



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, 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

VANCE-GRANVILLE COMMUNITY COLLEGE

HENDERSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Vance-Granville 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 *North Carolina General Statutes*.

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

As part of the 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 Vance-Granville 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 Vance-Granville 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 Vance-Granville 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)

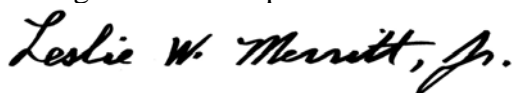
2. **Objective** - To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws,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

3. **Objective** - To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance which require disclosure herein under *OMB Circular A-133*.

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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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the accompanying financial statements of Vance-Granville Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Vance-Granville Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Vance-Granville Community College Endowment Fund Corporation which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

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. The financial statements of Vance-Granville Community College Endowment Fund Corporation were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vance-Granville Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 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 June 9, 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 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.



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

June 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Financial Statements

In accordance with GASB Statements No. 34 and 35, the enclosed report focuses on the financial condition of the College, the results of operations, and cash flows of the College as a whole. As required, this report contains three basic financial statements and the Notes to the Financial Statements:

Statement of Net Assets: This statement includes all assets and liabilities. The College's net assets (the difference between assets and liabilities) are an indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels.

Statement of Revenues, Expenses, and Changes in Net Assets: This statement presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. This approach is intended to summarize and simplify the presentation of the College's services to the students and public.

Statement of Cash Flows: This statement 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 of the College to meet financial obligations as they mature.

Notes to the Financial Statements: The notes provide additional information that is essential for a complete understanding of the data provided in the statements.

The College has implemented GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. Statement 39 clarifies GASB Statement 14, *The Financial Reporting Entity*, as to which organizations affiliated with the College, but separately accountable, should be reported as a component unit based on the organization's nature and significance to the College. In accordance with GASB Statement 39, this set of statements includes Vance-Granville Community College Endowment Fund Corporation's financial exhibits (Exhibits B-1 and B-2). The Notes to the Financial Statements do not address the Corporation unless specified.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

The College's financial position has seen an overall improvement since the prior year. Below is a condensed comparative analysis between the Statement of Net Assets contained herein and the restated Statement of Net Assets for the fiscal year ended June 30, 2003.

Statement of Net Assets June 30, 2004 and June 20, 2003				
	2004	2003	Amount	Change Percentage
Assets				
Current	\$ 3,497,765.46	\$ 2,632,981.28	\$ 864,784.18	32.84%
Capital Assets, Net	18,875,530.75	16,932,132.25	1,943,398.50	11.48%
Other Noncurrent	8,724,361.82	5,689,240.50	3,035,121.32	53.35%
Total Assets	31,097,658.03	25,254,354.03	5,843,304.00	23.14%
Liabilities				
Current	1,454,242.32	1,373,877.96	80,364.36	5.85%
Noncurrent	4,440,005.08	4,387,077.20	52,927.88	1.21%
Total Liabilities	5,894,247.40	5,760,955.16	133,292.24	2.31%
Net Assets				
Invested in Capital Assets	18,875,530.75	16,932,132.25	1,943,398.50	11.48%
Restricted Assets	3,314,532.19	209,711.31	3,104,820.88	1480.52%
Unrestricted Assets	3,013,347.69	2,351,555.31	661,792.38	28.14%
Total Net Assets	<u>\$ 25,203,410.63</u>	<u>\$ 19,493,398.87</u>	<u>\$ 5,710,011.76</u>	29.29%

The College classifies its assets as current and noncurrent. Current assets include cash, receivables and inventories. Noncurrent assets include the nonexpendable principle of the Vance-Granville Community College Endowment Fund Corporation, cash and long-term investment of the College's Scholarship Fund, bond funds for construction due from the State, as well as, buildings, infrastructure, and equipment with a historical cost of \$5,000 or more.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Assets

Cash and Cash Equivalents	\$ 2,639,913.14	
Receivables, Net	476,072.68	
Inventories	381,779.64	
Subtotal Current	3,497,765.46	

Noncurrent Assets

Cash and Cash Equivalents	4,703,695.35	
Due from Primary Government	3,708,306.90	
Long-term Investments	312,359.57	
Capital Assets, Net	18,875,530.75	
Subtotal Noncurrent	27,599,892.57	

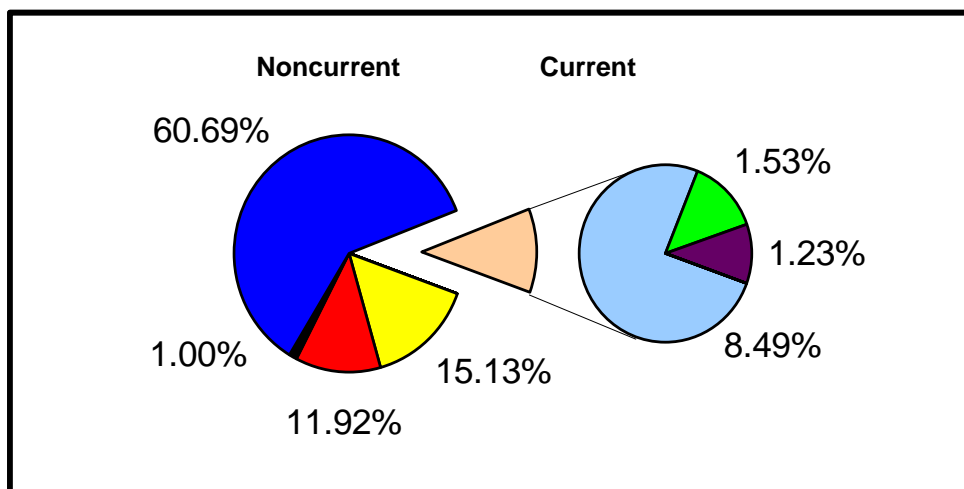
Total Assets \$ 31,097,658.03

The composition of assets at June 30, 2004, is presented in the table to the left and illustrated in the graph below.

