

# **STATE OF NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT OF**

**NASH COMMUNITY COLLEGE**

**ROCKY MOUNT, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

# **FINANCIAL STATEMENT AUDIT REPORT OF**

**NASH COMMUNITY COLLEGE**

**ROCKY MOUNT, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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State Auditor

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## AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Nash Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Nash Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Nash Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** - To express an opinion on the accompanying financial statements that relate solely to Nash Community College.

**Results** - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

## AUDITOR'S TRANSMITTAL (CONCLUDED)

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

**Results** - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

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

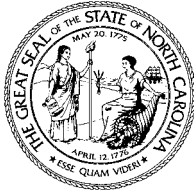


Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Nash Community College  
Rocky Mount, North Carolina

We have audited the accompanying basic financial statements of Nash 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. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of Nash Community College as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

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

April 25, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Nash Community College's financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal years June 30, 2004, and June 30, 2003. This Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts. Please read it in conjunction with the College's basic financial statements and the notes.

### Using This Annual Report

The financial statements focus on 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. The focus of 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 with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross and the net costs of College activities, which are supported mainly by State funds, county appropriations and other revenues. This approach is intended to summarize and simplify the user's analysis of cost of various College services to students and the public.

### Financial Highlights

#### Statement of Net Assets

The Statement of Net Assets provides information regarding the College's assets, liabilities, and net assets as of June 30, 2004.

#### Condensed Financial Statements Statement of Net Assets

	2004	2003
<b>ASSETS:</b>		
Current Assets	\$ 1,572,945.78	\$ 2,146,139.93
Noncurrent Assets:		
Other Noncurrent Assets	3,183,584.91	236,665.46
Capital Assets	<u>12,435,181.89</u>	<u>12,242,956.96</u>
Total Assets	17,191,712.58	14,625,762.35
<b>LIABILITIES:</b>		
Current Liabilities	641,567.42	440,558.49
Noncurrent Liabilities	<u>742,640.62</u>	<u>435,577.56</u>
Total Liabilities	1,384,208.04	876,136.05
<b>NET ASSETS:</b>		
Invested in Capital Assets	12,435,181.89	12,231,616.84
Restricted	3,492,972.78	1,508,383.17
Unrestricted	<u>(120,650.13)</u>	<u>9,626.29</u>
Total Net Assets	<u>\$ 15,807,504.54</u>	<u>\$ 13,749,626.30</u>



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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As of June 30, 2004, the College's net assets have increased to \$15.8 million from \$13.7 million at June 30, 2003. This increase of \$2.1 million is due primarily to an increase in construction-in-progress from State capital bond projects. Total net assets as of June 30, 2004, consist of investment in capital assets (78.7%), unrestricted (-.8%), and restricted (22.1%). The negative value of unrestricted assets is due to the large accrual for unfunded bonus leave.

Current assets decreased due to a decrease in cash and cash equivalents. The total assets recorded by the College as of June 30, 2004, were \$17,191,712.58. There was a reclassification of \$596,252.26 from current cash and cash equivalents to noncurrent cash and cash equivalents due to donor restricted endowments.

As of June 30, 2004, the College had recorded \$18.6 million in capital assets, \$6.2 million in accumulated depreciation and \$12.4 million in net capital assets.

In noncurrent liabilities, long-term liabilities are compensated absences that will not be paid within the next fiscal year. Accrued liabilities increased due to the award of 80 hours of "bonus" leave credited to each employee as of July 1, 2003. The total liabilities recorded by the College at June 30, 2004, were \$1,384,208.04.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The Statement of Revenues, Expenses, and Changes in Net Assets provides information regarding the College's activities for the year ending June 30, 2004.

