

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Montgomery 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 Montgomery 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 Montgomery 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 - The following significant deficiency in internal control over financial reporting was noted as a result of our review of the financial statements.

Finding

1. Condition of the Financial Statements

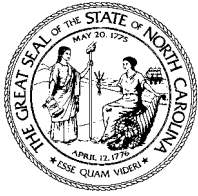
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have reviewed the accompanying Statement of Net Assets of Montgomery 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 cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

April 22, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

Montgomery Community College would like to present financial statements for the year ended June 30, 2003. This analysis will include a comparison between current year and the prior fiscal year's information.

There are three financial statements presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Change in Net Assets and the Statement of Cash flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents assets, liabilities and net assets of the College at a point in time for the fiscal years ended June 30, 2003 and June 30, 2002 respectively.

From the data presented, readers of the Statement of Net Assets (SNA) are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately the SNA provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the Institution's equity in property, plant and equipment owned by the Institution. The next asset category is restricted net assets, which is divided into nonexpendable and expendable. The extent of nonexpendable restricted assets is only available for investment purposes which the College has no holdings. Expendable restricted net assets are available for expenditures by the College but must be spent for purposes specified by an external entity that have placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the Institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Assets		
Current Assets	\$ 615,294	\$ 350,902
Capital Assets, Net	7,003,272	7,127,273
Other Assets	<u>214,585</u>	<u>290,351</u>
Total Assets	<u>7,833,151</u>	<u>7,768,526</u>
Liabilities		
Current Liabilities	625,881	292,021
Noncurrent Long-Term Liabilities	<u>226,933</u>	<u>152,108</u>
Total Liabilities	<u>852,814</u>	<u>444,129</u>
Net Assets		
Invested in Capital Assets	7,003,272	7,127,273
Scholarships and Fellowships	13,000	13,000
Capital Projects	(63,639)	137,603
Other	(34,671)	25,309
Unrestricted	<u>62,375</u>	<u>21,212</u>
Total Net Assets	<u>6,980,337</u>	<u>\$ 7,324,397</u>

The total assets of the Institution increased by \$64,625 from last year. This was in large due to increased cash balances and receivables incurred from the Golden Leaf grant we received in the amount of \$250,000. By year-end a large portion of cash received had not yet been paid out and \$50,000 was still receivable.

The total liabilities for the year increased by \$408,685. The primary cause for the increase was in current liabilities, specifically accounts payable and accrued liabilities.

The increase in assets of \$64,625 and the increase in liabilities of \$408,685 result in a net decrease in total net assets of \$344,060.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the SNA are based on the activity offered in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues received by the College, including operating and nonoperating, and expenses, both operating and nonoperating.

Generally operating revenues are received for providing goods and services to various constituents of the College while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the College for which we receive operating revenue. Nonoperating revenues are revenues received for which goods and services are not provided.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State appropriations are considered nonoperating because they are provided by the Legislature without the Legislature directly receiving goods and services for those revenues.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2003	June 30, 2002
Operating Revenue		
Student Tuition and Fees	\$ 187,124	\$ 435,308
Federal Grants and Contracts	1,359,044	751,946
State and Local Grants and Contracts	335,604	176,005
Nongovernmental Grants and Contracts	17,445	39,667
Sales and Services, Net	194,513	670,412
Other Operating Revenues	1,884	107,087
Total Operating Revenue	2,095,614	2,180,425
Nonoperating Revenue		
State Aid	3,367,838	3,096,639
County Appropriations	664,300	604,527
Noncapital Grants	9,406	
Noncapital Gifts, Net	94,947	
Other Nonoperating Revenue	99,173	208,761
Net Nonoperating Revenue	4,235,664	3,909,927
Total Revenue	6,331,278	6,090,352
Operating Expenses	6,994,259	(6,424,119)
Capital Contribution	318,921	126,101
Decrease in Net Assets	344,060	(207,666)
Net Assets - Beginning of Year as Restated	7,324,397	7,532,062
Net Assets - End of Year	\$ 6,980,337	\$ 7,324,396

Following you will find highlights to the above SRECNA. Reported student tuition and fees revenues realized a decrease of \$248,184 largely due to increased tuition discount as a result of an increase of \$607,098 in federal grants. These federal grants are predominantly Federal Pell Grant. State and local grants realized an increase of \$159,599 from prior year as a result of the Golden Leaf grant. Nonoperating revenues showed a net increase of \$325,737, which can primarily be attributed to the increase in state aid that was a result of severe cash restriction FY 2002. Operating expenses showed a net increase of \$624,472 again due to the increase in State aid that was a result of severe cash restriction FY 2002.