Assets increased over the prior year by \$5,843,304.00. The change in assets is due primarily to an increase in receivables from the North Carolina Community College System for new and on-going construction projects at the Main, Franklin, and Warren County Campuses.

Additional details for the composition of assets are available in Exhibit A-1 and Notes 1, 2, 3, and 4.

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Liabilities are classified as either current or noncurrent. Current liabilities are those due and payable within one year of the date of the financial statements, while noncurrent liabilities are due and payable one year or more after the date of the financial statements.

Liabilities increased over the prior year by \$133,292.24. This change in liabilities is insignificant.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Liabilities

Accounts Payable	\$ 801,250.55	
Compensated Absences	611,175.83	
Funds Held for Others	38,257.66	
Other Liabilities	<u>3,558.28</u>	
Subtotal Current	1,454,242.32	

The composition of liabilities on June 30, 2004, is presented in the table to the right and illustrated in the graph below.

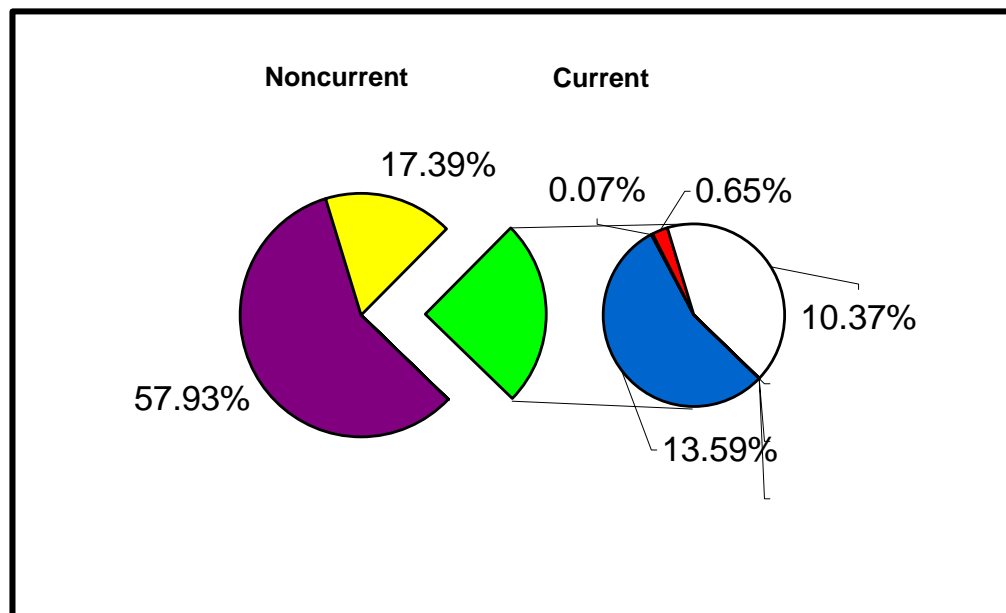
Noncurrent Liabilities

Funds Held for Others	3,414,729.54	
Compensated Absences	<u>1,025,275.54</u>	
Subtotal Noncurrent	4,440,005.08	

Additional details for the composition of liabilities are available in Exhibit A-1 and Notes 1, 5, and 6.

Total Liabilities	<u><u>\$ 5,894,247.40</u></u>
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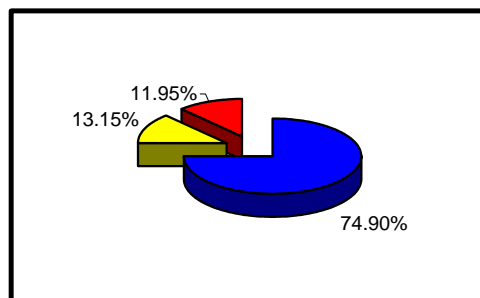


MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total net assets are the difference between assets and liabilities. The composition of the College's net assets at June 30, 2004, are shown in the table and graph below:

Net Assets

Invested in Capital Assets	\$ 18,875,530.75	
Restricted Expendable	3,314,532.19	
Unrestricted	<u>3,013,347.69</u>	
Total Net Assets	<u><u>\$ 25,203,410.63</u></u>	



Additional detailed information on net assets is available in Exhibit A-1 and Notes 1 and 4.

The table below is a condensed comparative analysis between the Statement of Revenues, Expenses, and Changes in Net Assets contained herein and the same statement for the fiscal year ended June 30, 2003.

Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2004 and 2003

	2004	2003	Change	
			Amount	Percent
Operating Revenues	\$ 10,906,882.42	\$ 9,960,065.05	\$ 946,817.37	9.51%
Operating Expenses	28,655,707.49	26,589,119.51	2,066,587.98	7.77%
Nonoperating Revenues	16,269,181.83	15,710,859.21	558,322.62	3.55%
Nonoperating Expenses		16,878.06	(16,878.06)	-100.00%
Other Revenues	<u>7,189,655.00</u>	<u>5,764,800.22</u>	<u>1,424,854.78</u>	<u>24.72%</u>
Increase in Net Assets	<u><u>\$ 5,710,011.76</u></u>	<u><u>\$ 4,829,726.91</u></u>	<u><u>\$ 880,284.85</u></u>	<u><u>18.23%</u></u>

Revenues are presented as operating and nonoperating. Operating revenues are derived from activities that are necessary and essential to the mission of the College. As the table above illustrates, operating revenues increased by \$946,817.37; this is due to the increase in student enrollment which generated additional revenues in the form of tuitions, fees, bookstore sales and grants for student financial assistance.