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

	2004	2003
<b>Operating Revenues:</b>		
Student Tuition and Fees, Net	\$ 1,120,525.45	\$ 1,062,894.83
Federal Grants and Contracts	2,779,476.66	2,278,417.83
State and Local Grants and Contracts	194,118.01	243,355.83
Sales and Services, Net	920,860.87	916,364.41
Other Operating Revenues	1,948.55	3,043.08
Total Operating Revenues	5,016,929.54	4,504,075.98
Less Operating Expenses	15,603,807.02	14,673,052.21
Net Operating Loss	(10,586,877.48)	(10,168,976.23)
<b>Nonoperating Revenues:</b>		
State Aid	7,693,545.98	7,674,834.47
County Appropriations	1,118,700.00	1,102,325.00
Noncapital Grants	298,944.29	286,570.19
Noncapital Gifts	257,003.75	264,580.00
Investment Income	46,618.88	48,302.45
Other Nonoperating Revenues (Expenses)	(8,961.85)	774.20
Net Nonoperating Revenues	9,405,851.05	9,377,386.31
Loss Before Other Revenues	(1,181,026.43)	(791,589.92)
Capital Aid and Appropriations	3,145,336.60	1,072,711.69
Additions to Endowments	93,568.07	27,955.52
Increase in Net Assets	2,057,878.24	309,077.29
Net Assets, July 1	13,749,626.30	13,440,549.01
Net Assets, June 30	\$ 15,807,504.54	\$ 13,749,626.30

Operating revenues at June 30, 2004, included an increase in the federal Pell grant program which serviced approximately 1,114 students in FY 2004 versus 998 in FY 2003 – an increase of 11.6%. The Pell awards increased 15.8% over the previous year, going from \$1.9 million in 2002-2003 to \$2.2 million in 2003-2004. State and local grants and contracts decreased primarily due the expiration of the Golden Leaf grant for electric linemen. Tuition and fees revenues are net of scholarship allowances (to comply with the implementation of GASB Statements No. 34 and 35) and increased from \$34.25 to \$35.50 per credit hour for

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

in-State students and from \$190.75 to \$197.00 for out-of-State students. The following table gives operating revenues by source.

	<u><b>2003-2004</b></u>	<u><b>2002-2003</b></u>	<u><b>Increase/ (Decrease)</b></u>
Tuition and Fees, Net	\$ 1,120,525.45	\$ 1,062,894.83	\$ 57,630.62
Federal Grants and Contracts	2,779,476.66	2,278,417.83	501,058.83
State and Local Grants	194,118.01	243,355.83	(49,237.82)
Sales and Services, Net	920,860.87	916,364.41	4,496.46
Other Operating Revenue	<u>1,948.55</u>	<u>3,043.08</u>	<u>(1,094.53)</u>
Total	<u><u>\$ 5,016,929.54</u></u>	<u><u>\$ 4,504,075.98</u></u>	<u><u>\$ 512,853.56</u></u>

Operating expenses at June 30, 2004, increased over the same period in fiscal year 2003. This increase was caused primarily by an increase in personal services and scholarships and fellowships. These increases were due to an increase in enrollment and the addition of six permanent full-time employees. All full-time faculty and staff received a .5% permanent raise effective July 1, 2003, as well as a bonus of \$250.00. All full-time faculty and staff received an additional 2% permanent increase effective February 1, 2004. The following table details operating expenses.

	<u><b>2003-2004</b></u>	<u><b>2002-2003</b></u>	<u><b>Increase/ (Decrease)</b></u>
Personal Services	\$ 10,091,146.06	\$ 9,339,936.77	\$ 751,209.29
Supplies and Materials	1,831,786.65	1,892,022.35	(60,235.70)
Services	1,177,232.53	1,268,117.39	(90,884.86)
Scholarships and Fellowships	1,507,694.54	1,277,683.15	230,011.39
Utilities	385,085.97	393,905.21	(8,819.24)
Depreciation	<u>610,861.27</u>	<u>501,387.34</u>	<u>109,473.93</u>
Total	<u><u>\$ 15,603,807.02</u></u>	<u><u>\$ 14,673,052.21</u></u>	<u><u>\$ 930,754.81</u></u>

Total operating expenses at June 30, 2004, were \$15,603,807.02, an increase of 6.3% over the June 2003 total of \$14,673,052.21.

As the search for increased revenues continues, the General Assembly increased the State tuition for in-State students for Fall 2003 from \$34.25 per credit to \$35.50 per credit hour, a 3.6% increase. The out-of-State tuition changed from \$190.75 to \$197.00, a 3.3% increase. Over the last three years, the State tuition has increased approximately 24.56%. Over the last five years tuition has increased approximately 33%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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As was mentioned previously, the College receives funding from county and State sources. County appropriations increased from \$1,102,325 in 2002-2003 to \$1,118,700 in 2003-2004, a 1.5% increase.

