



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

MAYLAND COMMUNITY COLLEGE

SPRUCE PINE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

MAYLAND COMMUNITY COLLEGE

SPRUCE PINE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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Leslie W. Merritt, Jr., CPA, CFP
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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of Mayland Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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 Mayland Community College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements 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.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Mayland Community College
Spruce Pine, North Carolina

We have reviewed the accompanying financial statements of Mayland Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Mayland Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. We did not review the financial statements of Mayland Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for this entity, is based on the report of the other accountants.

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 in order for them to be in conformity with accounting principles generally accepted in the United States of America.

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, 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.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Mayland Community College, a component unit of the State of North Carolina, is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

Overview of the Financial Statements

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The College had elected special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting.

Basic Financial Statements

The basic financial statements for the College include the following:

- Statement of Net Assets;
- Statement of Revenues, Expenses, and Changes in Net Assets; and
- Statement of Cash Flows.

The Statement of Net Assets as well as the Statement of Revenues, Expenses, and Changes in Net Assets are shown in classified format. This will show the distinction between current and noncurrent assets, liabilities, revenues, and expenses. The direct method is used to present the Statement of Cash Flows. The Notes to the Financial Statements provide additional information that is essential to a complete understanding of the data provided in the statements and schedules. A bond schedule providing a summary of the current and upcoming bond projects proposed by the College is shown following the Notes to the Financial Statements.

Financial Information

The College's financial position may be significantly affected by the following:

- Fiscal year 2003-2004 tuition rates reflected an increase of 3.2%;
- Due to cash flow shortages, certifications were cut for May and June 2004, which led to decreases in equipment and other expenditures;
- The State budget was received in August 2003 with funds being reverted back to the State equaling \$167,598 or 3%;
- Mayland's County budget increased \$59,400 from the 2002-2003 fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Statements

Condensed Statement of Net Assets

| | <u>6/30/2004</u> | <u>6/30/2003</u> | <u>Difference</u> |
|---|-------------------------|-------------------------|------------------------|
| Assets | | | |
| Current Assets | \$ 365,028.93 | \$ 659,044.49 | \$ (294,015.56) |
| Noncurrent Capital Assets, Net of Accumulated Depreciation | 16,036,089.14 | 11,062,561.14 | 4,973,528.00 |
| Other Noncurrent Assets | <u>989,246.94</u> | <u>439,834.57</u> | <u>549,412.37</u> |
| Total Assets | <u>17,390,365.01</u> | <u>12,161,440.20</u> | <u>5,228,924.81</u> |
| Liabilities | | | |
| Current Liabilities | 303,408.21 | 322,905.03 | (19,496.82) |
| Noncurrent Liabilities | <u>399,692.85</u> | <u>242,129.77</u> | <u>157,563.08</u> |
| Total Liabilities | <u>703,101.06</u> | <u>565,034.80</u> | <u>138,066.26</u> |
| Net Assets | | | |
| Invested in Capital Assets | 16,036,089.14 | 11,062,561.14 | 4,973,528.00 |
| Restricted | 994,189.79 | 536,130.46 | 458,059.33 |
| Unrestricted | <u>(343,014.98)</u> | <u>(2,286.20)</u> | <u>(340,728.78)</u> |
| Total Net Assets | <u>\$ 16,687,263.95</u> | <u>\$ 11,596,405.40</u> | <u>\$ 5,090,858.55</u> |

The total assets of the College increased by \$5,228,924.81 for the year. This overall increase was primarily attributable to an increase of \$4,973,528.00 in Capital Assets, Net of accumulated depreciation. The donation of land and the two Lexington Buildings valued at \$7,264,100.00 accounts for this major increase.

Total liabilities of the College increased by \$138,066.26 for the year. This increase is directly related to the increase in accrued payroll where all Full-Time Employees received 80 hours of Bonus Leave in FY 2003-2004.