Operating expenses are all expenses except for those related to investing, capital and related financing and noncapital financing activities. The above table also shows an increase in operating expenses of \$2,066,587.98. As with operating revenues, this increase is due to

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

meeting the demands for additional staff, supplies, and equipment relative to enrollment growth. Operating expenses are presented in Exhibit A-2 by "natural" classification – personal services, supplies, services, etc. An analysis of expenses by their functional classification (i.e. instruction, financial aid, etc.) is shown in Note 9.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. For instance, a gift to the College is a nonexchange transaction because the College did not exchange a good or service to receive the gift. Nonoperating revenues rose by \$558,322.62. The majority of this increase is state aid due to the increase in enrollment and in county appropriations due to opening Building Seven on the Main Campus.

Other revenues are capital contributions to the College. The increase of \$1,424,854.78 in other revenues is the direct result of receiving bond funds for construction at the Main, South, and Warren County Campuses.

The table below and the following discussion presents the College's revenues for the fiscal year ended June 30, 2004.

Operating Revenues

Student Tuition & Fees	\$ 1,545,372.89
Grants & Contracts (State & Federal)	7,200,652.68
Sales and Services	<u>2,160,856.85</u>
Subtotal Operating	10,906,882.42

Nonoperating Revenues

State Aid	13,527,828.72
County Appropriation	1,418,569.84
Grants and Gifts (Noncapital)	1,157,838.51
Investment Income	105,110.13
Other Nonoperating	<u>59,834.63</u>
Subtotal Nonoperating	16,269,181.83

Other Revenues

State Capital Aid	7,017,491.00
County Capital Appropriations	<u>172,164.00</u>
Subtotal Other Revenues	7,189,655.00

Total Revenues	<u><u>\$ 34,365,719.25</u></u>
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Operating revenues are presented net of internally funded transactions (Note 1). The College's largest operating revenues are Pell Grants at \$5,628,009.35 or 51.60% of total operating revenues. Nonoperating revenues are primarily State aid, and also include County appropriations, noncapital grants, and amounts earned from investments. The State is by far the College's major source for nonoperating revenues as presented in the table to the left. More information on the composition of revenues can be found in Exhibit A-2 and Notes 1 and 8.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The change in net assets is the difference between total revenues and total expenditures. The change in net assets, as presented in Exhibit B, is an increase of \$5,710,011.76, bringing the College's total net assets to \$25,203,410.63 as follows:

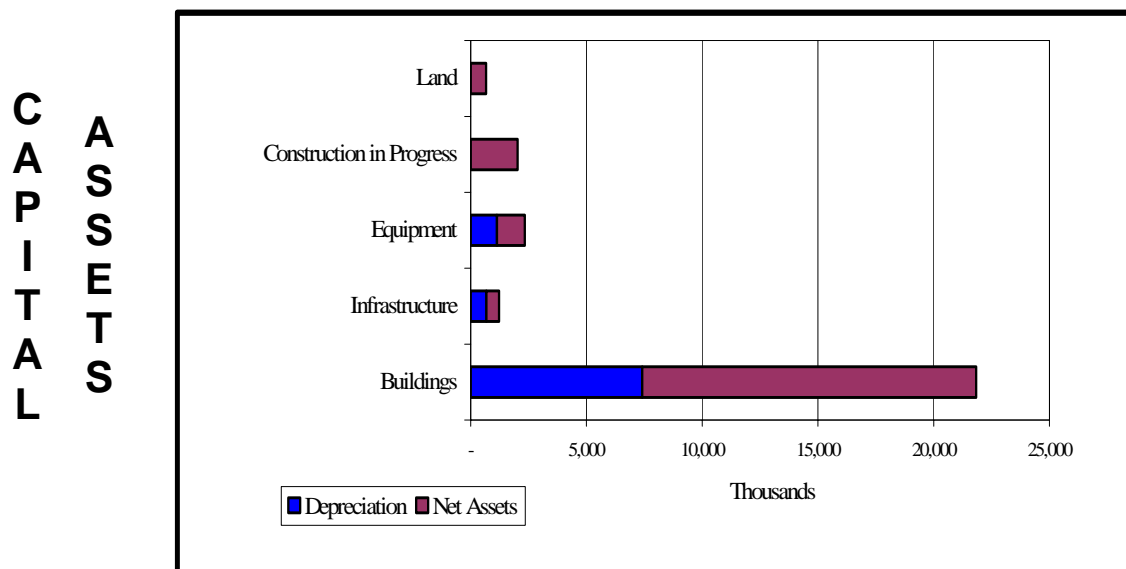
Beginning Net Assets	\$ 19,493,398.87
Revenues	
Operating	10,906,882.42
Nonoperating	16,269,181.83
Other	<u>7,189,655.00</u>
Subtotal - Revenues	34,365,719.25
Expenses	
Operating	<u>28,655,707.49</u>
Change in Net Assets	<u>5,710,011.76</u>
Ending Net Assets	<u><u>\$ 25,203,410.63</u></u>

The increase in net assets is related to an increase in the amount due from the North Carolina Community College System Office for construction. The receivable represents the amount of bond proceeds available to the College at the end of the fiscal year. The College also experienced an increase in receipts derived from its auxiliary services. Unexpended State aid reverts at fiscal year end and, therefore, only increase the College's net assets through capital asset additions, that is, equipment costing \$5,000 or greater. On the other hand, County appropriations do not revert and therefore affect the change in net assets. Federal funding does not typically affect the change in net assets since federal awards are primarily for financial assistance. Other federal grants are funded on a reimbursement basis and therefore do not significantly contribute to the College's financial position.