The FTEs that generate the College's State budget (budget FTEs) decreased overall from 2002-2003 to 2003-2004:

	<u>2003-2004</u>	<u>2002-2003</u>	<u>Increase/ Decrease</u>
Curriculum	1,612	1,715	(103)
Occupational Extension	336	345	(9)
Basic Skills	<u>230</u>	<u>210</u>	<u>20</u>
Total	<u>2,178</u>	<u>2,270</u>	<u>(92)</u>

As the College enrollment grows, so do its facilities to accommodate our students. The Science and Technology Center will be the newest addition to Nash Community College. The 46,564 square foot, two-story building will house classrooms, labs, an auditorium, and faculty and administrative offices to accommodate both curriculum and continuing education students. The groundbreaking took place on March 30, 2004. The facility is funded from \$3,933,237 of State bond funds, \$1,525,232 of county capital funds, and \$1,000,000 from an EDA grant. The projected completion of the Science and Technology Center is summer of 2005.

Related to the new Science and Technology building, the College will modify the main entrance and construct a loop road around the campus in 2004-2005. These projects will be funded by the North Carolina Department of Transportation.

<b><i>Nash Community College</i></b>		
<b><i>Statement of Net Assets</i></b>		
<b><i>June 30, 2004</i></b>		<b><i>Exhibit A-1</i></b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	619,826.64
Restricted Cash and Cash Equivalents		500,676.40
Short-Term Investments		141,728.37
Receivables (Note 4)		148,886.35
Due from State of North Carolina Component Units		15,322.51
Inventories		141,179.15
Notes Receivable (Note 4)		5,326.36
Total Current Assets		1,572,945.78
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		596,252.26
Receivables (Note 4)		114,357.50
Restricted Due from Primary Government		2,472,975.15
Capital Assets - Nondepreciable (Note 5)		1,777,161.86
Capital Assets - Depreciable, Net (Note 5)		10,658,020.03
Total Noncurrent Assets		15,618,766.80
Total Assets		17,191,712.58
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		486,302.86
Due to Primary Government		36,603.19
Deferred Revenue		1,929.96
Funds Held for Others		74,909.50
Long-Term Liabilities - Current Portion (Note 7)		41,821.91
Total Current Liabilities		641,567.42
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		742,640.62
Total Liabilities		1,384,208.04
<b>NET ASSETS</b>		
Invested in Capital Assets		12,435,181.89
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		386,045.03
Expendable:		
Scholarships and Fellowships		360,891.60
Loans		22,688.52
Capital Projects		2,599,896.98
Other		123,450.65
Unrestricted		(120,650.13)
Total Net Assets	\$	15,807,504.54
The accompanying notes to the financial statements are an integral part of this statement.		

<b><i>Nash Community College</i></b>			
<b><i>Statement of Revenues, Expenses, and</i></b>			
<b><i>Changes in Net Assets</i></b>			
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>			<b><i>Exhibit A-2</i></b>
<b>REVENUES</b>			
Operating Revenues:			
Student Tuition and Fees, Net (Note 8)	\$	1,120,525.45	
Federal Grants and Contracts		2,779,476.66	
State and Local Grants and Contracts		194,118.01	
Sales and Services, Net (Note 8)		920,860.87	
Other Operating Revenues		1,948.55	
Total Operating Revenues		5,016,929.54	
<b>EXPENSES</b>			
Operating Expenses:			
Personal Services		10,091,146.06	
Supplies and Materials		1,831,786.65	
Services		1,177,232.53	
Scholarships and Fellowships		1,507,694.54	
Utilities		385,085.97	
Depreciation		610,861.27	
Total Operating Expenses		15,603,807.02	
Operating Loss		(10,586,877.48)	
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State Aid		7,693,545.98	
County Appropriations		1,118,700.00	
Noncapital Grants		298,944.29	
Noncapital Gifts		257,003.75	
Investment Income, Net		46,618.88	
Other Nonoperating Expenses		(8,961.85)	
Net Nonoperating Revenues		9,405,851.05	
Loss Before Other Revenues		(1,181,026.43)	
State Capital Aid		3,000,630.08	
County Capital Appropriations		144,706.52	
Additions to Endowments		93,568.07	
Increase in Net Assets		2,057,878.24	
<b>NET ASSETS</b>			
Net Assets, July 1, 2003		13,749,626.30	
Net Assets, June 30, 2004	\$	15,807,504.54	
The accompanying notes to the financial statements are an integral part of this statement.			

