



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, 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

MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'S TRANSMITTAL

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

This report presents the results of our financial statement review of McDowell Technical 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 McDowell Technical 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
McDowell Technical Community College
Marion, North Carolina

We have reviewed the accompanying basic financial statements of McDowell Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, as listed in the table of contents. We conducted our review 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. We did not review the financial statements of the McDowell Technical Community College Foundation, Inc., which represent 4.98 percent, 5.87 percent, and .76 percent, respectively, of the assets, net assets, and revenues of the College. 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 the McDowell Technical Community College Foundation, Inc., 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 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, 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

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

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.

Leslie W. Merritt, Jr.

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

April 26, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of McDowell Technical Community College's Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2004. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the College's basic financial statements and notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College and Universities*. These financial statements focus on the financial condition of the College, results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared using economic resource measurement focus and the accrual basis of accounting, whereby 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. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three financial statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities, which are supported mainly by State, local, federal and other revenues. This Statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A Community College's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Information

In this year's report, a comparative analysis is presented showing prior year information.

Financial Highlights

Because of the uncertainty surrounding the State's economy, and given the fact that the North Carolina Community College System was required to revert 2 percent this fiscal year, it was recommended that the State Board advise colleges to withhold from their budget allocations a minimum of 4.5 percent at the beginning of the fiscal year for possible reversion. The College's actual reversions totaled \$4,150,488 (3.0%) during this fiscal year.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2004, the College's current assets have increased primarily due to cash and cash equivalents being higher. Net assets decreased slightly in 2004.

Analysis of Net Capital Assets

This account includes the College's capital assets, which are presented on an accrual basis of accounting whereby assets are capitalized and depreciated. This resulted in a slight decrease of net capital assets.

Analysis of Liabilities

Long-term liabilities for compensated absences increased \$273,488.61. This increase is primarily due to bonus leave hours granted to eligible employees during the fiscal year.

Analysis of Revenues

Total revenues increased \$403,717.47 in fiscal year 2004. Total revenues for 2003 were \$9,652,084.39 and total revenues for 2004 were \$10,055,801.86. The increase in nonoperating revenue is attributable to State aid increases of \$235,292.48. There was also an increase in capital contributions of \$150,254.51. Student tuition and fees decreased by \$33,364.90 and this decrease was offset by increases in sales and services, net. Overall, operating revenue remained relatively constant.

Analysis of Expenditures

The College experienced an overall increase in expenditures from fiscal year ended June 30, 2003, primarily due to instructional salary, fringes and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Financial Statements

Statement of Net Assets

	2004	2003	Difference
Assets			
Current Assets	\$ 750,068.68	\$ 646,945.98	\$ 103,122.70
Noncurrent Assets			
Capital Assets, Net	3,635,652.14	3,678,271.19	(42,619.50)
Other	354,800.33	219,266.90	135,533.43
Total Assets	4,740,521.15	4,544,484.07	196,037.08
Liabilities			
Current Liabilities	64,974.67	109,475.48	(44,500.81)
Noncurrent Liabilities	732,566.43	459,077.82	273,488.61
Total Liabilities	797,541.10	568,553.30	228,987.80
Net Assets			
Invested in Capital Assets	3,635,652.14	3,678,271.19	(42,619.05)
Restricted	501,821.52	295,415.62	206,405.90
Unrestricted	(194,493.61)	2,243.96	(196,737.57)
Total Net Assets	\$ 3,942,980.05	\$ 3,975,930.77	\$ (32,950.72)

Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Difference
Operating Revenues			
Tuition and Fees, Net	\$ 643,300.68	\$ 676,665.58	\$ (33,364.90)
Federal Grants and Contracts	1,445,218.68	1,461,203.72	(15,985.07)
Sales and Services, Net	692,338.41	637,451.09	54,887.32
Other	6,050.47	3,891.74	2,158.73
Total Operating Revenues	2,786,908.24	2,779,212.16	7,696.08
Less Operating Expenses	10,088,752.58	9,746,148.90	342,603.68
Net Operating Loss	(7,301,844.34)	(6,966,936.74)	(334,907.60)
Nonoperating Revenues			
State Aid	5,297,685.74	5,062,393.26	235,292.48
County Appropriations	539,082.00	513,412.00	25,670.00
Noncapital Contributions	957,041.80	973,142.78	(16,100.98)
Investment Income	3,637.94	2,732.56	905.38
Total Nonoperating Revenues	6,797,447.48	6,551,680.60	245,766.88
Capital Contributions	471,446.14	321,191.63	150,254.51
Decrease in Net Assets	(32,950.72)	(94,064.51)	61,113.79
Net Assets	3,975,930.77	4,069,995.28	(94,064.51)
Net Assets, End of Year	\$ 3,942,980.05	\$ 3,975,930.77	\$ (32,950.72)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