Capital Assets

As of June 30, 2004, the College recorded \$28,089,791.12 million invested in capital assets, \$9,214,260.37 in accumulated depreciation, and \$18,875,530.75 in net capital assets. The composition of net capital assets is detailed in Note 4 and is illustrated on the following page.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



In the 1999–2000 Session, the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State to provide for capital improvements to community colleges. Vance-Granville Community College's share of the general obligation bonds is \$17,070,446.00 with \$15,849,231.00 designated for new construction and \$1,221,215.00 designated for repairs and renovations. The State Board of Community Colleges approved the College's request to use the bond proceeds to add an additional instructional facility at the Main Campus and at the three satellite campuses, as well as, using any remaining proceeds for miscellaneous construction. The Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures within the supplementary information contains additional information on the approved projects.

During fiscal year 2003–2004, the College completed constructing Building Seven, an instructional facility at its Main Campus. This 51,921 square foot facility includes offices and classrooms for the College's continuing education programs. Also, during the year, the College began constructing an instructional facility at the Warren County Campus and began expanding Building Eight at the Main Campus.

In the 1999 Session, the General Assembly of North Carolina enacted House Bill 275 which implemented a zero unemployment insurance tax rate for employers with positive experience rating, temporarily reduced the unemployment insurance tax by twenty percent for most employers and substituted an equivalent contribution to fund enhanced employment services and worker training programs. As a result of this legislation, North Carolina's Community Colleges received non-reverting appropriations to increase its training to new and expanding industries, to provide focused industrial training, and to purchase equipment. At June 30, 2004, the College has \$1,121,110 remaining from its original HB275 equipment

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

appropriation. The College intends to carry this appropriation into future years in order to purchase equipment and furniture for its new facilities.

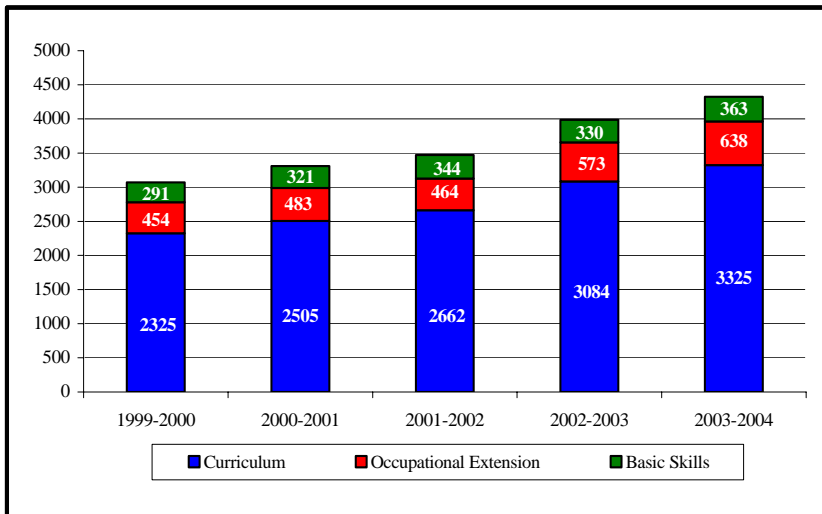
The College does not issue debt to fund capital assets. The primary funding sources for equipment expenditures are State and county appropriations and the Federal Vocational Education Grant. Construction expenditures are funded by State-issued general obligation bonds and matching local funds, as required.

The College's Financial Position

The ability of the College to fulfill its mission and execute its strategic plan is directly influenced by State, federal, and county support, enrollment, and financial aid available to students. These issues impact the financial and budget planning process each year.

State support is the College's primary funding source of all revenues during the year.

FULL TIME EQUIVALENCY

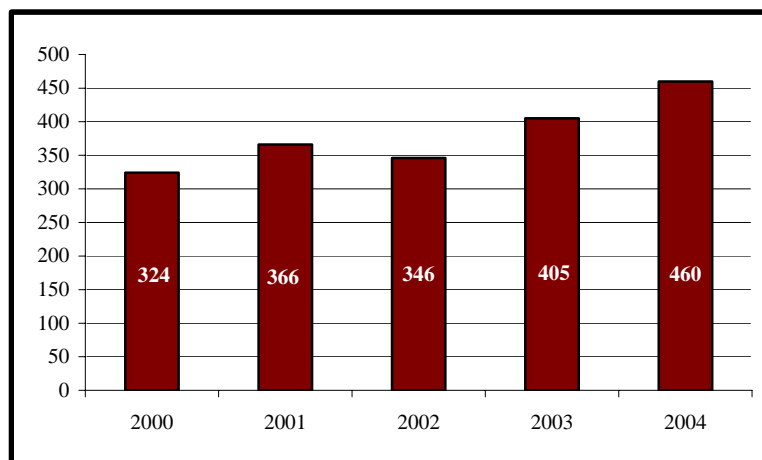


The State's support of community colleges is based on the total full-time equivalency (FTE) enrollment of the year prior to the budget year. That is, the College's 2003–2004 State aid was based on FTE enrollment during 2002–2003. As the graph to the left presents, the College has experienced FTE enrollment growth over the past several years.

In spite of the lag in funding and the rate of growth, the College continues to meet the needs of its students. The graph to the right illustrates the increase in the number of graduates during the last five years.