The combination of the increase in total assets of \$5,228,924.81 and the increase in total liabilities of \$138,066.26 produces an overall increase in total net assets of \$5,090,858.55. As stated above, the category of Invested in Capital Assets, increased by \$4,973,528.00.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

| | <u>6/30/2004</u> | <u>6/30/2003</u> | <u>Difference</u> |
|--|-------------------------|-------------------------|------------------------|
| Operating Revenues: | | | |
| Student Tuition and Fees, Net | \$ 884,893.35 | \$ 846,710.06 | \$ 38,183.29 |
| Federal Grants and Contracts | 996,665.76 | 2,221,147.39 | (1,224,481.63) |
| State and Local Grants and Contracts | 4,410.00 | 2,860.00 | 1,550.00 |
| Sales and Services, Net | 731,256.58 | 767,892.04 | (36,635.46) |
| Other Operating Revenues | 49,023.07 | 44,568.47 | 4,454.60 |
| Total Operating Revenues | <u>2,666,248.76</u> | <u>3,883,177.96</u> | <u>(1,216,929.20)</u> |
| Operating Expenses: | <u>12,105,722.78</u> | <u>11,552,948.72</u> | <u>552,774.06</u> |
| Operating Loss: | (9,439,474.02) | (7,669,770.76) | (1,769,703.26) |
| Nonoperating Revenues (Expenses): | | | |
| State Aid | 6,169,999.62 | 6,212,351.80 | (42,352.18) |
| County Appropriations | 599,400.00 | 540,000.00 | 59,400.00 |
| Noncapital Grants | 1,023,427.76 | 200,767.64 | 822,660.12 |
| Capital Aid and Grants | 8,167,121.41 | 3,387,366.26 | 4,779,755.15 |
| Other Nonoperating Revenues (Expenses) | (1,429,616.22) | 470,183.84 | (1,899,800.06) |
| Net Nonoperating Revenues | <u>14,530,332.57</u> | <u>10,810,669.54</u> | <u>3,719,663.03</u> |
| Increase in Net Assets | 5,090,858.55 | 3,140,898.78 | 1,949,959.77 |
| Net Assets - July 1, 2003 | <u>11,596,405.40</u> | <u>8,455,506.62</u> | <u>3,140,898.78</u> |
| Net Assets - June 30, 2004 | <u>\$ 16,687,263.95</u> | <u>\$ 11,596,405.40</u> | <u>\$ 5,090,858.55</u> |

Total revenues amounted to \$17,196,581.33, which increased \$2,502,733.83 over last year's total revenue of \$14,693,847.50. Operating revenues decreased \$1,216,929.20 while operating expenses increased \$552,774.06 for a combined increase in net operating loss of \$1,769,703.26. The overall decrease in operating revenues was primarily attributable to the decrease of Federal Grants and Contracts by \$1,224,481.63. The increase in operating expenses, \$552,774.06, is primarily due to \$451,783.10 increase in Salaries and Benefits and \$95,028.95 increase in Services.

Nonoperating revenues increased \$3,719,663.03, primarily due to the donation of land and the two Lexington Buildings valued at \$7,264,100.00 in combination with the loss on sale of the Hampshire Building and land of \$1,924,922.26. State Capital Aid also decreased by \$386,253.04, which was due to the completion of the Avery County Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Statement of Cash Flows For the Year Ended

| | <u>6/30/2004</u> | <u>6/30/2003</u> | <u>Difference</u> |
|---|----------------------|----------------------|------------------------|
| Cash Provided (Used) by: | | | |
| Operating Activities | \$ (8,671,194.09) | \$ (7,725,029.27) | \$ (946,164.82) |
| Noncapital Financing Activities | 8,118,568.22 | 7,324,561.78 | 794,006.44 |
| Capital and Related Financing Activities | 408,114.83 | 502,935.53 | (94,820.70) |
| Investing Activities | 5,523.47 | 8,249.00 | (2,725.53) |
| Net Change in Cash | (138,987.57) | 110,717.04 | (249,704.61) |
| Cash and Cash Equivalents - July 1, 2003 | <u>404,304.83</u> | <u>293,587.79</u> | <u>110,717.04</u> |
| Cash and Cash Equivalents - June 30, 2004 | <u>\$ 265,317.26</u> | <u>\$ 404,304.83</u> | <u>\$ (138,987.57)</u> |

