



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**COASTAL CAROLINA COMMUNITY COLLEGE**

**JACKSONVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2002**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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Ralph Campbell, Jr.  
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, Coastal Carolina Community College

This report presents the results of our financial statement audit of Coastal Carolina Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. 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 Coastal Carolina 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 Coastal Carolina 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 Coastal Carolina 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 material weaknesses 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 Compliance and on Internal Control over Financial Reporting.

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.



Ralph Campbell, Jr.  
State Auditor

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Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Coastal Carolina Community College  
Jacksonville, North Carolina

We have audited the accompanying basic financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, 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 did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., which represents 12 percent and one percent, respectively, of the assets and revenues of the College. 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 these statements, 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. 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 the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Carolina Community College as of June 30, 2002, 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. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002. In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 9 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 by us and the other auditor in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditor, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.  
State Auditor

February 13, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section of Coastal Carolina Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2002 and June 30, 2001. Since 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 footnotes. Responsibility for the completeness and fairness of this information rests with the College.

### Using This Annual Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements. The financial statements presented in prior years focused on the accountability of fund groups, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the modified accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. In summary, the new reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

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

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



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

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

### **Financial Highlights**

The HVAC Geothermal project commenced this year. It is the first of several planned construction projects as approved by the General Assembly general obligation bond issuance in 1999-2000.

Budgeted FTE for fiscal year 2002 reflects a 2% decrease from fiscal year 2001.

Tuition increased 12.7% per credit hour for in-State rates.

Of its original annual budget, the College reverted 2.96% to the North Carolina Community College System.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Financial Analysis

#### Analysis of Current Assets and Net Assets

As of June 30, 2002, the College's net assets have decreased largely due to new reporting requirements of recording all accumulated depreciation to this fiscal year's report (\$10.2M) as well as adjusting amounts previously recorded for Artwork, Artifacts, and Literature (\$1.4M). The decrease in current assets is due primarily to a 38% decrease in unrestricted short-term investments. Fiscal Year 2001 information is presented without restatements.

*(in millions)*

	2002	2001	Increase (Decrease)	Percent Change
<b>Assets</b>				
Current Assets	\$ 3.73	\$ 5.16	\$ (1.43)	(27.7)
Noncurrent Assets:				
Capital Assets, Net of Depreciation	12.05	24.35	(12.30)	(50.5)
Other	1.64	0.11	1.53	1,391.0
Total Assets	<u>17.42</u>	<u>29.62</u>	<u>(12.20)</u>	
<b>Liabilities</b>				
Current Liabilities	0.49	0.80	(0.31)	(38.8)
Noncurrent Liabilities	<u>0.57</u>	<u>0.48</u>	<u>0.09</u>	18.8
Total Liabilities	<u>1.06</u>	<u>1.28</u>	<u>0.22</u>	
<b>Net Assets</b>				
Investment in Capital Assets, Net of Related Debt	11.72	23.87	(12.15)	(50.9)
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	1.46	1.21	0.25	20.7
Expendable:				
Capital Projects	0.09	0.08	0.01	12.5
Other	0.03	0.10	(0.07)	(70.0)
Unrestricted	<u>3.06</u>	<u>3.08</u>	<u>(0.02)</u>	0.6
Total Net Assets	<u>\$ 16.36</u>	<u>\$ 28.34</u>	<u>\$ (11.98)</u>	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of Net Capital Assets

This schedule defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. The decrease to Construction in Progress is primarily due to the reclassification of the Health and Occupational Building project from capital expenditures to operating expenditures. The 2001 Fiscal Year information is presented with restatements.

*(in millions)*

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Capital Assets:				
Land	\$ 0.82	\$ 0.82	\$ 0.00	
Buildings	18.05	18.05		
Machinery and Equipment	2.28	2.20	0.08	3.6
General Infrastructure	1.68	1.68		
Construction in Progress	<u>0.06</u>	<u>0.17</u>	<u>(0.11)</u>	<u>(64.7)</u>
Total	22.89	22.92	(0.03)	(0.1)
Less: Accumulated Depreciation	<u>(10.84)</u>	<u>(10.21)</u>		
Net Capital Assets	<u>\$ 12.05</u>	<u>\$ 12.71</u>	<u>\$ (0.66)</u>	<u>(5.2)</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Analysis of Liabilities

The College had long-term debt of \$0.68 million as of June 30, 2002. This balance consists of a note payable of \$0.38 million in which \$0.10 million is classified as current. Long-term debt also includes accrued vacation of \$0.30 million of which \$0.003 million is shown as current. In addition, the College sustained a 44% decrease in accounts payable.