In conjunction with the country's economic downturn, the State of North Carolina is currently experiencing a budget deficit.

CURRICULUM GRADUATES



The State's budget crisis directly effects the College's funding. During the 2003–2004 fiscal year, the College reverted \$410,126 of its State aid.

Because the NC General Assembly anticipated a decline in the economy, a 10.48% in-state tuition increase and a 9.17% out-of-state tuition increase was implemented during fiscal year 2003 – 2004. Expecting further revenue shortfalls in the upcoming fiscal year, the State's General Assembly enacted an additional increase in excess of 10% for the fiscal year 2004–2005. While these increases will positively effect the State's financial position, the effect on the College is negligible at best since the State support will be proportionally reduced by the increased amount of tuition collected.

The country's economic downturn also effected the College's county appropriations. Appropriations from Vance, Granville, Warren and Franklin Counties are primarily for plant operations and plant maintenance. While 2004–2005 county appropriations are less than the Board of Trustees requested, the current appropriations increased by 3.38% over the prior year. Most of the requested increase is in current appropriations and is going to be used to maintain new facilities once construction is complete. To compensate for the loss in requested appropriations, the College has taken measures to reduce operating costs and shift planned expenditures to later years.

Historically a decline in the economy results in a growth of enrollment as individuals who have lost their jobs return to college for training and retraining. Within the last two years, several businesses in the College's service area have either reduced their workforce or closed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

These businesses include but are not limited to Americal, Granville Plastics, Avnet Electronics, Kaysor-Roth, Boston Gear, J. P. Taylor, Mayville Metal Products, Harriett and Henderson Yarns, Lenox China and Bel-Art Industries.

The College anticipates substantial enrollment growth in the upcoming year due to the expansion of the associate degree nursing program, the addition of the pharmacy technologies program, and the availability of classes available through distance education. Additionally, the College is expanding its bio-processing technician program and is seeking approval to establish a two year bio-processing manufacturing technology program in 2005. Further, and in connection with the arrival of ACS, a pharmacy call center in Vance County, the College is offering an 80-hour pharmacy technology certification course. The College is also planning on conducting a one-year pharmaceutical technology program beginning in the spring 2005 semester.

The College is experiencing an increase in curriculum students as the fall 2004 semester begins. Curriculum enrollment for fall 2003 on the second day of class was 4,049 students, whereas, curriculum enrollment on the second day of class for fall 2004 was 4,133 students. Clearly, the College is experiencing continued growth.

The College's Financial Future

What can the College expect in the future? Through continuous budgetary planning and analysis, the College was prepared for this economic downturn, and is confident that it will successfully steer through this economic crisis. The College's Board and administration persist in its efforts toward program assessment, cost containment, continuous improvement, expansion of occupational training and continuing education and increased distance learning opportunities. These efforts are geared toward assessing the College's performance related to goals and freeing up resources to support change. The College's ongoing strategic planning initiative and efforts to identify resource reallocation opportunities have expanded to new activities to enhance revenues and control expenses over the short and long term. As a result, Vance-Granville Community College is well positioned to increase enrollment, strategically add, and when appropriate, eliminate programs, partner with the State in economic development and meet public expectations, while remaining financially sound.

<i>Vance-Granville Community College</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2004</i>		<i>Exhibit A-1</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	2,620,556.45
Restricted Cash and Cash Equivalents		19,356.69
Receivables (Note 3)		451,057.68
Due from Community College Component Unit		25,015.00
Inventories		381,779.64
Total Current Assets		3,497,765.46
Noncurrent Assets:		
Cash and Cash Equivalents		1,332,190.37
Restricted Cash and Cash Equivalents		3,371,504.98
Restricted Due from Primary Government		3,708,306.90
Other Long-Term Investments		312,359.57
Capital Assets - Nondepreciable (Note 4)		2,692,382.76
Capital Assets - Depreciable, Net (Note 4)		16,183,147.99
Total Noncurrent Assets		27,599,892.57
Total Assets		31,097,658.03
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		801,250.55
Due to Primary Government		3,558.28
Funds Held for Others		38,257.66
Long-Term Liabilities - Current Portion (Note 6)		611,175.83
Total Current Liabilities		1,454,242.32
Noncurrent Liabilities:		
Funds Held for Others		3,414,729.54
Long-Term Liabilities (Note 6)		1,025,275.54
Total Noncurrent Liabilities		4,440,005.08
Total Liabilities		5,894,247.40
NET ASSETS		
Invested in Capital Assets		18,875,530.75
Restricted for:		
Expendable:		
Scholarships and Fellowships		29,953.81
Loans		14,922.00
Capital Projects		3,139,165.07
Other		130,491.31
Unrestricted		3,013,347.69
Total Net Assets	\$	25,203,410.63
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Vance-Granville Community College</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-2</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,545,372.89
Federal Grants and Contracts		6,903,483.11
State and Local Grants and Contracts		297,169.57
Sales and Services, Net (Note 8)		2,160,856.85
Total Operating Revenues		10,906,882.42
EXPENSES		
Operating Expenses:		
Personal Services		17,018,455.80
Supplies and Materials		3,132,364.86
Services		2,372,996.71
Scholarships and Fellowships		4,811,912.53
Utilities		472,313.97
Depreciation		847,663.62
Total Operating Expenses		28,655,707.49
Operating Loss		(17,748,825.07)
NONOPERATING REVENUES		
State Aid		13,527,828.72
County Appropriations		1,418,569.84
Noncapital Grants		1,157,838.51
Investment Income, Net		105,110.13
Other Nonoperating Revenues		59,834.63
Total Nonoperating Revenues		16,269,181.83
Loss Before Other Revenues		(1,479,643.24)
State Capital Aid		7,017,491.00
County Capital Appropriations		172,164.00
Increase in Net Assets		5,710,011.76
NET ASSETS		
Net Assets, July 1, 2003, as Restated (Note 15)		19,493,398.87
Net Assets, June 30, 2004	\$	25,203,410.63
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Vance-Granville Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Exhibit A-3</i>
CASH FLOWS PROVIDED/USED BY OPERATING ACTIVITIES		
Received from Customers	\$	10,810,654.08
Payments to Employees and Fringe Benefits		(16,734,122.43)
Payments to Vendors and Suppliers		(6,007,068.20)
Payments for Scholarships and Fellowships		(4,811,986.53)
Other Receipts		332,384.70
Net Cash Used by Operating Activities		(16,410,138.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		13,527,828.72
County Appropriations		1,418,569.84
Noncapital Grants Received		1,119,787.50
Net Cash Provided by Noncapital Financing Activities		16,066,186.06
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		4,239,935.33
County Capital Appropriations		172,164.00
Proceeds from Sale of Capital Assets		10,246.53
Acquisition and Construction of Capital Assets		(3,192,093.12)
Net Cash Provided by Capital and Related Financing Activities		1,230,252.74
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		136,376.75
Net Cash Provided by Investing Activities		136,376.75
Net Increase in Cash and Cash Equivalents		1,022,677.17
Cash and Cash Equivalents, July 1, 2003		6,320,931.32
Cash and Cash Equivalents, June 30, 2004	\$	7,343,608.49
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(17,748,825.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		847,663.62
Miscellaneous Nonoperating Income		59,834.63
Changes in Assets and Liabilities:		
Receivables, Net		(90,111.59)
Inventories		(1,232.71)
Accounts Payable and Accrued Liabilities		(477.15)
Due to Primary Government		(80.57)
Due to State of North Carolina Component Units		(4,962.00)
Deferred Revenue		(7,934.79)
Funds Held for Others		279,169.00
Compensated Absences		256,818.25
Net Cash Used by Operating Activities	\$	(16,410,138.38)

