



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Southwestern 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 Southwestern 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 Southwestern 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 Southwestern 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 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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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southwestern Community College
Sylva, North Carolina

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern 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 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 December 20, 2002 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

The Management's Discussion and Analysis (MD&A) on pages 3 to 11 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.



Ralph Campbell, Jr.
State Auditor

December 20, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The purpose of this section of Southwestern Community College's Financial Statements, "Management's Discussion and Analysis," is to provide an overview of the financial position and activities of Southwestern Community College for the year ended June 30, 2002. The Management's Discussion and Analysis (MD&A) section will:

- provide a brief discussion of the basic financial statements,
- include summary financial information which will identify transactions which have had a significant financial impact,
- provide an analysis of the institution's overall financial position,
- provide a description of significant capital asset and long-term debt activity during the year, and
- include information, facts, decisions, or conditions that are expected to have a significant effect on the Southwestern Community College's financial position.

In future years, when prior-year information is available, a comparative analysis will be presented. Comparative data is not presented in this first year of implementation.

Using the Financial Statements

Southwestern Community College's Financial Statements are prepared and presented in accordance with Government Accounting Standards Board (GASB) principles.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the financial statements are presented on a consolidated basis focusing on the college as a whole. Previously, the financial statements focused on the accountability of individual fund groups rather than on the College as a whole.

Other significant changes to the financial statements include:

- The Statement of Net Assets is separated into current and noncurrent assets and liabilities. Current assets are those that are expected to be converted to cash within one year and consist mainly of cash and accounts receivable. Current liabilities cover the same time frame and are mostly related to accounts payable and accrued compensation.
- Revenues and expenses are now categorized as either operating or nonoperating. The grouping is defined by GASB Statement No. 35.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Scholarships and fellowships applied to student accounts are now shown as a reduction of student tuition and fees, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expense. Previously, all scholarships and fellowships were presented as expenses.
- Pursuant to GASB Statement No. 35, depreciation was recorded for the first time this year resulting in a \$7.1 million restatement in the beginning balance for net assets as a result of accumulated depreciation. Additionally, library books that were previously capitalized are now expensed, causing a \$1.0 million reduction in capital assets.

The College's Financial Report includes three financial statements: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows. The Statement of Cash Flows is also a new requirement this year. This Statement reports cash activity divided into areas of operating, capital financing, noncapital financing, and investing.

Financial Highlights for Fiscal Year 2001/2002

The College's financial position remained strong at June 30, 2002, with assets of \$18.1 million and liabilities of \$2.1 million. Net assets, which represent the residual interest in the College's assets after liabilities were deducted, were just over \$16.0 million.

The implementation of GASB Statement No. 35, more specifically the recording of depreciation and write-off of library books as capital assets, resulted in a \$7.6 million restatement and reduction in capital assets from the previous year.

Southwestern Community College, as were other community colleges, was subject to budgetary reversions totaling \$244 thousand during the fiscal year due to the weak economy and its impact on the State of North Carolina. College administrators managed this reduction of funds without negatively impacting the College's learning mission by reducing operating expenses, managing hiring, and using outside funds (i.e. grants, gifts) effectively.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College and presents the fiscal information in a summary format. The College's net assets are classified as follows:

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

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

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend the resources 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

Net Assets, the difference between total assets and total liabilities, is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year.

Assets		
Current Assets		\$ 775,176
Noncurrent Assets	\$ 3,301,242	
Capital Assets, Net	14,119,405	
Total Noncurrent Assets		<u>17,420,647</u>
Total Assets		<u>18,195,823</u>
 Liabilities		
Current Liabilities		1,758,692
Noncurrent Liabilities		376,374
Total Liabilities		<u>2,135,066</u>
 Net Assets		
Invested in Capital	14,119,405	
Restricted – Nonexpendable	25,500	
Restricted – Expendable	1,232,137	
Unrestricted	683,715	
Total Net Assets		<u>\$ 16,060,757</u>

Current Assets - consist primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2002 were \$775,176.

Current Liabilities - are comprised mostly of accounts payable, accrued compensation, and current portions of long-term liabilities. Current liabilities at year-end were \$1.8 million, comprised mostly of "Fund held for Others" - \$ 1.2 million, the current portion of long-term liabilities - \$18 thousand, and accounts payable and accrued liabilities - \$460 thousand.