<b><i>Nash Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Exhibit A-3</i></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers	\$	4,905,504.12
Payments to Employees and Fringe Benefits		(9,780,545.89)
Payments to Vendors and Suppliers		(3,264,989.15)
Payments for Scholarships and Fellowships		(1,503,782.42)
Loans Issued to Students		(11,080.94)
Collection of Loans to Students		9,666.70
Other Payments		(146,664.97)
Net Cash Used by Operating Activities		(9,791,892.55)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		7,693,545.98
County Appropriations		1,118,700.00
Noncapital Grants Received		352,558.77
Noncapital Gifts and Endowments Received		350,571.82
Net Cash Provided by Noncapital Financing Activities		9,515,376.57
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		764,320.39
County Capital Appropriations		144,706.52
Capital Grants Received		171,278.02
Acquisition and Construction of Capital Assets		(812,461.17)
Net Cash Provided by Capital and Related Financing Activities		267,843.76
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		118,492.03
Investment Income		41,442.59
Purchase of Investments and Related Fees		103.65
Net Cash Provided by Investing Activities		160,038.27
Net Increase in Cash and Cash Equivalents		151,366.05
Cash and Cash Equivalents, July 1, 2003		1,565,389.25
Cash and Cash Equivalents, June 30, 2004	\$	1,716,755.30
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$	(10,586,877.48)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		610,861.27
Miscellaneous Nonoperating Income		413.12
Changes in Assets and Liabilities:		
Receivables		(47,489.31)
Inventories		10,177.62
Notes Receivable		(1,414.24)
Accounts Payable and Accrued Liabilities		103,999.94
Due to Primary Government		36,603.19
Due to State of North Carolina Component Units		(501.41)
Deferred Revenue		(6,941.91)
Funds Held for Others		(200,211.37)
Compensated Absences		289,488.03
Net Cash Used by Operating Activities	\$	(9,791,892.55)

<b><i>Nash Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit A-3</i></b>
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
	Current Assets:	
	Cash and Cash Equivalents	\$ 619,826.64
	Restricted Cash and Cash Equivalents	500,676.40
	Noncurrent Assets:	
	Restricted Cash and Cash Equivalents	596,252.26
	Total Cash and Cash Equivalents - June 30, 2004	\$ 1,716,755.30
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
	Change in Fair Value of Investments	\$ 12,783.73
	Increase in Receivables Related to Nonoperating Income	2,351,124.25
	Capital Asset Write-Offs	105,098.17
The accompanying notes to the financial statements are an integral part of this statement.		



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**NASH COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes mutual funds. 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.
- F. Receivables** - Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Accounts receivables are shown at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out, method. Merchandise for resale is valued using the average cost 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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and five to 15 years for equipment.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The College does not capitalize the NCC Library collection. This collection adheres to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and requires proceeds from any sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

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

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave 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.

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

**Invested in Capital Assets** - This represents the College's total investment in capital assets.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. The College has one institutional auxiliary operation, the Print Shop. 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 by the College 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 \$94.00. The carrying amount of cash on deposit was \$1,716,661.30 and the bank balance was \$1,732,397.18.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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	\$ 1,344,653.58	\$ 1,344,653.58
Cash on Deposit with Private Financial Institutions	372,007.72	387,743.60
	<u>\$ 1,716,661.30</u>	<u>\$ 1,732,397.18</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

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

Of the cash on deposit with private financial institutions at June 30, 2004, \$100,000.00 of the bank balance was covered by federal depository insurance and \$287,743.60 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** - In addition to donated 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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.