<i>Vance-Granville Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit A-3</i>
<i>For the Fiscal Year Ended June 30, 2004</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 2,620,556.45
	Restricted Cash and Cash Equivalents	19,356.69
Noncurrent Assets:		
	Cash and Cash Equivalents	1,332,190.37
	Restricted Cash and Cash Equivalents	3,371,504.98
Total Cash and Cash Equivalents - June 30, 2004		<u>\$ 7,343,608.49</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Change in Fair Value of Investments	\$ (21,452.28)
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Vance-Granville Community College Endowment Fund Corporation</i>		
<i>Statement of Financial Position</i>		
<i>June 30, 2004</i>		<i>Exhibit B-1</i>
ASSETS		
Cash and Investments	\$	3,364,630.00
Account Receivable		2,497.00
Note Receivable		33,750.00
Total Assets		3,400,877.00
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Due to Institutional Fund		25,015.00
Total Current Liabilities		25,015.00
NET ASSETS		
Unrestricted:		
Fund Balance		3,497.00
Permanently Restricted:		
Donated Fixed Assets		118,217.00
Contributed Capital		
Area Mental Health		52,694.00
Income Fund		133,696.00
Other		9,090.00
Investments in Fixed Assets		1,051.00
Fund Balance Restricted		3,057,617.00
Total Net Assets		3,375,862.00
Total Net Assets and Liabilities	\$	3,400,877.00
The accompanying notes are an integral part of the Financial Statements.		

Vance-Granville Community College Endowment Fund Corporation				
Statement of Activities				
For the Fiscal Year Ended June 30, 2004				Exhibit B-2
		Permanently Restricted Principle Fund	Unrestricted Income Fund	Totals
PUBLIC SUPPORT				
Donations	\$	177,009.00	\$ 0.00	\$ 177,009.00
Total Public Support		177,009.00		177,009.00
OTHER REVENUE				
Fund Raising				
Golf Tournaments			37,451.00	37,451.00
Total Fund Raising			37,451.00	37,451.00
Other Revenue				
Investment Income		112,619.00	55.00	112,674.00
Rental Income - AMH			30,000.00	30,000.00
Rental Income - Frazco			480.00	480.00
Reimbursement for Renovations			809.00	809.00
Total Other Revenue		112,619.00	31,344.00	143,963.00
Total Public Support and Other Revenue		289,628.00	68,795.00	358,423.00
FUNCTIONAL EXPENSES				
Program Services				
Contributions to VGCC for Scholarships		137,619.00	55.00	137,674.00
Total Program Services		137,619.00	55.00	137,674.00
Supporting Services				
Fund Raising				
Golf Tournament Expenses			8,730.00	8,730.00
Total Fund Raising			8,730.00	8,730.00
Administrative and General				
Professional Fees			1,800.00	1,800.00
Repairs and Maintenance			5,051.00	5,051.00
Insurance			1,893.00	1,893.00
Prizes			700.00	700.00
Miscellaneous			721.00	721.00
Bad Debts			170.00	170.00
Total Administrative and General			10,335.00	10,335.00
Total Supporting Services			19,065.00	19,065.00
Total Functional Expenses		137,619.00	19,120.00	156,739.00
EXCESS OF SUPPORT AND REVENUE OVER EXPENSES		152,009.00	49,676.00	201,685.00
OTHER FINANCING SOURCES (USES)				
Operating Transfers in (out):				
Reversal of Transfers		(2,965.00)	2,965.00	
Net Proceeds to Leggett Bldg. Sale		21,648.00	(21,648.00)	
Net Proceeds of Golf Tournament		28,721.00	(28,721.00)	
Total Other Financing Sources		47,404.00	(47,404.00)	
CHANGES IN NET ASSETS		199,413.00	2,272.00	201,685.00
NET ASSETS - JULY 1		3,172,952.00	1,225.00	3,174,177.00
NET ASSETS - JUNE 30	\$	3,372,365.00	\$ 3,497.00	\$ 3,375,862.00
The accompanying notes are an integral part of the financial statements.				