At fiscal year ended June 30, 2004, the College had not received any official information on the 2004-2005 budgets. However, both the State of North Carolina and the County of McDowell are still encountering budget crises, which will likely further decrease revenues in the upcoming year.

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

McDowell Technical Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 159,321.80
Restricted Cash and Cash Equivalents	139,188.63
Short-Term Investments	2,966.35
Restricted Short-Term Investments	2,990.03
Receivables, Net (Note 4)	139,813.28
Inventories	209,066.82
Notes Receivable, Net (Note 4)	96,721.77

Total Current Assets 750,068.68

Noncurrent Assets:

Restricted Cash and Cash Equivalents	261,730.49
Restricted Due from Primary Government	77,004.84
Endowment Investments	16,065.00
Capital Assets - Nondepreciable (Note 5)	190,734.88
Capital Assets - Depreciable, Net (Note 5)	3,444,917.26

Total Noncurrent Assets 3,990,452.47

Total Assets 4,740,521.15

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	97,193.56
Deferred Revenue	(55,571.99)
Funds Held for Others	3,797.94
Long-Term Liabilities - Current Portion (Note 7)	19,555.16

Total Current Liabilities 64,974.67

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	732,566.43
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Total Noncurrent Liabilities 732,566.43

Total Liabilities 797,541.10

NET ASSETS

Invested in Capital Assets 3,635,652.14

Restricted for:

Nonexpendable:

Scholarships and Fellowships	15,611.00
Other	130,190.23

Expendable:

Scholarships and Fellowships	51,668.35
Loans	3,683.57
Capital Projects	187,235.10
Other	113,433.27

Unrestricted (194,493.61)

Total Net Assets \$ 3,942,980.05

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

McDowell Technical 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 9)	\$	643,300.68
Federal Grants and Contracts		1,445,218.68
State and Local Grants and Contracts		5,283.00
Sales and Services, Net (Note 9)		692,338.41
Other Operating Revenues		767.47
Total Operating Revenues		2,786,908.24
EXPENSES		
Operating Expenses:		
Salaries and Benefits		6,418,948.69
Supplies and Materials		1,078,097.07
Services		1,076,389.90
Scholarships and Fellowships		1,174,597.83
Utilities		119,453.96
Depreciation		221,265.13
Total Operating Expenses		10,088,752.58
Operating Loss		(7,301,844.34)
NONOPERATING REVENUES		
State Aid		5,297,685.74
County Appropriations		539,082.00
Noncapital Grants		756,285.12
Noncapital Gifts		200,756.68
Investment Income, Net		3,637.94
Net Nonoperating Revenues		6,797,447.48
Loss Before Other Revenues		(504,396.86)
State Capital Aid		407,289.14
County Capital Appropriations		55,157.00
Capital Gifts		9,000.00
Decrease in Net Assets		(32,950.72)
NET ASSETS		
Net Assets, July 1, 2003		3,975,930.77
Net Assets, June 30, 2004	\$	3,942,980.05
The accompanying notes to the financial statements are an integral part of this statement.		

McDowell Technical 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	\$ 2,782,006.93
Payments to Employees and Fringe Benefits	(6,148,341.44)
Payments to Vendors and Suppliers	(2,225,901.62)
Payments for Scholarships and Fellowships	(1,174,597.83)
Loans Issued to Students	(10,982.33)
Other Payments	(1,130.22)
Net Cash Used by Operating Activities	(6,778,946.51)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,297,685.74
County Appropriations	539,082.00
Noncapital Grants Received	730,854.65
Noncapital Gifts and Endowments Received	200,756.68
Net Cash Provided by Noncapital Financing Activities	6,768,379.07

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	330,284.30
County Capital Appropriations	55,157.00
Capital Gifts Received	9,000.00
Acquisition and Construction of Capital Assets	(178,646.08)
Net Cash Provided by Capital and Related Financing Activities	215,795.22

