1,270,554.90
General Infrastructure	506,728.07			506,728.07
Total Capital Assets, Depreciable	<u>12,827,150.93</u>	<u>261,795.15</u>	<u>117,063.69</u>	<u>12,971,882.39</u>
Less Accumulated Depreciation:				
Buildings	3,679,656.58	337,099.80	1,400.00	4,015,356.38
Machinery and Equipment	678,358.45	100,578.69		778,937.14
General Infrastructure	390,372.82	8,315.20		398,688.02
Total Accumulated Depreciation	<u>4,748,387.85</u>	<u>445,993.69</u>	<u>1,400.00</u>	<u>5,192,981.54</u>
Total Capital Assets, Depreciable, Net	<u>8,078,763.08</u>	<u>(184,198.54)</u>	<u>115,663.69</u>	<u>7,778,900.85</u>
Capital Assets, Net	<u>\$ 8,958,196.22</u>	<u>\$ 914,327.21</u>	<u>\$ 262,663.69</u>	<u>\$ 9,609,859.74</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 77,288.14
Accrued Payroll	108,225.22
Contract Retainage	48,070.79
Other	66,185.03
Total Accounts Payable and Accrued Liabilities	\$ 299,769.18

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 0.00	\$ 120,000.00	\$ 30,000.00	\$ 90,000.00	\$ 30,000.00
Capital Leases Payable		100,284.00	36,600.00	63,684.00	30,353.35
Compensated Absences	215,543.31	266,453.43	248,615.84	233,380.90	34,414.71
Total Long-Term Liabilities	\$ 215,543.31	\$ 486,737.43	\$ 315,215.84	\$ 387,064.90	\$ 94,768.06

Additional information regarding capital lease obligations is included in Note 8.

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Note Holder	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
House	Individual	6%	01/30/2006	\$ 120,000.00	\$ 30,000.00	\$ 90,000.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2003 are as follows:

<u>Fiscal Year</u>	Annual Requirements	
	Notes Payable	
	Principal	Interest
2004	\$ 30,000.00	\$ 5,400.00
2005	30,000.00	3,600.00
2006	30,000.00	1,800.00
Total Requirements	\$ 90,000.00	\$ 10,800.00

NOTE 8 - CAPITAL LEASE OBLIGATIONS

Capital lease obligations relating to cosmetology equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2003:

<u>Fiscal Year</u>	Amount
2004	\$ 36,600.00
2005	36,600.00
Total Minimum Lease Payments	73,200.00
Amount Representing Interest (9.81% Rate of Interest)	9,516.00
Present Value of Future Lease Payments	\$ 63,684.00

Machinery and equipment under capital lease amounted to \$100,284.00 at June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 2,029,878.87	\$ 0.00	\$ 372,247.70	\$ 15,424.51	\$ 1,642,206.66
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 928,855.73	\$ 13,734.12	\$ 363,280.19	\$ 1,281.94	\$ 550,559.48
Vending	22,712.74				22,712.74
Other	69,460.78				69,460.78
Sales and Services of Education and Related Activities	16,931.98				16,931.98
Total Sales and Services	\$ 1,037,961.23	\$ 13,734.12	\$ 363,280.19	\$ 1,281.94	\$ 659,664.98

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,098,043.22	\$ 785,298.46	\$ 379,183.45	\$ 3,000.00	\$ 1,500.00	\$ 0.00	\$ 6,267,025.13
Academic Support	972,068.70	102,258.53	66,801.14				1,141,128.37
Student Services	692,728.16	59,031.15	41,131.55	41,271.60			834,162.46
Institutional Support	1,763,382.77	459,051.89	351,709.55	504.12	94.81		2,574,743.14
Operations and Maintenance of Plant	435,345.74	89,103.45	487,585.16		306,960.73		1,318,995.08
Student Financial Aid			3,109.17	1,226,966.80			1,230,075.97
Auxiliary Enterprises	71,607.41	687,574.67	5,704.78				764,886.86
Depreciation						445,993.69	445,993.69
Total Operating Expenses	\$ 9,033,176.00	\$ 2,182,318.15	\$ 1,335,224.80	\$ 1,271,742.52	\$ 308,555.54	\$ 445,993.69	\$ 14,577,010.70

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 \$7,440,642.30, of which \$5,964,523.72 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$357,871.47. 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, \$115,313.12, and \$305,459.12, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$3,165.74 for the year ended June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$33,260.00 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 \$36,894.46 for the year ended June 30, 2003.

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 \$140,166.31. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was \$31,015.52. The College assumes no liability for long-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. Losses for employees paid from county and institutional funds are covered through a contact with a private company with coverage of \$100,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$60,367.84 and on other purchases were \$9,887.86 at June 30, 2003.
- 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$5,180,858.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 - MITCHELL COLLEGE FOUNDATION, INC.

The Mitchell College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as a fundraising arm of the College through which individuals, corporations, and other organizations support the College's programs. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$352,812.00 for the year ended June 30, 2003.

***Mitchell 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>							
Mooresville Center Second Floor Addition	Nov 2000	\$ 216,851.00	\$ 784,000.00	\$ 1,000,851.00	\$ 944,008.73	94.32%	Sep 2003
Renovation of Continuing Education Center - HVAC, Restrooms, and Offices	Oct 2000	250,000.00		250,000.00	111,774.85	44.71%	Nov 2003
Advanced Technology Buildings	Apr 2001	3,178,788.00		3,178,788.00	253,868.42	7.99%	Jan 2005
Renovation of Continuing Education Center - General	Jul 2003	142,562.00		142,562.00			May 2004
<i>Projects Pending Approval by the State Board</i>							
Renovation of Library	Sep 2003	415,993.00		415,993.00			
Renovation of Student Center	Jun 2004	153,604.00		153,604.00			
Renovation of Vocation Building	Sep 2006	1,293,953.00		1,293,953.00			
Total All Projects		\$ 5,651,751.00	\$ 784,000.00	\$ 6,435,751.00	\$ 1,309,652.00		

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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June 23, 2004

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