Major sources of funds included in operating activities are Federal Grants and Contracts, \$996,665.76; Student Tuition and Fees, Net, \$884,893.35; and Sales and Services, Net, \$732,256.58. Major uses of funds in operating activities are payments to employees and fringe benefits, \$7,997,639.44; payments to vendors and suppliers, \$3,097,222.69; and payments for scholarships and fellowships, \$637,106.37. Total sources of funds included in operating activities decreased \$1,040,584.26 and uses decreased \$94,419.44 for a total decrease in operating activities of \$946,164.82.

The major source of funds in noncapital financing activities is State Capital Aid at \$6,169,999.62. Total sources included in noncapital financing activities increased \$794,006.44.

The major source of funds included in capital and related financing is Capital Gifts at \$510,000.00. Total sources of funds for capital and related financing activities decreased \$404,335.15 and uses decreased \$309,514.45 for a total decrease in capital and related financing activities of \$94,820.70.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2004, the College had not received any official information on the 2004-2005 budget. However, the State of North Carolina is still experiencing a budget crisis and the College anticipates further decreases in revenue in the upcoming year.

Mayland Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

| | |
|--------------------------------------|--------------|
| Cash and Cash Equivalents | \$ 89,469.79 |
| Restricted Cash and Cash Equivalents | 55,022.68 |
| Receivables (Note 3) | 134,380.49 |
| Inventories | 84,430.27 |
| Notes Receivable | 1,725.70 |
| | <hr/> |
| Total Current Assets | 365,028.93 |

Noncurrent Assets:

| | |
|--|---------------|
| Restricted Cash and Cash Equivalents | 120,824.79 |
| Restricted Due from Primary Government | 868,422.15 |
| Capital Assets - Nondepreciable (Note 4) | 775,184.73 |
| Capital Assets - Depreciable, Net (Note 4) | 15,260,904.41 |
| | <hr/> |
| Total Noncurrent Assets | 17,025,336.08 |

| | |
|--------------|---------------------------|
| Total Assets | <hr/> <hr/> 17,390,365.01 |
|--------------|---------------------------|

LIABILITIES

Current Liabilities:

| | |
|---|------------|
| Accounts Payable and Accrued Liabilities (Note 5) | 222,173.83 |
| Funds Held for Others | 5,102.35 |
| Long-Term Liabilities - Current Portion (Note 6) | 76,132.03 |
| | <hr/> |

| | |
|---------------------------|------------|
| Total Current Liabilities | 303,408.21 |
|---------------------------|------------|

Noncurrent Liabilities:

| | |
|--------------------------------|------------|
| Long-Term Liabilities (Note 6) | 399,692.85 |
| | <hr/> |

| | |
|-------------------|------------|
| Total Liabilities | 703,101.06 |
|-------------------|------------|

NET ASSETS

| | |
|----------------------------|---------------|
| Invested in Capital Assets | 16,036,089.14 |
|----------------------------|---------------|

Restricted for:

Expendable:

| | |
|------------------------------|------------|
| Scholarships and Fellowships | 3,448.45 |
| Loans | 3,409.62 |
| Capital Projects | 973,138.81 |
| Other | 14,192.91 |

| | |
|--------------|--------------------|
| Unrestricted | <hr/> (343,014.98) |
|--------------|--------------------|

| | |
|------------------|------------------------------|
| Total Net Assets | <hr/> <hr/> \$ 16,687,263.95 |
|------------------|------------------------------|

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

Mayland Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004

Exhibit A-2

REVENUES

Operating Revenues:

| | |
|--|---------------|
| Student Tuition and Fees, Net (Note 8) | \$ 884,893.35 |
| Federal Grants and Contracts | 996,665.76 |
| State and Local Grants and Contracts | 4,410.00 |
| Sales and Services, Net (Note 8) | 731,256.58 |
| Other Operating Revenues | 49,023.07 |

| | |
|--------------------------|--------------|
| Total Operating Revenues | 2,666,248.76 |
|--------------------------|--------------|