Noncurrent Assets - are comprised primarily of restricted cash, restricted receivables due from primary government, and capital assets, net of accumulated depreciation. At June 30, 2002 restricted cash totaled \$1.8 million, receivables due from primary government totaled \$1.5 million, and capital assets, net of accumulated depreciation totaled \$14.1 million.

Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes they are divided into four categories: invested in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net assets invested in capital assets represent the College's capital assets net of accumulated depreciation. Of the \$16,060,757 in net assets this year, \$13,346,096 was attributable to Southwestern Community College's investment in capital assets. This is the first year in which depreciation was recognized and reported on the financial statements. As a result of this change, the College incurred a substantial amount of accumulated depreciation in this first year of implementation. At June 30, accumulated depreciation was \$7.8 million.

Total net assets at June 30, 2002 were \$16,060,757.

Statement of Revenues, Expenses, and Changes in Net Assets

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represent the changes in total net assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the institution.

Operating Income (Loss)	
Operating Revenues	\$ 6,427,605
Operating Expenses	(16,288,852)
Total Operating Loss	<u>(9,861,247)</u>
Nonoperating Revenues	<u>8,985,561</u>
Loss Before Other Revenues, Expenses, Gains, and Losses	(875,686)
Other Revenues, Expenses, Gains, and Losses	<u>729,443</u>
Change in Net Assets	(146,243)
Net Assets – July 1, as Previously Stated	23,872,552
Restatements	<u>(7,665,552)</u>
Net Assetses – July 1, After GASB Restatements	16,207,000
Change in Net Assets (Above)	<u>(146,243)</u>
Net Assets – June 30, 2002	<u><u>\$ 16,060,757</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

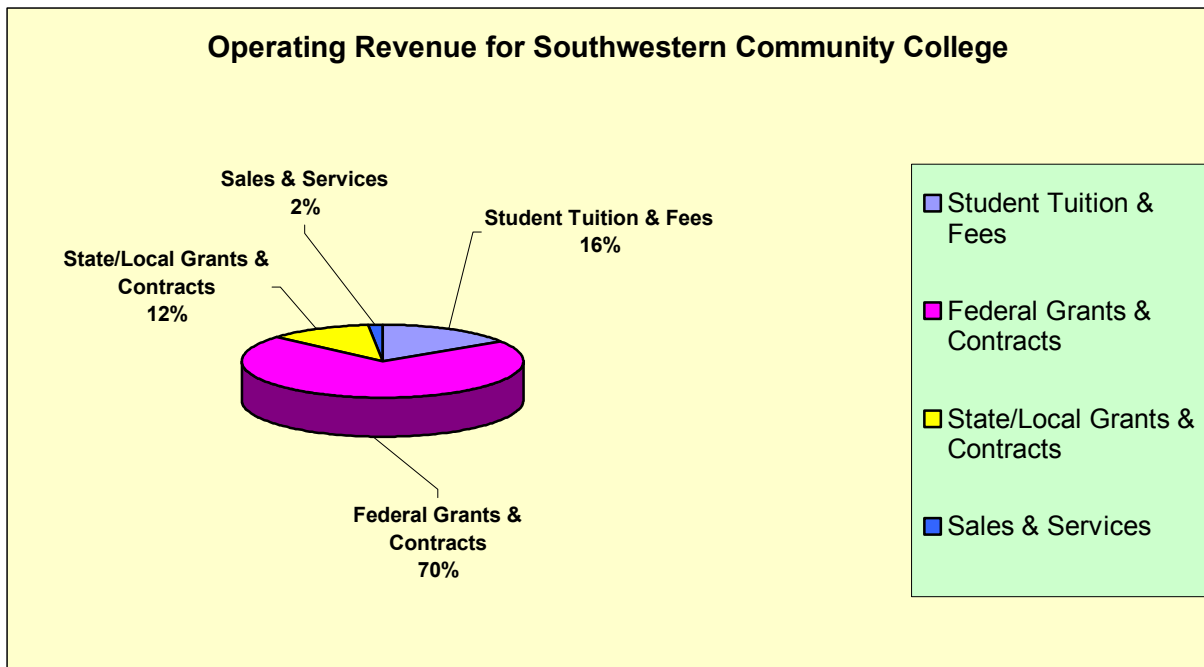
Operating revenues - are received for providing goods and services to the various customers and constituencies of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College.

