



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

RICHMOND COMMUNITY COLLEGE

HAMLET, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

RICHMOND COMMUNITY COLLEGE

HAMLET, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Richmond 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 Richmond 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 Richmond 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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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Richmond Community College
Hamlet, North Carolina

We have reviewed the accompanying Statement of Net Assets of Richmond 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." in a cursive script.

Ralph Campbell, Jr.
State Auditor

May 3, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The administration of Richmond Community College provides this Management Discussion and Analysis for readers of the College's financial statements in order to place the College's comparative financial position in context with the College's operations and external environment. This narrative overview and analysis of the financial activities of the College during the fiscal year ending June 30, 2003 should be considered in conjunction with the additional information furnished in the annual financial statements and associated notes.

Institutional Financial Highlights

- The economic downturn that affected North Carolina's economy during FY 2002-03 was felt especially hard in Richmond and Scotland counties, which reported respective unemployment rates of 12.8% and 9.9%. This increase in layoffs directly contributed to the College's record enrollment of 1,698 curriculum students.
- The impact of the economy on the State also affected the College's State allocation, its primary source of funding. The College was required to holdback 6% of its allocation and saw cuts in instructional support and instructional funding. These mandates limited the College's financial flexibility and prevented expansion of instructional programs.
- Despite the economy, both Richmond and Scotland County were able to meet the previous year's level of financial support, with respective county budgets of \$1,000,000 and \$86,953.
- A tuition increase of 3.6%, from \$31.00 to \$34.25 per semester hour was implemented for North Carolina residents.

Overview of the Financial Statements

The College's financial statements consist of three primary statements. The Statement of Net Assets, when compared with the prior year, indicates how effective the College has managed its overall assets in comparison to its liabilities, with the difference in the two being the College's net assets. Changes in current assets may measure, among other things, cash and investment management, collections of account receivables, or fluctuations in inventories. Changes in noncurrent assets indicate improvements in buildings, equipment inventory, and depreciation, while the College's liabilities are primarily comprised of accrued employee vacation and outstanding capital debt. The Statement of Revenues, Expenses, and Changes in Net Assets helps the reader understand the financial resources available to the College, how those resources were used, and how those expenditures affected the net assets. The Statement of Cash Flows reflects to the reader the College's position in cash, overall liquidity, and financial stability and continuity. The notes included in the statements should be referenced in order to provide detailed explanation of particular elements and activities. Through a summarized comparison of the 2001-02 financial statements and those from the 2002-03 fiscal year, the reader may gain a contextual understanding of the College's overall financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Summarized Comparative Financial Analysis

Condensed Statement of Net Assets
Fiscal Years Ended June 30, 2003 and June 30, 2002

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 895,941.49	\$ 1,284,944.69	\$ (389,003.20)
Noncurrent Assets	81,695.07	51,806.09	29,888.98
Capital Assets	<u>11,579,978.39</u>	<u>11,518,520.00</u>	<u>61,458.39</u>
Total Assets	<u>12,557,614.95</u>	<u>12,855,270.78</u>	<u>(297,655.83)</u>
Current Liabilities	273,396.11	213,277.94	60,118.17
Noncurrent Liabilities	<u>520,801.07</u>	<u>537,195.81</u>	<u>(16,394.74)</u>
Total Liabilities	<u>794,197.18</u>	<u>750,473.75</u>	<u>43,723.43</u>
Net Assets:			
Invested in Capital Assets	11,512,594.41	11,436,091.18	76,503.23
Restricted	85,131.47	591,264.50	(506,133.03)
Unrestricted	<u>165,691.89</u>	<u>77,441.35</u>	<u>88,250.54</u>
Total Net Assets	<u>\$ 11,763,417.77</u>	<u>\$ 12,104,797.03</u>	<u>\$ (341,379.26)</u>

A comparison of the statements indicates a decrease in net assets of \$341,379.26, which is mainly attributable to a delay in the construction of the HVAC renovation project. In FY 2002, \$516,384.00 was added to current assets as due from primary government to reflect the expected drawdown of these construction funds. The project's delay prevented these funds from actually being drawn down as planned in FY 2003, and the project is now scheduled for completion during FY 2004. The increase in total liabilities of \$43,723.43 is caused by increased accrued vacation of employees, a reflection of the College's low employee turnover rate. Given the context of these two issues, the College's net asset position has been stable and consistent within the administration's expectations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Years Ended June 30, 2003 and June 30, 2002