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	3,689.16
Purchase of Investments and Related Fees	(331.47)
Net Cash Provided by Investing Activities	3,357.69

Net Increase in Cash and Cash Equivalents	208,585.47
Cash and Cash Equivalents, July 1, 2003	351,655.45
Cash and Cash Equivalents, June 30, 2004	\$ 560,240.92

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

Operating Loss	\$ (7,301,844.34)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	221,265.13
Changes in Assets and Liabilities:	
Receivables, Net	60,191.79
Inventories	9,539.94
Notes Receivable, Net	(10,982.33)
Accounts Payable and Accrued Liabilities	45,002.27
Deferred Revenue	(67,779.52)
Funds Held for Others	1,556.20
Compensated Absences	264,104.35
Net Cash Used by Operating Activities	\$ (6,778,946.51)

McDowell Technical Community College		
Statement of Cash Flows		Exhibit A-3
For the Fiscal Year Ended June 30, 2004		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 159,321.80
	Restricted Cash and Cash Equivalents	139,188.63
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	261,730.49
	Total Cash and Cash Equivalents - June 30, 2004	\$ 560,240.92
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Increase in Receivables Related to Nonoperating Income	\$ 88,539.81
	Capital Asset Write-Offs	6,331.62
The accompanying notes to the financial statements are an integral part of this statement.		

MCDOWELL TECHNICAL 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. McDowell Technical 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College.

Blended Component Units – Although legally separate, McDowell Technical Community College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a 25-member board consisting of two members of McDowell Technical Community College Board of Trustees and one student of McDowell Technical Community College. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the McDowell Technical Community College Board of Trustees and the Foundation's sole purpose is to benefit McDowell Technical Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Business Office, 54 College Drive, Marion, North Carolina 28752, or by calling (828) 652-0627. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises’ sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

G. Inventories – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and 3 to 15 years for equipment.

I. Restricted Assets – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

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

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

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 September 30, 2002, and 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Internal Sales Activities** – 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 central store and 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.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$900.00. The carrying amount of cash on deposit was \$580,762.30 and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the bank balance was \$624,741.54. All of the cash was on deposit with private financial institutions.

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.

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

Of the cash on deposit with private financial institutions at June 30, 2004, \$200,000.00 of the bank balance was covered by federal depository insurance, \$321,816.18 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method), and \$102,925.36 was uninsured and uncollateralized.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2004, is presented below:

	Total Fair Value
Investments Not Categorized:	
Certificates of Deposit	\$ 21,421.38
Real Estate	600.00
Total Investments	\$ 22,021.38

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

NOTE 3 - ENDOWMENT INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to endowment income. At June 30, 2004, net appreciation of \$12,951.99 was available to be spent, of which \$6,251.72 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 29,895.37	\$ 3,272.42	\$ 26,622.95
Accounts	46,047.20	231.25	45,815.95
Intergovernmental	64,513.05		64,513.05
Investment Earnings	174.91		174.91
Other	2,686.42		2,686.42
	<u>\$ 143,316.95</u>	<u>\$ 3,503.67</u>	<u>\$ 139,813.28</u>
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	<u>\$ 156,308.55</u>	<u>\$ 59,586.78</u>	<u>\$ 96,721.77</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, 2004, is presented as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 123,184.88	\$ 0.00	\$ 0.00	\$ 123,184.88
Construction in Progress		67,550.00		67,550.00
Total Capital Assets, Nondepreciable	<u>123,184.88</u>	<u>67,550.00</u>		<u>190,734.88</u>
Capital Assets, Depreciable:				
Buildings	6,085,695.88			6,085,695.88
Machinery and Equipment	933,517.17	111,096.08	6,331.62	1,038,281.63
Total Capital Assets, Depreciable	<u>7,019,213.05</u>	<u>111,096.08</u>	<u>6,331.62</u>	<u>7,123,977.51</u>
Less Accumulated Depreciation:				
Buildings	2,862,412.80	152,142.24		3,014,555.04
Machinery and Equipment	601,713.94	69,122.89	6,331.62	664,505.21
Total Accumulated Depreciation	<u>3,464,126.74</u>	<u>221,265.13</u>	<u>6,331.62</u>	<u>3,679,060.25</u>
Total Capital Assets, Depreciable, Net	<u>3,555,086.31</u>	<u>(110,169.05)</u>		<u>3,444,917.26</u>
Capital Assets, Net	<u>\$ 3,678,271.19</u>	<u>\$ (42,619.05)</u>	<u>\$ 0.00</u>	<u>\$ 3,635,652.14</u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 63,428.41
Accrued Payroll	19,291.74
Intergovernmental Payables	<u>14,473.41</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 97,193.56</u>