The SRECNA shows a net decrease of \$398,392 in net assets at the end of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into the following five parts. Operating cash flows shows the net cash used by the operating activities of the College. The second section reflects cash flows received and spent for nonoperating purposes. The next section, cash flows from capital activities, reflects cash flows used for the acquisition and construction of capital and related items. The fourth section reflects investing activities. The last section of the statement reconciles the net cash reflected on the SRECNA.

Condensed Statement of Cash Flows

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash Received (Expended) by:		
Operating Activities	\$ (4,344,913)	\$ (3,725,663)
Noncapital Financing Activities	4,109,863	3,726,321
Capital and Related Financing Activities	381,774	(27,123)
Investing Activities	<u>6,104</u>	<u>6,164</u>
Net Change in Cash	152,828	(20,301)
Cash - Beginning of Year	<u>250,701</u>	<u>271,002</u>
Cash - End of Year	<u>\$ 403,529</u>	<u>\$ 250,701</u>

The most significant increase in cash flows occurred in capital and related financing activity as a result of increased inflows of State capital aid of \$373,285. These funds were received to purchase equipment.

Capital Asset and Debt Administration

The College has incurred no significant changes in regards to capital assets, long-term debt, changes in credit rating or debt limitations for the FY 2003.

Economic Outlook

The College is currently under litigation to resolve issues with contractors on previous construction totaling \$387,832. It is unknown when this will be resolved.

The State of North Carolina continues to experience down revenues and over-realized receipts during this time of a sagging economy resulting in enrollment growth at community colleges. The statewide cash shortage resulted in very strategic cash management. Balancing these issues has heavily weighed on the College. Otherwise we are not aware of any significant effects on the financial position of the College. We are anticipating that the upcoming fiscal year will be much like the last and will make every effort to react so that the College can continue to meet its goals and objectives.

Montgomery Community College**Statement of Net Assets****June 30, 2003****Exhibit A****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	310,769.01
Restricted Cash and Cash Equivalents		36,913.79
Receivables (Note 3)		203,474.45
Inventories		64,136.76
Total Current Assets		615,294.01

Noncurrent Assets:

Restricted Cash and Cash Equivalents		55,846.42
Restricted Due from Primary Government		158,739.04
Capital Assets - Nondepreciable, Net (Note 4)		442,186.24
Capital Assets - Depreciable, Net (Note 4)		6,561,085.36
Total Noncurrent Assets		7,217,857.06
Total Assets		7,833,151.07

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)		477,502.50
Deferred Revenue		39,533.12
Funds Held for Others		52,111.61
Long-Term Liabilities - Current Portion (Note 6)		56,733.40
Total Current Liabilities		625,880.63

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)		226,933.59
Total Noncurrent Liabilities		226,933.59
Total Liabilities		852,814.22

NET ASSETS

Invested in Capital Assets		7,003,271.60
Restricted for:		
Nonexpendable:		
Other		13,000.00
Expendable:		
Capital Projects		(63,639.08)
Other		(34,671.47)
Unrestricted		62,375.80
Total Net Assets	\$	6,980,336.85

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

Montgomery 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 8)	\$	187,124.51
Federal Grants and Contracts		1,359,043.52
State and Local Grants and Contracts		335,603.80
Nongovernmental Grants and Contracts		17,445.00
Sales and Services, Net (Note 8)		194,513.27
Other Operating Revenues		1,883.59
Total Operating Revenues		2,095,613.69
EXPENSES		
Operating Expenses:		
Personal Services		4,073,162.24
Supplies and Materials		1,016,323.96
Services		522,613.15
Scholarships and Fellowships		859,166.45
Utilities		216,146.66
Depreciation		306,846.36
Total Operating Expenses		6,994,258.82
Operating Loss		(4,898,645.13)
NONOPERATING REVENUES		
State Aid		3,367,837.98
County Appropriations		664,300.00
Noncapital Grants		9,406.00
Noncapital Gifts, Net (Note 8)		94,947.10
Investment Income, Net		6,104.00
Other Nonoperating Revenues		93,068.79
Net Nonoperating Revenues		4,235,663.87
Loss Before Other Revenues, Expenses, Gains, and Losses		(662,981.26)
State Capital Aid		314,421.42
County Capital Appropriations		4,500.00
Decrease in Net Assets		(344,059.84)
NET ASSETS		
Net Assets, July 1, 2002		7,324,396.69
Net Assets, June 30, 2003	\$	6,980,336.85
The accompanying notes to the financial statements are an integral part of this statement.		