	<u>FY 2002-03</u>	<u>FY 2001-02</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Student Tuition and Fees	\$ 589,366.33	\$ 474,774.68	\$ 114,591.65
Federal Grants and Contracts	3,081,490.31	3,055,048.68	26,441.63
State and Local Grants and Contracts	80,129.00	677,040.00	(596,911.00)
Sales and Services	238,923.77	151,893.89	87,029.88
Other Operating Revenue	<u>71,521.08</u>	<u>35,417.90</u>	<u>36,103.18</u>
Total Operating Revenues	<u>4,061,430.49</u>	<u>4,394,175.15</u>	<u>(332,744.66)</u>
Operating Expenses:			
Personal Services	8,464,234.89	8,379,322.51	84,912.38
Supplies and Materials	1,065,024.53	678,130.42	386,894.11
Services	965,041.20	976,297.17	(11,255.97)
Scholarships and Fellowships	2,209,468.89	1,812,567.82	396,901.07
Utilities	277,420.09	294,604.18	(17,184.09)
Depreciation	<u>485,937.36</u>	<u>494,681.15</u>	<u>(8,743.79)</u>
Total Operating Expenses	<u>13,467,126.96</u>	<u>12,635,603.25</u>	<u>831,523.71</u>
Net Operating Loss	<u>(9,405,696.47)</u>	<u>(8,241,428.10)</u>	<u>(1,164,268.37)</u>
Nonoperating Revenue:			
State Aid	6,875,353.40	6,994,187.59	(118,834.19)
County Appropriations	1,049,153.00	1,058,309.00	(9,156.00)
Noncapital Grants	634,410.98		634,410.98
Noncapital Gifts	108,838.58	66,579.93	42,258.65
Investment Income, Net	17,183.47	10,821.50	6,361.97
Other Nonoperating Revenue	<u>(28,602.90)</u>		<u>(28,602.90)</u>
Net Nonoperating Revenues	<u>8,656,336.53</u>	<u>8,129,898.02</u>	<u>526,438.51</u>
Loss Before Other Revenues	<u>(749,359.94)</u>	<u>(111,530.08)</u>	<u>(637,829.86)</u>
State Capital Allocations	355,230.68	362,501.19	(7,270.51)
County Capital Allocations	<u>52,750.00</u>	<u>35,112.00</u>	<u>17,638.00</u>
Increase (Decrease) in Net Assets	<u>(341,379.26)</u>	286,083.11	<u>(627,462.37)</u>
Net Assets-Beginning of Year	<u>12,104,797.03</u>	<u>11,818,713.92</u>	<u>286,083.11</u>
Net Assets-End of the Year	<u>\$ 11,763,417.77</u>	<u>\$ 12,104,797.03</u>	<u>\$ (341,379.26)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Analysis of Statement of Revenues, Expenses, and Changes in Net Assets Comparison

A comparison of the statements for the past two years shows an increase in the loss before other revenues of \$637,829.86. This is derived from several changes in reporting requirements and does not represent a weakness in the College's financial position. These reporting changes included:

State and local grants and contracts saw a decrease of \$596,911.00 due to the delayed construction project and the decreased recognized State construction bond funds. The other major cause of this apparent operating loss is the combination of increased scholarship expenditures, due to increased enrollment, along with tuition discounting of federal grants.

Richmond Community College		
Statement of Net Assets		
June 30, 2003		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	739,511.18
Restricted Cash and Cash Equivalents		23,635.07
Receivables (Note 4)		81,443.44
Inventories		51,351.80
Total Current Assets		895,941.49
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		60,851.83
Restricted Due from Primary Government		20,843.24
Capital Assets - Nondepreciable (Note 5)		576,469.76
Capital Assets - Depreciable, Net (Note 5)		11,003,508.63
Total Noncurrent Assets		11,661,673.46
Total Assets		12,557,614.95
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		221,802.43
Funds Held for Others		24,070.37
Long-Term Liabilities - Current Portion (Note 7)		27,523.31
Total Current Liabilities		273,396.11
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		520,801.07
Total Liabilities		794,197.18
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		11,512,594.41
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		27,493.77
Expendable:		
Capital Projects		57,637.70
Unrestricted		165,691.89
Total Net Assets	\$	11,763,417.77
The accompanying notes to the financial statements are an integral part of this statement.		