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VANCE-GRANVILLE 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. Vance-Granville 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 the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - Vance-Granville Endowment Fund Corporation is a legally separate not-for-profit corporation and is reported as discretely presented component unit based on the nature and significance of its relationship to the College. The Corporation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Corporation board consists of community, educational, and business leaders from Franklin, Granville, Vance, and Warren counties. Although the College does not control the timing or amount of receipts from the Corporation, the majority of resources, or income thereon, that the Corporation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Corporation can only be used by, or for the benefit of the College, the Corporation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

Vance-Granville Community College Endowment Fund Corporation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board Statements. As such, certain revenue recognition criteria and presentation features are different

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. As allowed, the College deposits amounts it collects on behalf of the Corporation in the State Treasurer's short-term investment portfolio. As required, the College records the amount deposited with the State Treasurer for the Corporation in its agency funds. The College and the Corporation both report the funds on deposit with the State Treasurer as cash in the exhibits. The amount on deposit is \$3,363,614.79.

During the year ended June 30, 2004, the Corporation distributed \$145,647.95 to the College for both restricted and unrestricted purposes. Complete financial statements for the Corporation can be obtained from the College's business office at P. O. Box 917, Henderson, N. C. 27536, or by calling 252-738-3221.

- 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 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 petty cash, cash on deposit with private bank accounts, and deposits held by the State

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 donated corporate stock. The stock is accounted for at fair value, as determined by quoted market prices. 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 receivable are shown at book value with no provision for doubtful accounts considered necessary.
- 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 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 5 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 are 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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:

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

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

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

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

M. Scholarship Discounts - Student tuition and fees revenues 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and fees, 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*.

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 bookstore and childcare services. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,510.75. The carrying amount of cash on deposit was \$7,341,097.74 and the bank balance was \$7,450,923.36.

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

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 7,236,168.51	\$ 7,210,640.12
Cash on Deposit with Private Financial Institutions	104,929.23	240,283.24
	<u>\$ 7,341,097.74</u>	<u>\$ 7,450,923.36</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, \$109,412.69 of the bank balance was covered by federal depository insurance and \$130,870.55 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer.

- B. Investments** – In addition to donated securities, 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 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 Vance-Granville Community College Endowment Fund Corporation, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	Fair Value		
	Risk Category		
	1	2	3
			Total
Categorized Investments:			
Corporate Stock	\$ 312,359.57	\$ 0.00	\$ 0.00
	<u>\$ 312,359.57</u>	<u>\$ 0.00</u>	<u>\$ 312,359.57</u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Receivables
Current Receivables:	
Students	\$ 207,064.27
Private Grantors	123,272.90
Intergovernmental	20,241.43
Vendors	88,419.33
Other	12,059.75
Total Current Receivables	<u>\$ 451,057.68</u>

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 664,976.99	\$ 0.00	\$ 0.00	\$ 0.00	\$ 664,976.99
Construction in Progress	4,729,559.73	(4,133,130.71)	1,430,976.75		2,027,405.77
Total Capital Assets, Nondepreciable	<u>5,394,536.72</u>	<u>(4,133,130.71)</u>	<u>1,430,976.75</u>		<u>2,692,382.76</u>
Capital Assets, Depreciable:					
Buildings	15,039,068.63	5,662,537.05	1,131,010.72		21,832,616.40
Machinery and Equipment	2,164,605.34		239,321.18	66,313.21	2,337,613.31
General Infrastructure	957,643.65	269,535.00			1,227,178.65
Total Capital Assets, Depreciable	<u>18,161,317.62</u>	<u>5,932,072.05</u>	<u>1,370,331.90</u>	<u>66,313.21</u>	<u>25,397,408.36</u>
Less Accumulated Depreciation:					
Buildings	5,635,024.95	1,146,656.16	623,694.42		7,405,375.53
Machinery and Equipment	1,018,251.49		171,699.39	56,066.68	1,133,884.20
General Infrastructure	622,730.83		52,269.81		675,000.64
Total Accumulated Depreciation	<u>7,276,007.27</u>	<u>1,146,656.16</u>	<u>847,663.62</u>	<u>56,066.68</u>	<u>9,214,260.37</u>
Total Capital Assets, Depreciable, Net	<u>10,885,310.35</u>	<u>4,785,415.89</u>	<u>522,668.28</u>	<u>10,246.53</u>	<u>16,183,147.99</u>
Capital Assets, Net	<u>\$ 16,279,847.07</u>	<u>\$ 652,285.18</u>	<u>\$ 1,953,645.03</u>	<u>\$ 10,246.53</u>	<u>\$ 18,875,530.75</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 163,490.79
Accrued Payroll	132,084.75
Contracts Payable	370,113.00
Contract Retainage	111,169.05
Intergovernmental Payables	1,543.97
Other	22,848.99
Total Accounts Payable and Accrued Liabilities	\$ 801,250.55

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 1,379,633.12	\$ 1,350,093.33	\$ 1,093,275.08	\$ 1,636,451.37	\$ 611,175.83