*(in millions)*

	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Liabilities:				
Long-Term Liabilities – Current Portion	\$ 0.39	\$ 0.69	\$ (0.30)	(43.5)
	<u>0.11</u>	<u>0.10</u>	<u>0.01</u>	10.0
Total Current Liabilities	<u>0.50</u>	<u>0.79</u>	<u>(0.29)</u>	(36.7)
Noncurrent Liabilities:				
Long-Term Liabilities	<u>0.57</u>	<u>0.48</u>	<u>0.09</u>	18.8
Total Noncurrent Liabilities	<u>0.57</u>	<u>0.48</u>	<u>0.09</u>	18.8
Total Liabilities	<u><u>\$ 1.07</u></u>	<u><u>\$ 1.27</u></u>	<u><u>\$ (0.20)</u></u>	(15.7)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of Revenues

The major decline in Student Tuition and Fees is due to new reporting requirements of eliminating tuition waivers for non-employees previously recorded as tuition revenues (\$1.1M). In addition, the new requirement of reporting scholarships net of allowances reduces revenue by \$0.63M. The principal federal contract and grant, Pell Grant, had a revenue increase of \$0.68 million, which is an increase of 41% from the prior fiscal year. The Coastal Carolina Community College (CCCC) Foundation, Inc. funded one building renovation project in FY01 and the funds received by the College (\$0.16M) were recorded as a Noncapital Gift. Contributions to the CCCC Foundation in FY02 (\$0.12M) are shown below as Other Nonoperating Revenues thereby increasing this revenue by 500% and in FY01 they are shown below as Noncapital Gifts thereby reducing this revenue by 36%. The budget for the State of North Carolina experienced difficulty in fiscal year 2002 reducing State Capital Aid by 49%.

	<i>(in millions)</i>			
	<u>2002</u>	<u>2001</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 3.69	\$ 5.49	\$ (1.80)	(32.9)
Federal Grants and Contracts	3.16	2.37	0.79	33.3
State and Local Grants and Contracts	0.17	0.18	(0.01)	(5.6)
Sales and Services	<u>2.02</u>	<u>1.76</u>	<u>0.26</u>	14.8
Total Operating Revenues	<u>9.04</u>	<u>9.80</u>	<u>(0.76)</u>	
Less Operating Expenses	<u>23.83</u>	<u>24.39</u>	<u>(0.56)</u>	(2.3)
Operating Loss	<u>(14.79)</u>	<u>(14.59)</u>	<u>0.15</u>	
<b>Nonoperating Revenues:</b>				
State Aid	12.00	11.94	0.06	0.5
County Appropriations	1.79	1.76	0.03	1.7
Noncapital Gifts, Net	0.13	0.45	(0.32)	(71.1)
Investment Income, Net	(0.18)	(0.15)	(0.03)	(20.0)
Interest and Fees on Capital Asset Debt	(0.02)	0.00	(0.02)	0.0
State Capital Aid	0.49	0.97	(0.48)	(49.5)
County Capital Appropriations	0.12	0.12		
Other Nonoperating Revenues	<u>0.16</u>	<u>0.02</u>	<u>0.14</u>	700.0
Total Nonoperating Revenues	<u>14.49</u>	<u>15.11</u>	<u>(0.62)</u>	
Increase (Decrease) in Net Assets	<u>\$ (0.30)</u>	<u>\$ 0.52</u>	<u>\$ (0.82)</u>	

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Analysis of Expenditures

The College experienced an overall decrease in expenditures from FY01 greatly due to the new reporting requirements of eliminating tuition waivers for non-employees previously recorded as tuition expenditures (\$1.1M). In addition, the new requirement to report scholarship amounts net of allowances decreased expenditures \$0.63M. This implementation year of capturing depreciation expense for capital assets is recorded for the first time as shown below.