Nonoperating revenues - are revenues received for which goods and services are not provided. 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 investing, capital or noncapital financing 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 Statement of Revenues, Expenses, and Changes in Net Assets.

Operating expenses - are expenses used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College.

Nonoperating expenses - include interest expense, extraordinary items, and accounting changes/corrections.



Operating revenues totaled \$6,427,605 and consisted of four areas: student tuition and fees, net; federal grants and contracts, net; state/local grants and contracts; and sales and services, net. Student tuition and fees and sales and services are presented net of the scholarships and

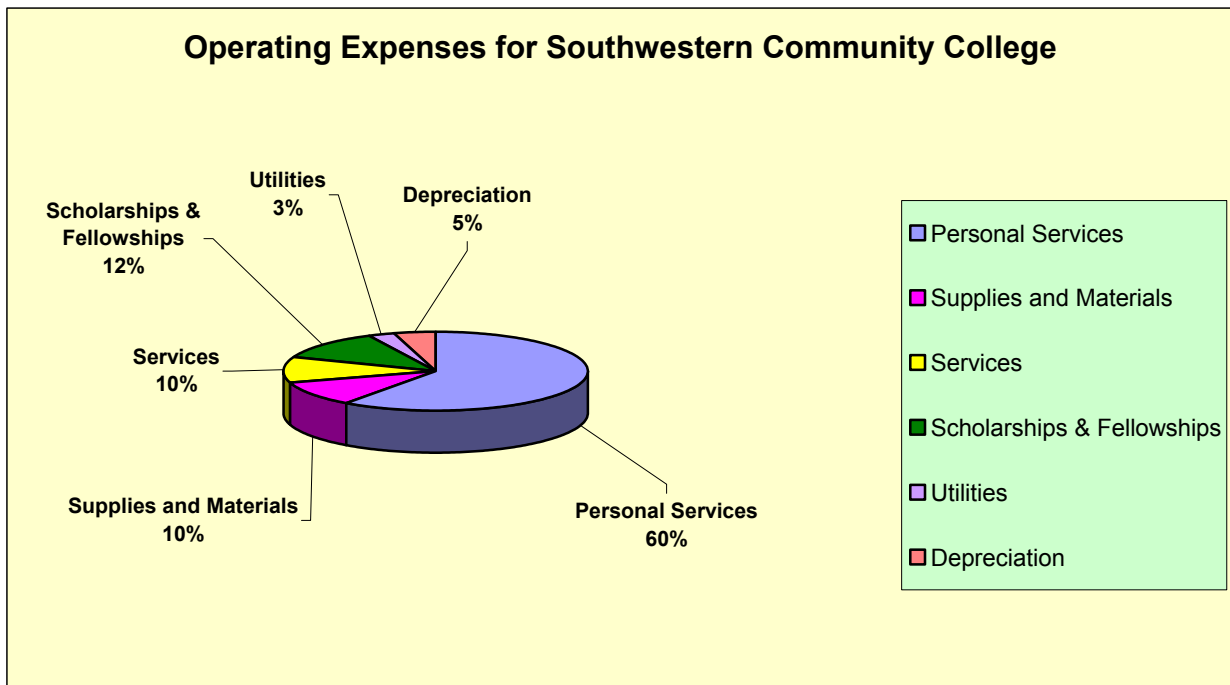
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

fellowships that are applied to student accounts. Previously, tuition and fees were not reflected in this manner.

Federal grants and contracts are comprised mainly of funds received for Pell grants, Stafford subsidized and unsubsidized loans, Upward Bound Program grant, Gear-Up Grant Program, Student Support Services Program grant, and Title III grant. For fiscal year 2001/2002, Southwestern Community College received \$4,548,310 in federal grant/contract revenue.

State and local grants and contracts are comprised mainly of funds received from the State for approved construction/improvement projects. This category also includes revenue from local agencies for the ITV system, State HB275 E-Commerce funds, and fund received from the Appalachian Regional Commission for replication of the New Century Scholars Program. For fiscal year 2001/2002, Southwestern Community College received \$757,488 in State and local grants and contract revenue.

Operating expenses for fiscal year 2001/2002 totaled \$16.3 million and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities, and depreciation. Of the \$16.3 million in operating expenses, \$9.8 million were used for personal service expenditures.