At June 30, 2004, the College was a participant in SEC registered mutual funds. The mutual funds are exempt from risk categorization because the College does not own identifiable securities. The market value of its investment in the mutual funds at June 30, 2004, was \$141,728.37.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with College funds at RBC Centura and with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$29,926.13 was available to be spent, all of which was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables
<b>Current Receivables:</b>	
Students	\$ 14,339.18
Accounts	121,334.97
Intergovernmental	12,134.94
Other	1,077.26
<b>Total Current Receivables</b>	<u>\$ 148,886.35</u>
<b>Noncurrent Receivables:</b>	
Intergovernmental	<u>\$ 114,357.50</u>
<b>Notes Receivable:</b>	
<b>Notes Receivable - Current:</b>	
Institutional Student Loan Programs	<u>\$ 5,326.36</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	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 663,251.30	\$ 0.00	\$ 0.00	\$ 0.00	\$ 663,251.30
Construction in Progress	431,939.21		681,971.35		1,113,910.56
<b>Total Capital Assets, Nondepreciable</b>	<u>1,095,190.51</u>		<u>681,971.35</u>		<u>1,777,161.86</u>
Capital Assets, Depreciable:					
Buildings	13,994,652.84	(73,277.53)		18,063.83	13,903,311.48
Machinery and Equipment	1,359,168.17		130,489.82	69,657.40	1,420,000.59
General Infrastructure	1,497,147.65	73,277.53		87,034.34	1,483,390.84
<b>Total Capital Assets, Depreciable</b>	<u>16,850,968.66</u>		<u>130,489.82</u>	<u>174,755.57</u>	<u>16,806,702.91</u>
Less Accumulated Depreciation:					
Buildings	3,847,747.95		297,546.71	18,063.83	4,127,230.83
Machinery and Equipment	666,124.25		109,491.13	60,282.43	715,332.95
General Infrastructure	1,189,330.01		203,823.43	87,034.34	1,306,119.10
<b>Total Accumulated Depreciation</b>	<u>5,703,202.21</u>		<u>610,861.27</u>	<u>165,380.60</u>	<u>6,148,682.88</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>11,147,766.45</u>		<u>(480,371.45)</u>	<u>9,374.97</u>	<u>10,658,020.03</u>
<b>Capital Assets, Net</b>	<u>\$ 12,242,956.96</u>	<u>\$ 0.00</u>	<u>\$ 201,599.90</u>	<u>\$ 9,374.97</u>	<u>\$ 12,435,181.89</u>

The capital asset schedule above includes land and buildings valued at a cost of \$5,821,842.82 for which the College does not currently hold the title. In 1997, Nash County provided capital appropriations for the construction of the College's Business and Industry Center and Child Development Center. In order for the county to obtain the private financing needed to provide the resources to the College, the College transferred title of the land to the county until the debt has been paid off, at which time the title reverts back to the College.

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 420,372.63
Accrued Payroll	65,930.23
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 486,302.86</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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	\$ 494,974.50	\$ 772,301.78	\$ 482,813.75	\$ 784,462.53	\$ 41,821.91

### 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
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 2,207,068.54	\$ 0.00	\$ 1,086,543.09	\$ 1,120,525.45
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Food Service	\$ 30,902.41	\$ 0.00	\$ 0.00	\$ 30,902.41
Bookstore	632,637.79			632,637.79
Child Development Center	197,056.99			197,056.99
Business & Industry Center	40,122.53			40,122.53
Other	20,141.15			20,141.15
Sales and Services of Education and Related Activities	6,115.75	6,115.75		
<b>Total Sales and Services</b>	\$ 926,976.62	\$ 6,115.75	\$ 0.00	\$ 920,860.87

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,374,030.41	\$ 659,408.61	\$ 312,112.74	\$ 23,496.78	\$ 0.00	\$ 0.00	\$ 7,369,048.54
Academic Support	789,778.07	51,278.53	16,746.13				857,802.73
Student Services	874,042.95	41,462.54	79,860.12	51,321.75			1,046,687.36
Institutional Support	1,516,909.19	93,403.32	303,354.72	2,003.73			1,915,670.96
Operations and Maintenance of Plant	268,604.66	46,469.17	410,771.41		385,085.97		1,110,931.21
Student Financial Aid				1,429,065.64			1,429,065.64
Auxiliary Enterprise	267,780.78	939,764.48	54,387.41	1,806.64			1,263,739.31
Depreciation						610,861.27	610,861.27
<b>Total Operating Expenses</b>	\$ 10,091,146.06	\$ 1,831,786.65	\$ 1,177,232.53	\$ 1,507,694.54	\$ 385,085.97	\$ 610,861.27	\$ 15,603,807.02

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 \$8,418,791.24 of which \$7,050,463.71 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$423,027.82 and \$15,511.02, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$15,511.02, \$0.00, and \$124,807.91, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*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 \$9,480.00 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 \$87,292.00 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 \$28,500.00 for the year ended June 30, 2004.