*(in millions)*

	2002	2001	Increase (Decrease)	Percent Change
Personal Services	\$ 15.14	\$ 14.91	\$ 0.23	1.5
Supplies and Materials	3.70	3.74	(0.04)	1.1
Services	1.90	2.25	(0.35)	15.6
Scholarships and Fellowships	1.93	3.11	(1.18)	37.9
Utilities	0.49	0.38	0.11	28.9
Depreciation	0.67	0.00	0.67	
Total Expenditures	<u>\$ 23.83</u>	<u>\$ 24.39</u>	<u>\$ (0.56)</u>	

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

**Coastal Carolina Community College**  
**Statement of Net Assets**  
**Year Ended June 30, 2002**

**Exhibit A**

<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$	1,830,355.41
Restricted Cash and Cash Equivalents		79,169.34
Short-Term Investments		602,501.00
Restricted Short-Term Investments		86,235.00
Receivables (Note 4)		702,830.80
Inventories		355,329.29
Notes Receivable (Note 4)		1,242.00
Prepaid Items		71,552.93
<b>Total Current Assets</b>		<b>3,729,215.77</b>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		51,644.47
Restricted Due from Primary Government		36,864.19
Endowment Investments		1,458,946.00
Other Long-Term Investments		49,000.00
Notes Receivable (Note 4)		47,658.00
Capital Assets, Net (Note 5)		12,053,883.02
<b>Total Noncurrent Assets</b>		<b>13,697,995.68</b>
<b>Total Assets</b>		<b>17,427,211.45</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		385,380.06
Funds Held for Others		1,005.91
Long-Term Liabilities - Current Portion (Note 7)		108,609.77
<b>Total Current Liabilities</b>		<b>494,995.74</b>
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		572,047.24
<b>Total Noncurrent Liabilities</b>		<b>572,047.24</b>
<b>Total Liabilities</b>		<b>1,067,042.98</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt		11,721,894.54
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,458,946.00
Expendable:		
Capital Projects		94,221.04
Other		29,276.89
Unrestricted		3,055,830.00
<b>Total Net Assets</b>	<b>\$</b>	<b>16,360,168.47</b>
The accompanying notes to the financial statements are an integral part of this statement.		

<b>Coastal Carolina Community College</b>		
<b>Statement of Revenues, Expenses, and</b>		
<b>Changes in Net Assets</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit B</b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	3,685,931.07
Federal Grants and Contracts		3,163,463.36
State and Local Grants and Contracts		165,621.52
Sales and Services, Net		2,022,877.64
Total Operating Revenues		9,037,893.59
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		15,139,748.03
Supplies and Materials		3,702,121.40
Services		1,901,165.28
Scholarships and Fellowships		1,926,654.65
Utilities		491,364.23
Depreciation		664,933.78
Total Operating Expenses		23,825,987.37
Operating Loss		(14,788,093.78)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Aid		12,002,223.05
County Appropriations		1,795,000.00
Noncapital Gifts, Net (Note 9)		129,342.00
Investment Income, Net		(183,009.75)
Interest and Fees on Capital Asset-Related Debt		(19,407.65)
Other Nonoperating Revenues		155,555.32
Net Nonoperating Revenues		13,879,702.97
Loss Before Other Revenues, Expenses, Gains, and Losses		(908,390.81)
State Capital Aid		487,223.33
County Capital Appropriations		120,408.50
Decrease in Net Assets		(300,758.98)
<b>NET ASSETS</b>		
Net Assets, July 1, 2001 as Restated (Note 16)		16,660,927.45
Net Assets, June 30, 2002	\$	16,360,168.47
The accompanying notes to the financial statements are an integral part of this statement.		