Personal service expenses are salaries and benefits for the faculty and staff of the College. Expenditures for personal services in fiscal year 2001/2002 totaled \$9.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Supplies and material expenditures totaled \$1,674,064 and consisted mainly maintenance supplies, instructional supplies used in the classrooms and laboratories, gasoline and motor vehicle supplies, and office supplies.

Current services expenditures totaled \$1,690,308 for fiscal year 2001/2002. Included in this category are expenditures for conferences, travel expenses incurred as a result of attending conferences/seminars, communication expenditures (i.e. postage, telecommunication costs), printing costs, and contracted service expenses.

Scholarships and fellowships expenditures include expenses associated with student loans and scholarships awarded students. Total expenditures in this category for fiscal year 2001/2002 were \$1,939,729.

Utility expenditures include the costs for heating, electricity, water, and garbage/waste disposal. Utility costs for fiscal year 2001/2002 totaled \$456,212.

Accumulated depreciation for fiscal year 2001/2002 was \$737,192.

Nonoperating revenues received totaled \$9.0 million and consisted primarily of State appropriations and county appropriations. Other nonoperating revenues included noncapital grants and gifts and investment income. Of the \$9.0 million received in nonoperating revenues, Southwestern Community College received over \$7.5 million in State and \$1.2 million in county appropriations in fiscal year 2001/2002. State appropriations comprise over 49% of total revenue received by the College. This year community colleges were required to make two one-time reversions to the State; for Southwestern Community College this amount was \$244,761.00.

Statement of Cash Flows

The Statement of Cash Flows is used to provide detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity, i.e. operating, noncapital financing, capital financing, or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The following is a summary version of the Statement of Cash Flows for the year ended June 30, 2002:

Cash Provided (Used) By:	
Operating Activities	\$ (9,181,237.74)
Noncapital Financing Activities	8,906,284.21
Capital Financing Activities	(418,305.20)
Investing Activities	44,643.64
Net Change in Cash	<u>(648,615.09)</u>
Cash at Beginning of Year	<u>2,470,873.99</u>
Cash at End of Year	<u><u>\$ 1,822,258.90</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Southwestern Community College's Capital Assets

Southwestern Community College had \$14.1 million invested in capital assets at year-end. There was a net decrease of \$6.8 million for the year. This is due to the implementation of the new accounting model, whereby depreciation had to be recognized for the first time, causing a much greater reduction in capital assets than should be expected in future years. Of the \$6.8 million decrease, \$7.8 million was attributable to accumulated depreciation in this year alone. In addition to depreciation, another change that affected capital assets resulting from the new reporting model was the decision to expense previously capitalized books. This brought another reduction in this category of \$1.0 million. On the other hand, the College had additions to construction in progress and land acquisitions totaling just over \$1.8 million and additions in the amount of \$178 thousand to buildings, infrastructure and machinery/equipment.

Capital assets for the College were comprised of non-depreciable and depreciable assets.

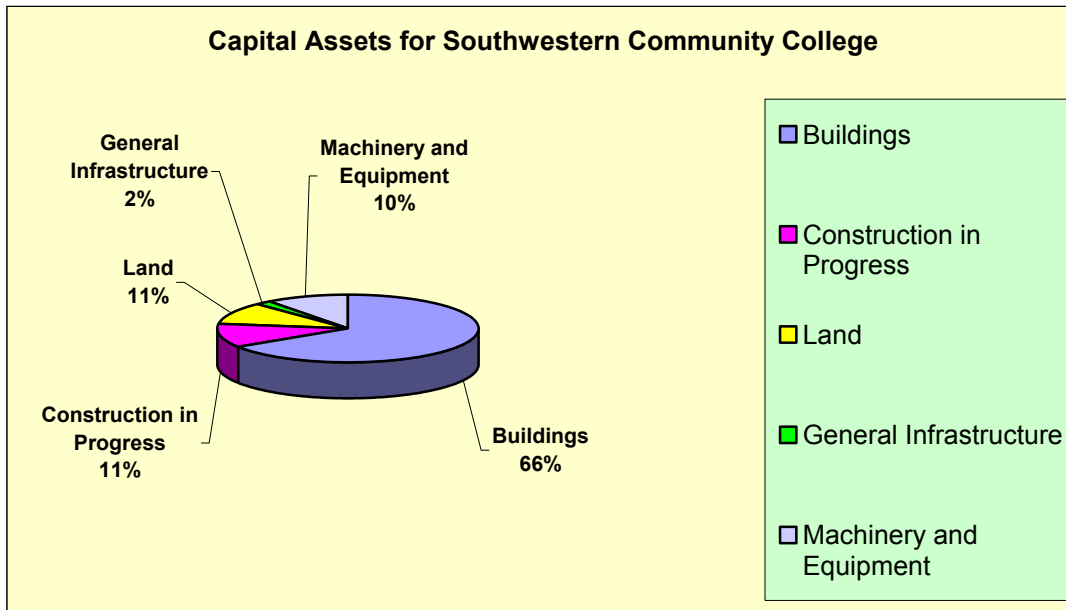
Non-depreciable assets were:

- Land
- Construction in Progress

Depreciable assets were:

- Buildings
- General Infrastructure
- Machinery and Equipment

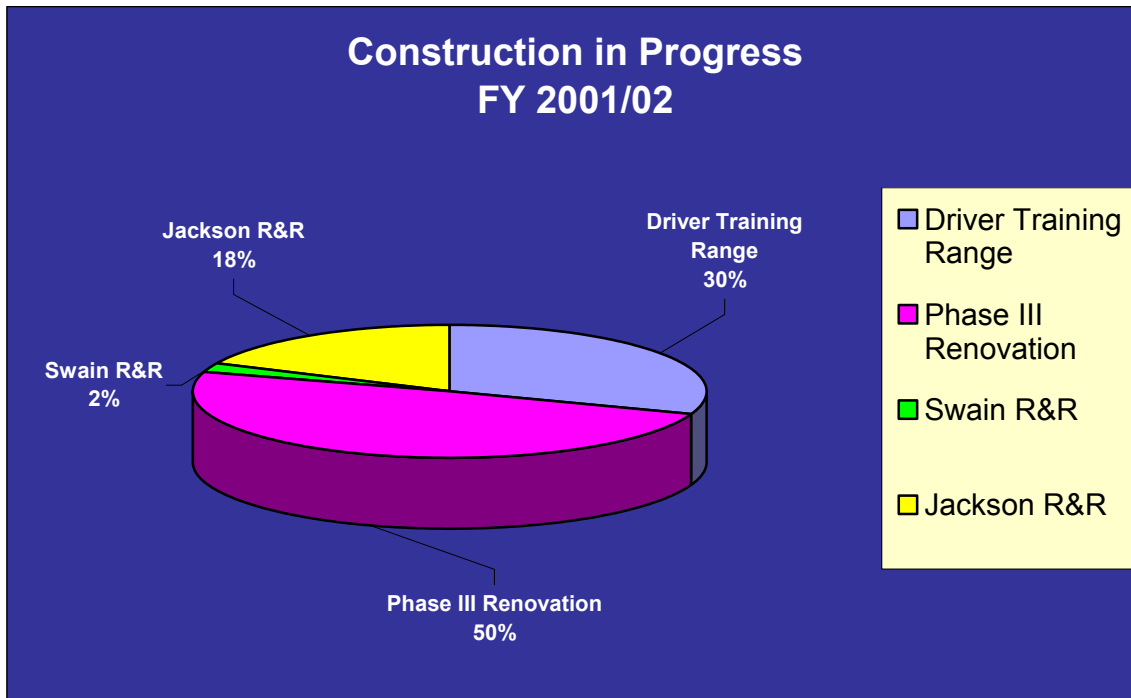
The chart below reflects the relationship of each category to total assets as a whole.



As you can see in the chart above, most of the College's capital assets are in the form of completed buildings.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Construction in progress and land comprise 22% of capital assets. At the end of fiscal year 2001/2002, Southwestern Community College had over \$1.6 million invested in construction in progress. They included the Driver Training Range, Phase III Renovation, Swain R&R, and Jackson R&R.



Southwestern Community College continues to address its building and infrastructure needs through ongoing capital improvement planning. Projects planned for fiscal year 2002-2003 address renovation and improvement to the Continuing Education Offices located in the Main Campus and completion to the Almond Center Renovations. Both projects are approved and funded from State capital improvement funds.