EXPENSES

Operating Expenses:

| | |
|------------------------------|--------------|
| Salaries and Benefits | 7,997,639.44 |
| Supplies and Materials | 1,544,686.69 |
| Services | 1,301,904.05 |
| Scholarships and Fellowships | 637,106.37 |
| Utilities | 215,245.45 |
| Depreciation | 409,140.78 |

| | |
|--------------------------|---------------|
| Total Operating Expenses | 12,105,722.78 |
|--------------------------|---------------|

| | |
|----------------|----------------|
| Operating Loss | (9,439,474.02) |
|----------------|----------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|----------------|
| State Aid | 6,169,999.62 |
| County Appropriations | 599,400.00 |
| Noncapital Grants | 1,023,427.76 |
| Noncapital Gifts | 368,113.73 |
| Investment Income, Net | 5,441.60 |
| Other Nonoperating Expenses | (1,803,171.55) |

| | |
|---------------------------|--------------|
| Net Nonoperating Revenues | 6,363,211.16 |
|---------------------------|--------------|

| | |
|----------------------------|----------------|
| Loss Before Other Revenues | (3,076,262.86) |
|----------------------------|----------------|

| | |
|-------------------------------|--------------|
| State Capital Aid | 818,889.66 |
| County Capital Appropriations | 82,500.00 |
| Capital Grants | 1,631.75 |
| Capital Gifts | 7,264,100.00 |

| | |
|------------------------|--------------|
| Increase in Net Assets | 5,090,858.55 |
|------------------------|--------------|

NET ASSETS

| | |
|--------------------------|---------------|
| Net Assets, July 1, 2003 | 11,596,405.40 |
|--------------------------|---------------|

| | |
|---------------------------|------------------|
| Net Assets, June 30, 2004 | \$ 16,687,263.95 |
|---------------------------|------------------|

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

Mayland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-----------------|
| Received from Customers | \$ 2,733,477.22 |
| Payments to Employees and Fringe Benefits | (7,799,229.75) |
| Payments to Vendors and Suppliers | (3,097,222.69) |
| Payments for Scholarships and Fellowships | (637,106.37) |
| Collection of Loans to Students | 2,802.17 |
| Other Receipts | 126,085.33 |

Net Cash Used by Operating Activities (8,671,194.09)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------|
| State Aid Received | 6,169,999.62 |
| County Appropriations | 599,400.00 |
| Noncapital Grants Received | 981,054.87 |
| Noncapital Gifts and Endowments Received | 368,113.73 |

Net Cash Provided by Noncapital Financing Activities 8,118,568.22

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|--------------|
| State Capital Aid Received | 279,025.57 |
| County Capital Appropriations | 82,500.00 |
| Capital Grants Received | 1,631.75 |
| Capital Gifts Received | 510,000.00 |
| Proceeds from Insurance on Capital Assets | 121,750.71 |
| Acquisition and Construction of Capital Assets | (586,793.20) |

Net Cash Provided by Capital and Related Financing Activities 408,114.83

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-------------------|-----------------|
| Investment Income | <u>5,523.47</u> |
|-------------------|-----------------|

Net Cash Provided by Investing Activities 5,523.47

Net Decrease in Cash and Cash Equivalents (138,987.57)

Cash and Cash Equivalents, July 1, 2003 404,304.83

Cash and Cash Equivalents, June 30, 2004 \$ 265,317.26

**RECONCILIATION OF OPERATING LOSS
TO NET CASH USED BY OPERATING ACTIVITIES**

| | |
|---|-------------------|
| Operating Loss | \$ (9,439,474.02) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 409,140.78 |
| Changes in Assets and Liabilities: | |
| Receivables | 189,728.46 |
| Inventories | (6,393.13) |
| Notes Receivable | 2,802.17 |
| Accounts Payable and Accrued Liabilities | (14,685.95) |
| Funds Held for Others | 3,585.33 |
| Compensated Absences | 184,102.27 |

Net Cash Used by Operating Activities \$ (8,671,194.09)