<b>Coastal Carolina Community College</b>		
<b>Statement of Cash Flows</b>		
<b>For the Fiscal Year Ended June 30, 2002</b>		<b>Exhibit C</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Received from Customers	\$	8,911,383.23
Payments to Employees and Fringe Benefits		(15,202,454.62)
Payments to Vendors and Suppliers		(6,542,867.99)
Payments for Scholarships and Fellowships		(1,926,654.65)
Collection of Loans to Students		100.00
Other Receipts		155,628.32
Net Cash Used by Operating Activities		(14,604,865.71)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Aid Received		12,002,223.05
County Appropriations		1,795,000.00
Noncapital Gifts and Endowments Received		129,342.00
Net Cash Provided by Noncapital Financing Activities		13,926,565.05
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State Capital Aid Received		511,376.33
County Capital Appropriations		120,408.50
Acquisition and Construction of Capital Assets		(184,392.21)
Principal Paid on Capital Debt and Leases		(103,504.35)
Interest Paid on Capital Debt and Leases		(19,407.65)
Net Cash Provided by Capital and Related Financing Activities		324,480.62
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments		277,331.00
Interest on Investments		143,190.25
Purchase of Investments and Related Fees		(71,376.85)
Net Cash Provided by Investing Activities		349,144.40
Net Decrease in Cash and Cash Equivalents		(4,675.64)
Cash and Cash Equivalents, July 1, 2001		1,965,844.86
Cash and Cash Equivalents, June 30, 2002	\$	1,961,169.22
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$	(14,788,093.78)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		664,933.78
Miscellaneous Nonoperating Income		155,555.32
Changes in Assets and Liabilities:		
Receivables, Net		(126,510.36)
Inventories		(167,812.15)
Prepaid Items		(33,745.84)
Notes Receivable, Net		100.00
Accounts Payable and Accrued Liabilities		(307,234.22)
Funds Held for Others		73.00
Compensated Absences		(2,131.46)
Net Cash Used by Operating Activities	\$	(14,604,865.71)
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in Fair Value of Investments	\$	113,400.00
The accompanying notes to the financial statements are an integral part of this statement.		

**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2002**

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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. Coastal Carolina Community College is a component unit of the North Carolina Community College System which is a part of the primary government of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Coastal Carolina Community College Foundation, Inc. is reported as if it were part of the College.

The Foundation is governed by a 27-member board consisting of 2 ex officio directors and 25 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Coastal Carolina Community College Board of Trustees and the Foundation's sole purpose is to benefit Coastal Carolina Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 444 Western Boulevard, Jacksonville, NC 28546, or by calling 910-938-6138. Other related foundations and similar non-profit corporations for which the College is not financially accountable 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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*, effective for the College’s year ended June 30, 2002, 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.

- 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.

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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). 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 long-term fixed income investments, equity investments, real estate, and other asset holdings by the College. Except for real estate not held by a governmental external investment pool, and other asset holdings, 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Real estate not held by a governmental external investment pool, and other asset holdings are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. All receivables 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 one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 40 to 75 years for general infrastructure, 20 to 50 years for buildings, and 5 to 15 years for equipment.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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, Net of Related Debt** – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- N. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- 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 the College Bookstore and Coastal Café. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**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 Cash and Investment Pool. Also, the College may establish time deposit accounts and certificates of deposit. At year-end, cash on hand was \$9,256.45. The carrying amount of cash on deposit was \$1,951,912.77 and the bank balance was \$2,146,726.83.

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	\$ 1,428,305.89	\$ 1,443,496.05
Cash on Deposit with Private Financial Institutions	523,606.88	703,230.78
	\$ 1,951,912.77	\$ 2,146,726.83

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 Cash and 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 Cash and Investment Pool are included in the State of North Carolina’s

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*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, 2002, \$120,240.62 of the bank balance was covered by federal depository insurance, \$518,940.39 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method), and \$64,049.77 was not insured or collateralized.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments of the College's component unit, the Foundation, 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 its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2002 is presented below:

	Fair Value			
	Risk Category			Total
	1	2	3	
<b>Investments Categorized:</b>				
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 45,403.00	\$ 45,403.00
Corporate Bonds			5,250.00	5,250.00
Corporate Stock			2,097,029.00	2,097,029.00
<b>Total Investments Categorized</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 2,147,682.00</b>	<b>\$ 2,147,682.00</b>
<b>Investments Not Categorized:</b>				
Real Estate				49,000.00
<b>Total Investments</b>				<b>\$ 2,196,682.00</b>

### NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which allows spending up to 100% of the endowment income each year for the sole purpose of funding student scholarships.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Net Receivables</u>
<b>Current Receivables:</b>	
Students	\$ 611,945.60
Accounts	<u>90,885.20</u>
<b>Total Current Receivables</b>	<b><u><u>\$ 702,830.80</u></u></b>
<b>Notes Receivables:</b>	
<b>Notes Receivable - Current:</b>	
Federal Loan Programs	<u><u>\$ 1,242.00</u></u>
<b>Notes Receivable - Noncurrent:</b>	
Federal Loan Programs	<u><u>\$ 47,658.00</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 823,349.75	\$ 0.00	\$ 0.00	\$ 823,349.75
Construction in Progress	172,437.25	67,365.00	176,437.25	63,365.00
<b>Total Capital Assets, Non-Depreciable</b>	<b>995,787.00</b>	<b>67,365.00</b>	<b>176,437.25</b>	<b>886,714.75</b>
Capital Assets, Depreciable:				
Buildings	18,046,633.48			18,046,633.48
Machinery and Equipment	2,203,792.60	117,027.21	35,830.11	2,284,989.70
General Infrastructure	1,679,774.95			1,679,774.95
<b>Total Capital Assets, Depreciable</b>	<b>21,930,201.03</b>	<b>117,027.21</b>	<b>35,830.11</b>	<b>22,011,398.13</b>
Less Accumulated Depreciation:				
Buildings	7,625,062.58	486,984.13		8,112,046.71
Machinery and Equipment	1,477,123.93	140,477.23	32,906.22	1,584,694.94
General Infrastructure	1,110,015.80	37,472.41		1,147,488.21
<b>Total Accumulated Depreciation</b>	<b>10,212,202.31</b>	<b>664,933.77</b>	<b>32,906.22</b>	<b>10,844,229.86</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>11,717,998.72</b>	<b>(547,906.56)</b>	<b>2,923.89</b>	<b>11,167,168.27</b>
<b>Capital Assets, Net</b>	<b>\$ 12,713,785.72</b>	<b>\$ (480,541.56)</b>	<b>\$ 179,361.14</b>	<b>\$ 12,053,883.02</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 98,372.17
Accrued Payroll	287,007.89
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 385,380.06</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes Payable	\$ 482,583.57	\$ 0.00	\$ 103,504.35	\$ 379,079.22	\$ 105,594.00
Compensated Absences	303,709.25	276,213.44	278,344.90	301,577.79	3,015.77
<b>Total Long-Term Liabilities</b>	<b>\$ 786,292.82</b>	<b>\$ 276,213.44</b>	<b>\$ 381,849.25</b>	<b>\$ 680,657.01</b>	<b>\$ 108,609.77</b>

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2002	Principal Outstanding 6/30/2002
Energy Project	First Citizens	4.73%	2005	\$ 810,802.00	\$ 431,722.78	\$ 379,079.22

The annual requirements to pay principal and interest on the notes payable at June 30, 2002 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2003	\$ 105,594.00	\$ 17,318.00
2004	110,648.00	12,264.00
2005	115,943.00	6,969.00
2006	46,894.22	1,420.00
Total Requirements	<b>\$ 379,079.22</b>	<b>\$ 37,971.00</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Amount</u>
2003	\$ 364,778.00
2004	116,049.00
2005	<u>22,003.00</u>
Total Minimum Lease Payments	<u>\$ 502,830.00</u>

Rental expense for all operating leases during the year was \$391,147.51.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 4,313,754.12	\$ 0.00	\$ 627,823.05	\$ 3,685,931.07
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Cafeteria	\$ 223,929.66	\$ 5,307.42	\$ 0.00	\$ 218,622.24
Bookstore	1,678,492.55	3,307.09		1,675,185.46
<b>Total Sales and Services</b>	<u>\$ 1,902,422.21</u>	<u>\$ 8,614.51</u>	<u>\$ 0.00</u>	<u>\$ 1,893,807.70</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 9,500,738.69	\$ 824,790.05	\$ 417,929.17	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,743,457.91
Research	1,554,043.29	75,160.78	42,576.86				1,671,780.93
Student Services	1,290,868.94	126,345.40	144,899.59				1,562,113.93
Institutional Support	2,052,836.49	246,266.79	804,344.60				3,103,447.88
Operations and Maintenance of Plant	596,253.82	958,842.50	450,474.18		489,876.64		2,495,447.14
Student Financial Aid				1,926,654.65			1,926,654.65
Auxiliary Enterprises	145,006.80	1,470,715.88	40,940.88		1,487.59		1,658,151.15
Depreciation						664,933.78	664,933.78
<b>Total Operating Expenses</b>	<u>\$ 15,139,748.03</u>	<u>\$ 3,702,121.40</u>	<u>\$ 1,901,165.28</u>	<u>\$ 1,926,654.65</u>	<u>\$ 491,364.23</u>	<u>\$ 664,933.78</u>	<u>\$ 23,825,987.37</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - PENSION PLANS