For the Future - Economic Factors

The State of North Carolina has experienced revenue shortfalls during the past two fiscal years which have affected allocations to all governmental agencies including the community college system. This economic trend is expected to continue into the next fiscal year. Management feels that by using a conservative realistic approach in handling its resources, Southwestern Community College will be able to continue providing a superior education to its students in a quality learning environment.

Southwestern Community College		
Statement of Net Assets		
June 30, 2002		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	1,590.00
Restricted Cash and Cash Equivalents		500.00
Receivables, Net (Note 3)		615,418.13
Due from State of North Carolina Component Units		43,575.78
Inventories		114,091.91
Total Current Assets		775,175.82
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,820,168.90
Restricted Due from Primary Government		1,481,072.63
Capital Assets, Net (Note 4)		14,119,405.27
Total Noncurrent Assets		17,420,646.80
Total Assets		18,195,822.62
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		460,640.81
Due to Primary Government		166.50
Due to State of North Carolina Component Units		1,023.00
Deferred Revenue		38,078.60
Funds Held for Others		1,240,511.05
Long-Term Liabilities - Current Portion (Note 6)		18,272.11
Total Current Liabilities		1,758,692.07
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		376,373.80
Total Noncurrent Liabilities		376,373.80
Total Liabilities		2,135,065.87
NET ASSETS		
Invested in Capital Assets		14,119,405.27
Restricted For:		
Nonexpendable:		
Other		25,500.00
Expendable:		
Capital Projects		1,159,631.00
Other		72,505.97
Unrestricted		683,714.51
Total Net Assets	\$	16,060,756.75
The accompanying notes to the financial statements are an integral part of this statement.		

Southwestern Community College		
Statement of Revenues, Expenses, and Changes in Net Assets		
For the Fiscal Year Ended June 30, 2002		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,011,532.86
Federal Grants and Contracts		4,548,309.58
State and Local Grants and Contracts		757,487.70
Sales and Services, Net (Note 8)		110,274.62
Total Operating Revenues		6,427,604.76
EXPENSES		
Operating Expenses:		
Personal Services		9,791,346.80
Supplies and Materials		1,674,064.22
Services		1,690,308.01
Scholarships and Fellowships		1,939,728.84
Utilities		456,212.45
Depreciation		737,191.91
Total Operating Expenses		16,288,852.23
Operating Loss		(9,861,247.47)
NONOPERATING REVENUES		
State Aid		7,462,658.30
County Appropriations		1,174,119.00
Noncapital Grants		197,668.53
Noncapital Gifts, Net (Note 8)		91,480.29
Investment Income, Net		45,108.31
Other Nonoperating Revenues		14,526.82
Net Nonoperating Revenues		8,985,561.25
Loss Before Other Revenues, Expenses, Gains, and Losses		(875,686.22)
State Capital Aid		504,480.51
County Capital Appropriations		224,963.00
Decrease in Net Assets		(146,242.71)
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		16,206,999.46
Net Assets, June 30, 2002	\$	16,060,756.75
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Southwestern Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,271,058.12
Payments to Employees and Fringe Benefits		(9,819,334.16)
Payments to Vendors and Suppliers		(3,855,689.72)
Payments for Scholarships and Fellowships		(1,957,244.16)
Other Receipts (Payments)		179,972.18
Net Cash Used by Operating Activities		(9,181,237.74)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,462,658.30
County Appropriations		1,174,119.00
Noncapital Grants Received		178,026.62
Noncapital Gifts and Endowments Received		91,480.29
Net Cash Provided by Noncapital Financing Activities		8,906,284.21
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		693,284.56
County Capital Appropriations		224,963.00
Capital Grants Received		102,481.44
Proceeds from Sale of Capital Assets		(3,251.78)
Acquisition and Construction of Capital Assets		(1,435,782.42)
Net Cash Used by Capital and Related Financing Activities		(418,305.20)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		44,643.64
Net Cash Provided by Investing Activities		44,643.64
Net Decrease in Cash and Cash Equivalents		(648,615.09)
Cash and Cash Equivalents, July 1, 2001		2,470,873.99
Cash and Cash Equivalents, June 30, 2002	\$	1,822,258.90

<i>Southwestern Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss		\$ (9,861,247.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		737,191.91
Miscellaneous Nonoperating Income		17,778.60
Changes in Assets and Liabilities:		
Receivables, Net		(212,140.56)
Inventories		46,239.89
Accounts Payable and Accrued Liabilities		(102,229.64)
Due to Primary Government		(695.67)
Deferred Revenue		38,078.60
Funds Held for Others		162,193.58
Compensated Absences		(6,406.98)
Net Cash Used by Operating Activities		<u>\$ (9,181,237.74)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Assets Acquired through Assumption of a Liability		140,125.49
Increase in Receivables Related to Nonoperating Income		22,869.00
The accompanying notes to the financial statements are an integral part of this statement.		