Mayland Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | | |
|---|----|-------------------|
| Current Assets: | | |
| Cash and Cash Equivalents | \$ | 89,469.79 |
| Restricted Cash and Cash Equivalents | | 55,022.68 |
| Noncurrent Assets: | | |
| Restricted Cash and Cash Equivalents | | 120,824.79 |
| | | <hr/> |
| Total Cash and Cash Equivalents - June 30, 2004 | \$ | <u>265,317.26</u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | | |
|--|----|--------------|
| Assets Acquired through a Gift | \$ | 6,754,100.00 |
| Increase in Receivables Related to Nonoperating Income | | 580,603.75 |
| Capital Asset Write-Offs | | 2,061,293.99 |

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

Mayland Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

| | |
|---------------------------------------|-------------------------------|
| Cash and Cash Equivalents | \$ 330,851.00 |
| Property and Equipment: | |
| Land | 174,330.00 |
| Equipment | 4,175.00 |
| Less Accumulated Depreciation | <u>(3,758.00)</u> |
| Total Property and Equipment | 174,747.00 |
| Other Noncurrent Assets | |
| Cash Permanently Restricted by Donors | <u>556,268.00</u> |
| Total Assets | <u><u>\$ 1,061,866.00</u></u> |

LIABILITIES

| | |
|-------------------|------------------|
| Notes Payable | \$ 36,250.00 |
| Total Liabilities | <u>36,250.00</u> |

NET ASSETS

| | |
|----------------------------------|-------------------------------|
| Unrestricted | 126,185.00 |
| Temporarily Restricted | 343,163.00 |
| Permanently Restricted | <u>556,268.00</u> |
| Total Net Assets | <u>1,025,616.00</u> |
| Total Liabilities and Net Assets | <u><u>\$ 1,061,866.00</u></u> |

See Note 1 in the Notes to the Financial Statements

Mayland Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

| | |
|--|--------------|
| Support and Revenues: | |
| Contributions | \$ 21,420.00 |
| Fundraisers and Related Events | 19,588.00 |
| Investment and Interest Income | 12,606.00 |
| | <hr/> |
| Total Support and Revenue | 53,614.00 |
| | <hr/> |
| Expenses: | |
| Program Services | 212,118.00 |
| Management and General | 22,669.00 |
| | <hr/> |
| Total Expenses | 234,787.00 |
| | <hr/> |
| Excess Deficit Support and Revenues Under Expenses | (181,173.00) |
| Net Assets Released from Restrictions | 150,183.00 |
| | <hr/> |
| Decrease in Unrestricted Net Assets | (30,990.00) |

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

| | |
|---|--------------|
| Support and Revenues: | |
| Contributions | 155,222.00 |
| Fundraisers and Related Events | 3,992.00 |
| Investment and Interest Income | 16,741.00 |
| Grants | 8,000.00 |
| | <hr/> |
| Total Support and Revenue | 183,955.00 |
| Transfers | (35,693.00) |
| | <hr/> |
| Total Support, Revenue and Transfers | 148,262.00 |
| | <hr/> |
| Excess support and revenues over (under) expenses | 148,262.00 |
| Net assets release from restrictions | (150,183.00) |
| | <hr/> |
| Decrease in Temporarily Restricted Net Assets | (1,921.00) |

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

| | |
|--|-----------------|
| Support and Revenues: | |
| Contributions | 240,761.00 |
| Transfers | 35,693.00 |
| | <hr/> |
| Total Support, Revenue and Transfers | 276,454.00 |
| | <hr/> |
| Increase in Permanently Restrctited Net Assets | 276,454.00 |
| Increase in Net Assets | 243,543.00 |
| Net Assets at Beginning of Year | 707,248.00 |
| Prior Period Adjustment | 74,825.00 |
| | <hr/> |
| Net Assets at End of Year | \$ 1,025,616.00 |
| | <hr/> <hr/> |

See Note 1 in the Notes to the Financial Statements

MAYLAND COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Mayland Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Mayland Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 26 board members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Mayland Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$212,118.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Foundation office by calling (828) 765-7351 ext. 210.