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

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$13,013,771.81, of which \$10,543,259.30 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$632,595.56 and \$207,702.21, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$207,702.21, \$530,467.41, and \$760,724.03, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College’s law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to \$129,535.00 for the year ended June 30, 2002.

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 non-profit 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 \$59,033.74 for the year ended June 30, 2002.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers’ and State Employees’ Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College’s total contribution to the Plan was \$247,766.59. 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$54,824.95. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. 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. The College purchases coverage for losses from employee dishonesty of County and Institutional Fund paid employees under an employee dishonesty bond.

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. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

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

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

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$18,497.00 and on other purchases were \$27,507.25 at June 30, 2002.
- B. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 are authorized to be issued 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 \$19,427,309.00 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 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

### NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*.

July 1, 2001 Fund Equity as previously reported	\$ 28,279,503.90
Implementation of GASB 34/35	<u>(11,618,576.45)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 16,660,927.45</u>

**Coastal Carolina Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2002**

**Schedule 1**

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<b>Capital Improvement Projects</b>							
<i>Projects Started</i>							
HVAC Replacement - #1167	Sep 2001	\$ 1,387,000.00	\$ 0.00	\$ 1,387,000.00	\$ 80,546.00	5.81%	May 2003
<i>Projects Pending Approval by the State Board</i>							
Allied Health Science Technology Building-#1263	Sep 2002	6,809,588.00		6,809,588.00			Mar 2005
Continuing Education Building	Nov 2003	4,681,453.00		4,681,453.00			Jan 2006
Fine Arts Building Addition	Sep 2003	2,675,322.00		2,675,322.00			Nov 2005
Autobody Paint Shop & Cosmetology Buildings	Sep 2004	1,077,846.00		1,077,846.00			Nov 2006
Physical Education & Fitness Center	Sep 2004	1,688,600.00		1,688,600.00			Nov 2006
Maintenance and Storage Area	Sep 2004	857,304.00		857,304.00			May 2006
Replace HVAC System in Skills Building	Sep 2005	301,980.00		301,980.00			May 2007
<b>Total All Projects</b>		<b>\$ 19,479,093.00</b>	<b>\$ 0.00</b>	<b>\$ 19,479,093.00</b>	<b>\$ 80,546.00</b>		

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

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Ralph Campbell, Jr.  
State Auditor

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

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Board of Trustees  
Coastal Carolina Community College  
Jacksonville, North Carolina

We have audited the financial statements of Coastal Carolina Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated February 13, 2003. We did not audit the financial statements of Coastal Carolina Community College Foundation, Inc., which represent 12 percent and one percent, respectively, of the assets and revenues of the College. 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 Coastal Carolina Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, during the year ended June 30, 2002.

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.

Compliance

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 grants, 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

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE AND ON INTERNAL CONTROL  
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FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 assurance 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 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 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.

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.



Ralph Campbell, Jr.  
State Auditor

February 13, 2003

## **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.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Ronald K. Lingle	President, Coastal Carolina Community College
Mr. David L. Heatherly	Executive Vice President
	Coastal Carolina Community College
MajGen David B. Barker	Chairman, Board of Trustees
	Coastal Carolina Community College

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Kever M. Clark	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Stanley H. Fox
Senator Kay R. Hagan	Representative R. Phillip Haire
Senator David W. Hoyle	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Edd Nye
Senator William N. Martin	Representative William C. Owens, Jr.
Senator Stephen M. Metcalf	Representative Drew P. Saunders
Senator Eric M. Reeves	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Thomas E. Wright
Senator David F. Weinstein	Representative Douglas Y. Yongue

### **Other Legislative Officials**

Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

March 10, 2003



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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