### **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 \$225,614.84. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. All College employees are insured by an honesty bond purchased by the College through a local agent with coverage of \$100,000 per occurrence with \$500 deductible.

The College supplements the State's liability coverage by acquiring additional general liability coverage up to \$6,000,000 with a self retention of \$10,000. As a part of the College's insurance portfolio, professional liability coverage is provided on the Board of Trustees, faculty, and staff up to \$4,000,000 with retention of \$1,000.

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.

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 \$5,681,358.69 and on other purchases were \$167,001.07 at June 30, 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- 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 \$1,594,156.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

### **NOTE 14 - NASH COMMUNITY COLLEGE FOUNDATION, INC.**

The Nash Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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scholarships and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$303,927.46 for the year ended June 30, 2004.

### **NOTE 15 - 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.

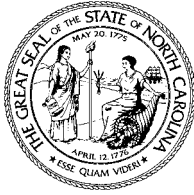
***Nash Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2004***

***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
<b>Capital Improvement Projects</b>									
<b><i>Projects Approved by the State Board</i></b>									
Land Acquisition #1141	Mar 2001	Mar 2001	\$ 350,000.00	\$ 0.00	\$ 350,000.00	\$ 350,000.00	100.00%	Mar 2001	Mar 2001
Environmental Repairs and Renovations #1193	Jul 2001	Jun 2002	266,844.00		266,844.00	232,391.78	87.09%	Jan 2002	Jun 2005
Aesthetic Repairs and Renovations #1194	Jul 2001	Sep 2001	260,000.00		260,000.00	190,603.96	73.31%	Jan 2002	Jun 2005
Program Specific Classroom Renovations #1203	Jul 2001	Oct 2001	41,000.00		41,000.00	10,605.55	25.87%	Jan 2002	Sep 2004
Structural Repairs and Renovations #1299	Jun 2002	Jul 2001	190,000.00		190,000.00	120,699.00	63.53%	Jan 2003	Sep 2005
Infrastructure Repairs and Renovations #1300	Jul 2002	Nov 2003	41,000.00		41,000.00	1,000.00	2.44%	Feb 2003	May 2005
Science and Technology Building #1301	Jul 2003	Mar 2003	3,933,237.00	2,525,232.00	6,458,469.00	737,790.32	11.42%	Jan 2006	Aug 2005
<b><i>Projects Pending Approval by the State Board</i></b>									
Renovate Recaptured Classrooms	Jul 2005	May 2005	150,000.00		150,000.00			Jul 2006	Mar 2006
<b>Total All Projects</b>			<b>\$ 5,232,081.00</b>	<b>\$ 2,525,232.00</b>	<b>\$ 7,757,313.00</b>	<b>\$ 1,643,090.61</b>			

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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STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Trustees  
Nash Community College  
Rocky Mount, North Carolina

We have audited the financial statements of Nash Community College, a component unit of the State of North Carolina as of and for the year ended June 30, 2004, and have issued our report thereon dated April 25, 2005.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



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

April 25, 2005

## **DISTRIBUTION OF AUDIT REPORT**

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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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The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell  
Mr. H. Martin Lancaster  
Dr. Marvin Joyner  
Mr. Tony R. Jernigan

Mr. Gerald P. Cox

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
Interim President, Nash Community College  
Vice President of Finance and Administrative Services  
Nash Community College  
Chairman, Board of Trustees  
Nash Community College

### **LEGISLATIVE BRANCH**

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### **Other Legislative Officials**

Mr. James D. Johnson

Director, Fiscal Research Division

June 30, 2005

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Copies of this report may be obtained by contacting the:

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