- 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.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Receivables are recorded at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, 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 method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 20 to 40 years for buildings, and 3 to 15 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.
- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. 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 – 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College Bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. 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 \$1,300.00. The carrying amount of cash on deposit was \$264,017.26 and the bank balance was \$559,552.68.

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

Cash on deposit at year end consisted of the following:

| | Book Balance | Bank Balance |
|--|----------------------|----------------------|
| Cash on Deposit with State Treasurer | \$ 137,518.81 | \$ 137,844.39 |
| Cash on Deposit with Private Financial Institutions | 126,498.45 | 421,708.29 |
| | <u>\$ 264,017.26</u> | <u>\$ 559,552.68</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance, and \$221,708.29 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, 2004, were as follows:

| | Amount |
|----------------------------------|----------------------|
| Current Receivables: | |
| Students | \$ 33,431.28 |
| Accounts | 11,049.24 |
| Intergovernmental | 89,574.39 |
| Investment Earnings | 325.58 |
| Total Current Receivables | \$ 134,380.49 |

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

| | Balance July 1, 2003 | Adjustments | Increases | Decreases | Balance June 30, 2004 |
|---|-------------------------|-----------------------|------------------------|------------------------|--------------------------|
| Capital Assets, Nondepreciable: | | | | | |
| Land | \$ 326,873.88 | \$ 0.00 | \$ 510,000.00 | \$ 136,045.40 | \$ 700,828.48 |
| Construction in Progress | 1,544,187.18 | (1,470,038.66) | 207.73 | | 74,356.25 |
| Total Capital Assets, Nondepreciable | 1,871,061.06 | (1,470,038.66) | 510,207.73 | 136,045.40 | 775,184.73 |
| Capital Assets, Depreciable: | | | | | |
| Buildings | 11,844,142.02 | 1,470,038.66 | 6,754,100.00 | 1,925,248.59 | 18,143,032.09 |
| Machinery and Equipment | 1,032,233.92 | | 37,630.41 | | 1,069,864.33 |
| General Infrastructure | 477,997.97 | | 5,652.90 | | 483,650.87 |
| Total Capital Assets, Depreciable | 13,354,373.91 | 1,470,038.66 | 6,797,383.31 | 1,925,248.59 | 19,696,547.29 |
| Less Accumulated Depreciation: | | | | | |
| Buildings | 2,916,848.84 | | 352,686.66 | 136,371.73 | 3,133,163.77 |
| Machinery and Equipment | 768,027.02 | | 56,454.12 | | 824,481.14 |
| General Infrastructure | 477,997.97 | | | | 477,997.97 |
| Total Accumulated Depreciation | 4,162,873.83 | | 409,140.78 | 136,371.73 | 4,435,642.88 |
| Total Capital Assets, Depreciable, Net | 9,191,500.08 | 1,470,038.66 | 6,388,242.53 | 1,788,876.86 | 15,260,904.41 |
| Capital Assets, Net | \$ 11,062,561.14 | \$ 0.00 | \$ 6,898,450.26 | \$ 1,924,922.26 | \$ 16,036,089.14 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 148,013.28 |
| Accrued Payroll | 71,625.83 |
| Intergovernmental Payables | 2,534.72 |
| Total Accounts Payable and Accrued Liabilities | \$ 222,173.83 |

NOTE 6 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2003 | Additions | Reductions | Balance June 30, 2004 | Current Portion |
|----------------------|-------------------------|---------------|---------------|--------------------------|--------------------|
| Compensated Absences | \$ 291,722.61 | \$ 469,412.26 | \$ 285,309.99 | \$ 475,824.88 | \$ 76,132.03 |

NOTE 7 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$36,292.99.