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

	Amount
Facilities Rentals	\$ 17,100.00
Equipment Rentals	5,305.15
Total Rental Expense	\$ 22,405.15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,985,241.41</u>	<u>\$ 0.00</u>	<u>\$ 1,439,868.52</u>	<u>\$ 1,545,372.89</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,547,450.73	\$ 35,448.45	\$ 0.00	\$ 1,512,002.28
Facilities Rentals	56,800.50			56,800.50
Vending	51,614.63			51,614.63
Other	167,989.49			167,989.49
Sales and Services of Education and Related Activities	<u>377,431.95</u>	<u>4,982.00</u>		<u>372,449.95</u>
Total Sales and Services	<u>\$ 2,201,287.30</u>	<u>\$ 40,430.45</u>	<u>\$ 0.00</u>	<u>\$ 2,160,856.85</u>

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	\$ 11,116,753.33	\$ 941,333.23	\$ 876,306.23	\$ 0.00	\$ 0.00	\$ 0.00	\$ 12,934,392.79
Academic Support	921,538.14	55,577.93	76,101.63				1,053,217.70
Student Services	1,730,525.78	74,697.04	235,695.25				2,040,918.07
Institutional Support	2,520,074.68	636,978.92	717,719.40				3,874,773.00
Operations and Maintenance of Plant	577,548.78	254,489.93	183,616.84		472,313.97		1,487,969.52
Student Financial Aid			193,308.26	4,811,912.53			5,005,220.79
Auxiliary Enterprises	152,015.09	1,169,287.81	90,249.10				1,411,552.00
Depreciation						847,663.62	847,663.62
Total Operating Expenses	<u>\$ 17,018,455.80</u>	<u>\$ 3,132,364.86</u>	<u>\$ 2,372,996.71</u>	<u>\$ 4,811,912.53</u>	<u>\$ 472,313.97</u>	<u>\$ 847,663.62</u>	<u>\$ 28,655,707.49</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$14,564,387.25, excluding benefits, of which \$12,191,299.50 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$731,477.97 and \$26,820.86, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$26,820.86, \$0.00, and \$216,910.45, 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 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 \$39,783.50 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$230,056.00 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 \$25,340.00 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 \$390,121.58. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 for other College-owned vehicles is covered by contracts with private insurance companies.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,869,969.00 and on other purchases were \$127,556.39 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$5,993,363.00 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.

- 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. 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
Vance-Granville Community College Scholarship Program	\$ 112,397.40

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENTS

Buildings constructed on land leased from Granville and Warren Counties were not capitalized in prior years. As of July 1, 2003, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2003 Net Assets as Previously Reported	\$ 18,841,113.69
Restatements	
Capitalization of South Campus Building	424,074.50
Capitalization of Warren Campus Renovation	193,355.66
Adjustment to CIP for South and Warren Campus Projects	<u>34,855.02</u>
July 1, 2003 Net Assets as Restated	<u><u>\$ 19,493,398.87</u></u>

***Vance-Granville 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	Expected Completion Date	Actual Completion Date
Capital Improvement Projects									
<i>Projects Approved by the State Board</i>									
Main Campus - Building Seven (1093)	Jan 2001	Jul 2002	\$ 5,317,120.00	\$ 250,000.00	\$ 5,567,120.00	\$ 5,293,700.15	95.09%	Jul 2003	Oct 2003
Warren County Campus (1096)	Mar 2001	Nov 2003	2,030,551.00	9,830.00	2,040,381.00	1,274,047.62	62.44%	Jul 2004	Dec 2004
Repairs and Renovations I (1157)	May 2001	Jul 2001	191,680.00		191,680.00	191,680.00	100.00%	Oct 2001	Oct 2001
Main Campus - Building Eight Expansion (1307)	Aug 2003	Mar 2004	1,577,151.00	243,938.00	1,821,089.00	606,251.90	33.29%	Jun 2006	Apr 2005
Repairs and Renovations II (1198)	Mar 2003	Jun 2003	416,400.00	10,000.00	426,400.00	416,400.00	97.65%	Dec 2003	Dec 2003
Franklin County Campus(1095)	May 2003	Oct 2004	2,369,272.00	50,000.00	2,419,272.00	67,340.00	2.78%	Jul 2005	Dec 2005
South Campus (1094)	Oct 2003	Dec 2004	2,518,000.00		2,518,000.00	50,390.00	2.00%	Dec 2005	Jan 2006
<i>Projects Not Started - To Be Funded in Future Years</i>									
Miscellaneous Construction - Main Campus	Aug 2003	Feb 2005	675,935.00		675,935.00			Jun 2006	Aug 2005
Miscellaneous Construction - South Campus	Jul 2004	Dec 2004	1,361,202.00		1,361,202.00			May 2004	Jan 2006
Repair and Renovations III	Jan 2005	May 2005	330,000.00		330,000.00			Oct 2004	Sep 2005
Repair and Renovations IV	Jul 2005	Oct 2004	283,135.00		283,135.00			Apr 2006	Apr 2005
Total All Projects			\$ 17,070,446.00	\$ 563,768.00	\$ 17,634,214.00	\$ 7,899,809.67			

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
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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**

Board of Trustees
Vance-Granville Community College
Henderson, North Carolina

We have audited the financial statements of Vance-Granville Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Vance-Granville Community College's basic financial statements, and have issued our report thereon dated June 9, 2005. We did not audit the financial statements of Vance-Granville Community College Endowment Fund Corporation, which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Vance-Granville Community College Endowment Fund Corporation, is based on the report of the other auditors.

As discussed in Note 14 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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

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 opinions 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

**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)**

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.

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

June 9, 2005

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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

June 30, 2005

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