NOTE 7 - 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	<u>\$ 488,017.24</u>	<u>\$ 566,507.34</u>	<u>\$ 302,402.99</u>	<u>\$ 752,121.59</u>	<u>\$ 19,555.16</u>

NOTE 8 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$168,579.31.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 912,695.54	\$ 0.00	\$ 258,754.18	\$ 10,640.68	\$ 643,300.68
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	\$ 611,237.75	\$ 18,013.15	\$ 173,222.74	\$ 5,750.77	\$ 414,251.09
Child Development Center	151,191.28			(311.75)	151,503.03
Other	46,859.20	10,980.21		(1,172.34)	37,051.33
Sales and Services of Education and Related Activities	89,532.96				89,532.96
Total Sales and Services	<u>\$ 898,821.19</u>	<u>\$ 28,993.36</u>	<u>\$ 173,222.74</u>	<u>\$ 4,266.68</u>	<u>\$ 692,338.41</u>

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	\$ 3,846,723.87	\$ 195,520.08	\$ 416,698.74	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,458,942.69
Public Service	62,452.93	3,616.61	53,342.67				119,412.21
Academic Support	405,755.16	9,112.90	17,226.59				432,094.65
Student Services	482,665.16	12,732.32	3,098.71				498,496.19
Institutional Support	1,210,652.42	90,821.38	384,590.67				1,686,064.47
Operations and Maintenance of Plant	198,956.94	309,577.04	128,531.20		119,453.96		756,519.14
Student Financial Aid	0.00	11,901.93	29,893.06	1,174,597.83			1,216,392.82
Auxiliary Enterprises	211,742.21	444,814.81	43,008.26				699,565.28
Depreciation						221,265.13	221,265.13
Total Operating Expenses	<u>\$ 6,418,948.69</u>	<u>\$ 1,078,097.07</u>	<u>\$ 1,076,389.90</u>	<u>\$ 1,174,597.83</u>	<u>\$ 119,453.96</u>	<u>\$ 221,265.13</u>	<u>\$ 10,088,752.58</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,331,022.06, of which \$4,529,564.45 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$271,773.87 and \$9,965.04, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$9,965.04, \$0.00, and \$86,729.31, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$41,540.00 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 \$14,268.00 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 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 \$144,946.06. 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 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. 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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. In addition, losses for all employees are covered by contracts with private insurance companies with coverage of \$10,000 per occurrence and \$250 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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 \$125,450.00 and on other purchases were \$13,025.69 at June 30, 2004.
- B. 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 \$2,309,678.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- C. Other Contingent Receivables** – The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Foundation Endowment Funds for College Programs	\$ 35,322.51

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

Schedule 1

	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
<i>Capital Improvement Projects</i>									
<i>Projects Approved by the State Board</i>									
Replace Exit Doors & Fire Alarm System- 1160	July, 2001	July, 2001	\$ 166,200.00	\$ 0.00	\$ 166,200.00	\$ 166,200.00	100.00%		July, 2002
Roof Replacement- 1161	July, 2001	July, 2001	98,000.00		98,000.00	98,000.00	100.00%		June, 2002
Campus Repairs & Renovations- 1248	April, 2002	April, 2002	174,500.00		174,500.00	174,500.00	100.00%		March, 2003
Classroom Building- 1353	Nov, 2003	April, 2004	2,138,279.00	465,997.00	2,604,276.00	67,550.00	2.59%	March, 2006	
<i>Projects Pending Approval by the State Board</i>									
Renovations to areas vacated with priority #1	Oct, 2005	March, 2006	282,588.00		282,588.00				
Total All Projects			\$ 2,859,567.00	\$ 465,997.00	\$ 3,325,564.00	\$ 506,250.00			
<p>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.</p>									

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Director, Fiscal Research Division

May 31, 2005

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