NOTE 8 - REVENUES

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

| | Gross Revenues | Internal Sales Eliminations | Less Scholarship Discounts | Net Revenues |
|---|-------------------|-----------------------------------|----------------------------------|-----------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | \$ 1,230,602.98 | \$ 0.00 | \$ 345,709.63 | \$ 884,893.35 |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Dining | \$ 97,752.49 | \$ 0.00 | \$ 0.00 | \$ 97,752.49 |
| Bookstore | 430,817.34 | 8,706.18 | 168,224.89 | 253,886.27 |
| Child Development Center | 359,034.00 | | | 359,034.00 |
| Sales and Services of Education and Related Activities | 20,583.82 | | | 20,583.82 |
| Total Sales and Services | \$ 908,187.65 | \$ 8,706.18 | \$ 168,224.89 | \$ 731,256.58 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 | \$ 4,293,697.04 | \$ 389,950.51 | \$ 280,293.15 | \$ 88,927.36 | \$ 0.00 | \$ 0.00 | \$ 5,052,868.06 |
| Academic Support | 653,954.08 | 40,496.32 | 83,994.47 | | | | 778,444.87 |
| Student Services | 647,318.67 | 17,149.01 | 564,711.24 | 25,953.96 | | | 1,255,132.88 |
| Institutional Support | 1,487,920.86 | 270,119.76 | 270,563.10 | 2,098.01 | | | 2,030,701.73 |
| Operations and Maintenance of Plant | 270,042.86 | 357,474.82 | 68,681.46 | | 205,215.00 | | 901,414.14 |
| Student Financial Aid | | | | 518,110.69 | | | 518,110.69 |
| Auxiliary Enterprises | 644,705.93 | 469,496.27 | 33,660.63 | 2,016.35 | 10,030.45 | | 1,159,909.63 |
| Depreciation | | | | | | 409,140.78 | 409,140.78 |
| Total Operating Expenses | <u>\$ 7,997,639.44</u> | <u>\$ 1,544,686.69</u> | <u>\$ 1,301,904.05</u> | <u>\$ 637,106.37</u> | <u>\$ 215,245.45</u> | <u>\$ 409,140.78</u> | <u>\$ 12,105,722.78</u> |

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 set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$6,536,278.39, of which \$5,752,612.39 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$345,156.74 and \$12,655.75, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$12,655.75, \$0.00, and \$102,600.52, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$17,196.00 for the year ended June 30, 2004.

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 \$38,724.00 for the year ended June 30, 2004.

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 \$18,064.64 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$184,083.60. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,000,000 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.

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. In addition, all full-time employees are covered by contracts with private insurance companies with coverage of \$100,000 per occurrence and a \$1,000 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. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$291,283.42 and on other purchases were \$66,297.11 at June 30, 2004.
- B. Pending Litigation and Claims** – The College is a party to 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.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$1,488,423.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

Mayland Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

| Capital Improvement Projects | Original Projected Start Date | Revised/ Actual Start Date | General Obligation Bonds Authorized | Other Sources | Total Project Budget | Amount Expended | Percent Completed | Original Expected Completion Date | Revised/ Actual Completion Date |
|---|--|---|--|--------------------------|-------------------------------------|----------------------------|------------------------------|--|--|
| Projects Approved by the State Board | | | | | | | | | |
| Avery County Center | Mar 2001 | | \$ 824,471.00 | \$ 477,724.00 | \$ 1,302,195.00 | \$ 1,266,028.66 | 97.22% | Dec 2002 | Sep 2003 |
| Renovation Projects - Paving, Fire Detection, HVAC, Repairs | Jul 2002 | | 200,000.00 | 130,000.00 | 330,000.00 | 290,335.42 | 87.98% | Dec 2003 | Jun 2005 |
| Applied Technologies Building | Jul 2003 | Jul 2004 | 1,852,610.00 | | 1,852,610.00 | | 0.00% | Jun 2005 | Jun 2006 |
| Land Purchase | Dec 2004 | | 127,529.00 | 17,471.00 | 145,000.00 | | 0.00% | Dec 2004 | |
| Repairs and Renovations Projects | Mar 2004 | Sep 2004 | 241,545.00 | | 241,545.00 | | 0.00% | Jun 2005 | Sep 2005 |
| Total All Projects | | | \$ 3,246,155.00 | \$ 625,195.00 | \$ 3,871,350.00 | \$ 1,556,364.08 | | | |

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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June 27, 2005

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