Montgomery Community College**Statement of Cash Flows****For the Fiscal Year Ended June 30, 2003****Exhibit C**

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	2,062,138.23
Payments to Employees and Fringe Benefits		(3,968,486.13)
Payments to Vendors and Suppliers		(1,677,905.37)
Payments for Scholarships and Fellowships		859,166.45
Other Receipts		98,506.46
Net Cash Used by Operating Activities		(2,626,580.36)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		3,367,837.98
County Appropriations		664,300.00
Noncapital Grants Received		(17,222.29)
Noncapital Gifts and Endowments Received		94,947.10
Net Cash Provided by Noncapital Financing Activities		4,109,862.79
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		394,628.17
County Capital Appropriations		4,500.00
Capital Grants Received		165,491.37
Acquisition and Construction of Capital Assets		(182,845.05)
Net Cash Provided by Capital and Related Financing Activities		381,774.49
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		6,104.00
Net Cash Provided by Investing Activities		6,104.00
Net Increase in Cash and Cash Equivalents		1,871,160.92
Cash and Cash Equivalents, July 1, 2002		250,701.20
Cash and Cash Equivalents, June 30, 2003	\$	2,121,862.12
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(4,898,645.13)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		306,846.36
Miscellaneous Nonoperating Income		93,068.79
Changes in Assets and Liabilities:		
Receivables, Net		(18,932.91)
Inventories		7,260.16
Accounts Payable and Accrued Liabilities		81,063.26
Deferred Revenue		39,533.12
Funds Held for Others		5,694.22
Compensated Absences		93,531.09
Net Cash Used by Operating Activities	\$	(4,290,581.04)

Montgomery Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	310,769.01
Restricted Cash and Cash Equivalents		36,913.79
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		55,846.42
Total Cash and Cash Equivalents - June 30, 2003	\$	403,529.22
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	\$	50,000.00
The accompanying notes to the financial statements are an integral part of this statement.		

MONTGOMERY 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. Montgomery 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.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using either the first-in, first-out.
- 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 and/or units of output 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$400.00. The carrying amount of cash on deposit was \$403,129.22 and the bank balance was \$445,532.23.

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

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 144,132.34	\$ 150,368.76
Cash on Deposit with Private Financial Institutions	258,996.88	295,163.47
	<u>\$ 403,129.22</u>	<u>\$ 445,532.23</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.

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, \$100,000.00 of the bank balance was covered by federal depository insurance,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$195,163.47 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	\$ 39,084.43
Accounts	12,146.10
Intergovernmental	151,987.37
Other	256.55
Total Current Receivables	\$ 203,474.45

NOTE 4 - 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	Balance June 30, 2003
Capital Assets, Nondepreciable:			
Land	\$ 248,364.00	\$ 0.00	\$ 248,364.00
Art, Literature, and Artifacts	193,822.24		193,822.24
Total Capital Assets, Nondepreciable	442,186.24		442,186.24
Capital Assets, Depreciable:			
Buildings	8,474,356.88	23,038.00	8,497,394.88
Machinery and Equipment	877,732.68		877,732.68
Art, Literature, and Artifacts	74,744.16	159,807.05	234,551.21
General Infrastructure	127,866.30		127,866.30
Total Capital Assets, Depreciable	9,554,700.02	182,845.05	9,737,545.07
Less Accumulated Depreciation:			
Buildings	2,201,877.35	213,410.67	2,415,288.02
Machinery and Equipment	585,570.78	89,727.36	675,298.14
General Infrastructure	82,165.22	3,708.33	85,873.55
Total Accumulated Depreciation	2,869,613.35	306,846.36	3,176,459.71
Total Capital Assets, Depreciable, Net	6,685,086.67	(124,001.31)	6,561,085.36
Capital Assets, Net	\$ 7,127,272.91	\$ (124,001.31)	\$ 7,003,271.60

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 95,914.39
Accrued Payroll	26,589.80
Contract Retainage	329,905.00
Intergovernmental Payables	25,093.31
Total Accounts Payable and Accrued Liabilities	\$ 477,502.50