Richmond 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)	\$ 589,366.33	
Federal Grants and Contracts	3,081,490.31	
State and Local Grants and Contracts	80,129.00	
Sales and Services	238,923.77	
Other Operating Revenues	71,521.08	
Total Operating Revenues	4,061,430.49	
EXPENSES		
Operating Expenses:		
Personal Services	8,464,234.89	
Supplies and Materials	1,065,024.53	
Services	965,041.20	
Scholarships and Fellowships	2,209,468.89	
Utilities	277,420.09	
Depreciation	485,937.36	
Total Operating Expenses	13,467,126.96	
Operating Loss	(9,405,696.47)	
NONOPERATING REVENUES (EXPENSES)		
State Aid	6,875,353.40	
County Appropriations	1,049,153.00	
Noncapital Grants	634,410.98	
Noncapital Gifts	108,838.58	
Investment Income, Net	17,183.47	
Other Nonoperating Expenses	(28,602.90)	
Net Nonoperating Revenues	8,656,336.53	
Loss Before Other Revenues, Expenses, Gains, and Losses	(749,359.94)	
State Capital Aid	355,230.68	
County Capital Appropriations	52,750.00	
Decrease in Net Assets	(341,379.26)	
NET ASSETS		
Net Assets, July 1, 2002	12,104,797.03	
Net Assets, June 30, 2003	\$ 11,763,417.77	
The accompanying notes to the financial statements are an integral part of this statement.		

Richmond Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	4,036,007.11
Payments to Employees and Fringe Benefits		(8,383,238.02)
Payments to Vendors and Suppliers		(2,354,604.39)
Payments for Scholarships and Fellowships		(2,203,388.97)
Other Payments		(15,230.23)
Net Cash Used by Operating Activities		(8,920,454.50)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,875,353.40
County Appropriations		1,049,153.00
Noncapital Grants Received		634,410.98
Noncapital Gifts and Endowments Received		108,838.58
Net Cash Provided by Noncapital Financing Activities		8,667,755.96
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		355,230.68
County Capital Appropriations		52,750.00
Acquisition and Construction of Capital Assets		(12,598.93)
Principal Paid on Capital Debt and Leases		(15,044.84)
Net Cash Provided by Capital and Related Financing Activities		380,336.91
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		17,183.47
Net Cash Provided by Investing Activities		17,183.47
Net Increase in Cash and Cash Equivalents		144,821.84
Cash and Cash Equivalents, July 1, 2002		679,176.24
Cash and Cash Equivalents, June 30, 2003	\$	823,998.08
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(9,405,696.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		485,937.36
Miscellaneous Nonoperating Income		(28,602.90)
Changes in Assets and Liabilities:		
Receivables, Net		(20,237.27)
Inventories		(12,023.48)
Accounts Payable and Accrued Liabilities		53,084.36
Funds Held for Others		14,266.48
Compensated Absences		(7,182.58)
Net Cash Used by Operating Activities	\$	(8,920,454.50)

<i>Richmond Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 739,511.18
	Restricted Cash and Cash Equivalents	23,635.07
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	60,851.83
	Total Cash and Cash Equivalents - June 30, 2003	\$ 823,998.08
The accompanying notes to the financial statements are an integral part of this statement.		

RICHMOND 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. Richmond 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. All receivables are shown at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$500.00. The carrying amount of cash on deposit was \$823,498.08 and the bank balance was \$870,986.45.

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	\$ 555,727.80	\$ 573,963.50
Cash on Deposit with Private Financial Institutions	267,770.28	297,022.95
	\$ 823,498.08	\$ 870,986.45

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<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, and \$197,022.95 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

Endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College’s endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Receivables</u>
Current Receivables:	
Students	\$ 76,989.02
Accounts	<u>4,454.42</u>
Total Current Receivables	<u><u>\$ 81,443.44</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 163,519.00	\$ 0.00	\$ 0.00	\$ 163,519.00
Construction in Progress	49,581.61	363,369.15		412,950.76
Total Capital Assets, Nondepreciable	213,100.61	363,369.15		576,469.76
Capital Assets, Depreciable:				
Buildings	14,320,145.63	137,272.00		14,457,417.63
Machinery and Equipment	1,263,505.74	119,602.13	168,875.38	1,214,232.49
Art, Literature, and Artifacts		8,500.00		8,500.00
General Infrastructure	402,741.53			402,741.53
Total Capital Assets, Depreciable	15,986,392.90	265,374.13	168,875.38	16,082,891.65
Less Accumulated Depreciation:				
Buildings	3,780,535.89	360,737.36		4,141,273.25
Machinery and Equipment	718,257.26	109,771.96	87,527.85	740,501.37
General Infrastructure	182,180.36	15,428.04		197,608.40
Total Accumulated Depreciation	4,680,973.51	485,937.36	87,527.85	5,079,383.02
Total Capital Assets, Depreciable, Net	11,305,419.39	(220,563.23)	81,347.53	11,003,508.63
Capital Assets, Net	\$ 11,518,520.00	\$ 142,805.92	\$ 81,347.53	\$ 11,579,978.39

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 3,734.88
Accrued Payroll	218,067.55
Total Accounts Payable and Accrued Liabilities	\$ 221,802.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 82,428.82	\$ 0.00	\$ 15,044.84	\$ 67,383.98	\$ 17,198.62
Compensated Absences	488,122.98	292,457.21	299,639.79	480,940.40	10,324.69
Total Long-Term Liabilities	\$ 570,551.80	\$ 292,457.21	\$ 314,684.63	\$ 548,324.38	\$ 27,523.31

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Guaranteed	Branch Banking & Trust	4.89%	02/03/2007	\$ 132,947.00	\$ 65,563.02	\$ 67,383.98

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

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2004	\$ 17,198.62	\$ 2,913.02
2005	18,058.74	2,052.90
2006	18,961.88	1,149.76
2007	13,164.74	243.02
Total Requirements	\$ 67,383.98	\$ 6,358.70

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

	Amount
Total Minimum Lease Payments	\$ 1,318.08

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,704,392.38	\$ 2,115,026.05	\$ 589,366.33

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,069,881.66	\$ 752,714.54	\$ 274,050.95	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,096,647.15
Academic Support	714,276.87	22,508.33	41,703.23				778,488.43
Student Services	663,281.86	44,251.70	61,913.02				769,446.58
Institutional Support	1,414,302.87	15,357.47	288,922.60				1,718,582.94
Operations and Maintenance of Plant	530,831.84	223,381.48	150,606.15		277,420.09		1,182,239.56
Student Financial Aid	62,203.97		32,046.31	2,209,468.89			2,303,719.17
Auxiliary Enterprises	9,455.82	6,811.01	115,798.94				132,065.77
Depreciation						485,937.36	485,937.36
Total Operating Expenses	\$ 8,464,234.89	\$ 1,065,024.53	\$ 965,041.20	\$ 2,209,468.89	\$ 277,420.09	\$ 485,937.36	\$ 13,467,126.96

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 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 \$7,217,902.66, of which \$6,129,931.55 was covered under the Teachers'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$367,795.89. 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, \$121,002.71, and \$327,223.32, respectively.

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

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$189,376.00 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 \$21,104.99 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$144,053.39. 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 \$31,875.64. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected from losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

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

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

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

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 \$1,158,890.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$4,662,073.90 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 - RICHMOND COMMUNITY COLLEGE FOUNDATION, INC.

The Richmond 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 \$168,179.37 for the year ended June 30, 2003.

Richmond 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>							
Project 1089 - HVAC Renovations in 3 Buildings	Mar 2001	\$ 890,000.00	\$ 0.00	\$ 890,000.00	\$ 49,581.61	5.57%	Jul 2003
Project 1088 - Health Sciences Building	Dec 2003	3,542,287.00		3,542,287.00			Jun 2006
Project 1282 - Acquire Building in Scotland County	Aug 2002	137,272.00		137,272.00	137,272.00	100.00%	Sep 2002
Project 1283 - Multiple Renovations less than \$100,000 each	Aug 2002	358,389.00		358,389.00	352,345.93	98.31%	Jun 2004
<i>Projects Pending Approval by the State Board</i>							
Purchase New Facility near Rockingham Center	Jul 2005	295,672.00		295,672.00			Dec 2005
Total All Projects		\$ 5,223,620.00	\$ 0.00	\$ 5,223,620.00	\$ 539,199.54		

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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Director, Fiscal Research Division

June 3, 2004

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