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- 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* 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 petty cash, cash on deposit with private bank 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. 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. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, merchandise for resale, postage, and fuel oil held for consumption, are stated at cost using the last invoice received.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

- H. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

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

Restricted Net Assets – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or non-operating 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.
- M. 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.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,090.00. The carrying amount of cash on deposit was \$1,820,168.90 and the bank balance was \$1,970,100.98.

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:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 1,731,725.60	\$ 1,682,506.03
Cash on Deposit with Private Financial Institutions	<u>88,443.30</u>	<u>287,594.95</u>
	<u>\$ 1,820,168.90</u>	<u>\$ 1,970,100.98</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 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 its 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 *Comprehensive Annual Financial Report*. An electronic version of this report is available by

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 183,311.84	\$ 43,826.24	\$ 139,485.60
Accounts Intergovernmental Pledges	462,068.81		462,068.81
Investment Earnings	7,567.68		7,567.68
Interest on Loans			
Other	6,296.04		6,296.04
Total Current Receivables	\$ 659,244.37	\$ 43,826.24	\$ 615,418.13

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 1,097,207.00	\$ 0.00	\$ 392,122.33	\$ 0.00	\$ 1,489,329.33
Art, Literature, and Artifacts					
Construction in Progress	175,881.16	(6,407.00)	1,438,739.64		1,608,213.80
Total Capital Assets, Non-Depreciable	1,273,088.16	(6,407.00)	1,830,861.97		3,097,543.13
Capital Assets, Depreciable:					
Buildings	14,390,708.57		22,457.50		14,413,166.07
Machinery and Equipment	3,627,013.75	(271,213.47)	149,504.19	(53,605.45)	3,451,699.02
Art, Literature, and Artifacts	1,055,209.35			(1,055,209.35)	0.00
General Infrastructure	599,198.77	377,500.82	6,303.58		983,003.17
Total Capital Assets, Depreciable	19,672,130.44	106,287.35	178,265.27	(1,108,814.80)	18,847,868.26
Less Accumulated Depreciation:					
Buildings	4,739,200.45		378,278.91		5,117,479.36
Machinery and Equipment	1,773,584.18		287,151.15	(50,353.67)	2,010,381.66
Art, Literature, and Artifacts					
General Infrastructure	626,383.25		71,761.85		698,145.10
Total Accumulated Depreciation	7,139,167.88		737,191.91	(50,353.67)	7,826,006.12
Total Capital Assets, Depreciable, Net	12,532,962.56	106,287.35	(558,926.64)	(1,058,461.13)	11,021,862.14
Capital Assets, Net	\$ 13,806,050.72	\$ 99,880.35	1,271,935.33	(1,058,461.13)	14,119,405.27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 216,490.86
Accrued Payroll	241,815.64
Other	2,334.31
Total Accounts Payable and Accrued Liabilities	\$ 460,640.81

NOTE 6 - LONG-TERM LIABILITIES

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
Compensated Absences	\$ 401,052.89	\$ 350,243.25	\$ 356,650.23	\$ 394,645.91	\$ 18,272.11

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2003	\$ 35,988.00
2004	23,988.00
2005	15,572.00
2006	12,564.00
2007	8,376.00
Total Minimum Lease Payments	\$ 96,488.00

Rental expense for all operating leases during the year was \$27,612.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,498,336.07	\$ (486,803.21)	\$ 1,011,537.86
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Student Union Services	\$ 34,658.25	\$ 0.00	\$ 34,658.25
Health, Physical Education and Recreation Services	1,883.50		1,883.50
Bookstore	19,402.96		19,402.96
Parking	1,240.00		1,240.00
Other	44,636.91		44,636.91
Sales and Services of Educational and Related Activities	8,453.00		8,453.00
Total Sales and Services	110,274.62	\$ 0.00	\$ 110,274.62
Nonoperating - Noncapital Gifts	\$ 91,480.29	\$ 0.00	\$ 91,480.29