NOTE 6 - 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
Compensated Absences	\$ 190,135.90	\$ 193,968.00	\$ 100,436.91	\$ 283,666.99	\$ 56,733.40

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2004	\$ 22,440.00
2005	22,440.00
2006	11,220.00
Total Minimum Lease Payments	\$ 56,100.00

Rental expense for all operating leases during the year was \$27,254.69.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - 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	\$ 625,498.67	\$ 438,374.16	\$ 187,124.51
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Live Projects	\$ 165,180.60	\$ 0.00	\$ 165,180.60
Vending	7,197.12		7,197.12
Other	22,135.55		22,135.55
Total Sales and Services	\$ 194,513.27	\$ 0.00	\$ 194,513.27
Nonoperating - Noncapital Gifts	\$ 94,947.10	\$ 0.00	\$ 94,947.10

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 2,314,688.06	\$ 327,982.18	\$ 49,981.29	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,692,651.53
Student Services	253,090.74	37,234.35	34,130.02				324,455.11
Institutional Support	1,260,839.08	597,670.54	275,451.71				2,133,961.33
Operations and Maintenance of Plant	244,544.36	53,436.89	163,050.13		216,146.66		677,178.04
Student Financial Aid				859,166.45			859,166.45
Depreciation						306,846.36	306,846.36
Total Operating Expenses	\$ 4,073,162.24	\$ 1,016,323.96	\$ 522,613.15	\$ 859,166.45	\$ 216,146.66	\$ 306,846.36	\$ 6,994,258.82

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a 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 General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,384,515.71, of which \$2,811,848.39 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$168,710.92. 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, \$145,507.91, and \$165,926.55, 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 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). There were no employer contributions on behalf of College law enforcement officers for the year ended June 30, 2003. The voluntary contributions by employees amounted to \$30,532.00 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 \$12,020.00 for the year ended June 30, 2003.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was \$66,078.44. 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 \$14,621.62. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Pending Litigation and Claims** – During 1998-1999 fiscal year, three of the prime contractors for the Business and Industry Technology Resource building separately filed Request for Equitable Adjustment totaling \$937,410.10 with Montgomery Community College. The college has filed for damages of \$627,816.51 against the primary contractor for the project. As of January 9, 2000, a settlement had been reached with two of the prime contractors. Outstanding claims totaling \$239,984.00 were settled for \$125,000.00. The remaining claim with the outstanding contractor is still pending.

The College is a party to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

- 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 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 \$286,568.40 is

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 14 - MONTGOMERY COMMUNITY COLLEGE FOUNDATION, INC.

Montgomery 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 specific departments and the College's overall academic environment. 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 \$8,633.00 for the year ended June 30, 2003.

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

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Approved by the State Board</i>							
Renovations and Repairs	Aug 2001	\$ 502,004.00	\$ 0.00	\$ 502,004.00	\$ 182,861.59	36.43%	Jan 2006

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.

REVIEW FINDING AND RECOMMENDATION

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Finding and Recommendation – The following finding and recommendation was identified during the current review and represents a significant deficiency in internal control.

1. CONDITION OF THE FINANCIAL STATEMENTS

The College's June 30, 2003 financial statements and related notes contained presentation errors that were not detected by the College prior to completing its year-end financial package and submitting it to the Office of the State Controller. The errors exist because management is not adhering to the North Carolina Community College System's Accounting Procedures Manual, Section 3 – Chart of Accounts when coding transactions.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors in a timely manner by employees performing the normal assigned duties.

Recommendation: We recommend that the College implement controls that include referring to the North Carolina Community College System's Accounting Procedures Manual, Section 3 – Chart of Accounts for coding transactions to ensure that year-end financial statements figures are accurate and presentation errors are detected and corrected prior to submission of the financial statements and related notes to the Office of the State Controller.

College's Response: The recommendation to refer to the Chart of Accounts for proper coding to detect and correct our financial statements prior to the year-end submission has already been implemented and corrective action has begun. The Accounts Receivable (AR) codes have been reviewed and evaluated. There will be an extensive review of the general ledger codes when rebuilding the crosswalk for the Colleague system, and cross referenced back to the AR codes to ensure that the all codes are in-line with the NCCCS chart of accounts. Financial Statements will be more carefully reviewed to ensure that all accounts are being grouped correctly before submitting to the appropriate agencies.

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July 8, 2004

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