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,595,357.32	\$ 335,355.46	\$ 677,638.86	\$ 0.00	\$ 93,820.73	\$ 0.00	\$ 6,702,172.37
Public Service	23,203.96	4,433.43	390,846.82				418,484.21
Academic Support	1,052,366.88	48,523.69	87,778.11				1,188,668.68
Student Services	858,818.68	252,813.18	135,515.57				1,247,147.43
Institutional Support	1,667,929.92	101,619.03	163,758.55		68,087.10		2,001,394.60
Operations and Maintenance of Plant	593,670.04	905,992.25	199,696.84		294,304.62		1,993,663.75
Student Financial Aid			34,921.89	1,939,728.84			1,974,650.73
Auxiliary Enterprises		25,327.18	151.37				25,478.55
Depreciation						737,191.91	737,191.91
Total Operating Expenses	\$ 9,791,346.80	\$ 1,674,064.22	\$ 1,690,308.01	\$ 1,939,728.84	\$ 456,212.45	\$ 737,191.91	\$ 16,288,852.23

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$8,408,979.25, of which \$6,738,496.66 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$404,309.83 and \$132,748.38, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$132,728.38, \$351,619.20, and \$450,391.86, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$68,945.65 for the year ended June 30, 2002.

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 \$57,062.00 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 \$15,198.00 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

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

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 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 \$158,354.67. 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. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$35,040.18. The College assumes no liability for long-term disability benefits under the plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from Titan Insurance with coverage of \$50,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$305,422.
- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$10,139,469.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - SOUTHWESTERN COMMUNITY COLLEGE FOUNDATION, INC.

The Southwestern Community College Foundation, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$278,471.00 for the year ended June 30, 2002.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 16 - NET ASSET RESTATEMENTS

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	\$ 23,872,551.79
Implementation of GASB 34/35	
Capital Asset Restatement	(1,055,209.35)
Accumulated Depreciation	(7,139,167.88)
Correct Capital Asset Beginning Balance	527,170.76
Other Restatements	<u>1,654.14</u>
July 1, 2001 Net Assets as Restated	<u><u>\$ 16,206,999.46</u></u>

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Swain Center Renovation	Mar 2001	\$ 400,000.00	\$ 0.00	\$ 400,000.00	\$ 34,032.00	8.51%	Jun 2003
Jackson County R & R	Jul 2001	658,942.00		658,942.00	292,228.85	44.35%	Feb 2003
Macon R & R	Sep 2001	90,000.00		90,000.00			Jun 2003
Parking lots Re-Surface	Mar 2002	140,000.00		140,000.00			Aug 2003
<i>Projects Pending Approval by the State Board</i>							
General Building - New Campus	Aug 2002	2,944,018.00	2,941,510.00	5,885,528.00			
Academic/Administration Building	Jul 2003	6,232,770.00	4,271,584.00	10,504,354.00			
Total All Projects		\$ 10,465,730.00	\$ 7,213,094.00	\$ 17,678,824.00	\$ 326,260.85		

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.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the 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**

Board of Trustees
Southwestern Community College
Sylva, North Carolina

We have audited the financial statements of Southwestern 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 December 20, 2002.

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 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*.

**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 (CONCLUDED)**

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

December 20, 2002

DISTRIBUTION OF AUDIT REPORT

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. Cecil L. Groves	President, Southwestern Community College
Ms. Janet Burnette	Vice President for Administrative Services Southwestern Community College
Mr. Conrad Burrell	Chairman, Board of Trustees Southwestern 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 Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative E. Nelson Cole
Senator Walter H. Dalton	Representative James W. Crawford, Jr.
Senator James Forrester	Representative William T. Culpepper, III
Senator Linda Garrou	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Beverly M. Earle
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Ellie Kinnaird	Representative Dewey L. Hill
Senator Jeanne H. Lucas	Representative Maggie Jeffus
Senator William N. Martin	Representative Edd Nye
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Larry Shaw	Representative Wilma M. Sherrill
Senator R. C. Soles, Jr.	Representative Joe P. Tolson
Senator David F. Weinstein	Representative Thomas E. Wright
	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

May 6, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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