



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

COASTAL CAROLINA COMMUNITY COLLEGE

JACKSONVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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State Auditor

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REVIEWER'S TRANSMITTAL

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 review of Coastal Carolina Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Coastal Carolina Community College. The review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Coastal Carolina Community College. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'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 that came to our attention during our review of the financial statements.

Results - Our review disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

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



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Coastal Carolina Community College
Jacksonville, North Carolina

We have reviewed the accompanying Statement of Net Assets of Coastal Carolina Community College, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services*, issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor

April 27, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2003, and June 30, 2002. 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 notes. 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 Colleges 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 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 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 nonfinancial 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)

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, and 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 is in the second year of construction. The mission consists of replacing boilers and chillers in seven buildings on our campus: Classroom A, Classroom B, Henderson Administration Building, Health and Occupational Science Building, Student Services Building, Shields Learning Resource Center and the Fine Arts Building. The total budget for this project is \$1,387,000 in State funds. This project was the first of several approved by the General Assembly general obligation bond issuance in 1999-2000.

The Allied Health Science Technology Building is the second project approved in the bond issuance. The construction began during fiscal year 2002-2003. The total budget for this project is \$6,809,588 in State funds.

Budgeted Curriculum FTE for fiscal year 2003 reflects a 7% decrease from fiscal year 2002.

Tuition increased 10% per credit hour for in-State rates and out-of-State rates.

Of its original annual budget, the College reverted 2.18% to the NC Community College System.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2003, the College's noncurrent assets have increased largely due to reporting proceeds obligated by the North Carolina Community College System Office Bond Cash Flow Model as a receivable due from primary government (\$1.2 million). Last year there was only one project under construction whereas this year there are two projects under construction. The increase in liabilities is due mainly to the current liability increases of \$0.16 million for compensated absences, as well as an increase of \$0.07 million in accounts payable current liability. Net assets expendable for capital projects increased primarily because of construction related to the Geothermal Project.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2003	2002	(In millions) Increase (Decrease)	Percent Change
Current Assets	\$ 3.78	\$ 3.73	\$ 0.05	1.3
Noncurrent Assets:				
Capital Assets, Net of Depreciation	11.93	12.05	(0.12)	(1.0)
Other	<u>2.99</u>	<u>1.64</u>	<u>1.35</u>	82.3
Total Assets	<u>18.70</u>	<u>17.42</u>	<u>1.28</u>	
Current Liabilities	0.63	0.49	0.14	28.6
Noncurrent Liabilities	<u>0.70</u>	<u>0.57</u>	<u>0.13</u>	22.8
Total Liabilities	<u>1.33</u>	<u>1.06</u>	<u>0.27</u>	
Net Assets:				
Investment in Capital Assets	11.66	11.72	(0.06)	(0.5)
Restricted for:				
Nonexpendable:				
Scholarships and Fellowships	1.60	1.46	0.14	9.6
Expendable:				
Capital Projects	1.52	0.09	1.43	1588.9
Other	0.02	0.03	(0.01)	(33.3)
Unrestricted	<u>2.57</u>	<u>3.06</u>	<u>(0.49)</u>	(16.0)
Total Net Assets	<u>\$ 17.37</u>	<u>\$ 16.36</u>	<u>\$ 1.01</u>	

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. While the College's total capital assets increased as a whole, mostly in part to the construction in progress of the bond fund proceeds, the net capital assets decreased due to accumulated depreciation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	2003	2002	<i>(In millions)</i> Increase (Decrease)	Percent Change
Capital Assets:				
Land	\$ 0.82	\$ 0.82	\$ 0.00	
Buildings	18.05	18.05		
Machinery and Equipment	2.37	2.28	0.09	3.9
Infrastructure	1.32	1.68	(0.36)	(21.4)
Construction in Progress	0.49	0.06	0.43	716.7
Total	23.05	22.89	0.16	
Less: Accumulated Depreciation	(11.13)	(10.84)	(0.29)	
Net Capital Assets	\$ 11.92	\$ 12.05	\$ (0.13)	

Analysis of Liabilities

The College had long-term debt of \$0.87 million as of June 30, 2003. This balance consists of a note payable of \$0.27 million in which \$0.11 million is classified as current. Long-term debt also includes accrued vacation of \$0.60 million of which \$0.06 million is shown as current. This large increase in compensated absences is due to the NC Community College System authorization of additional lump sum annual leave for staff employees for which the College incurs a liability. In addition, the College sustained a 44% increase in accounts payable.

	2003	2002	<i>(In millions)</i> Increase (Decrease)	Percent Change
Current Liabilities	\$ 0.46	\$ 0.39	\$ 0.07	17.9
Long-Term Liabilities-Current Portion	0.17	0.11	0.06	54.5
Total Current Liabilities	0.63	0.50	0.13	26.0
Noncurrent Long-Term Liabilities	0.70	0.57	0.13	22.8
Total Liabilities	\$ 1.33	\$ 1.07	\$ 0.26	24.3

Analysis of Revenues

The principal federal contract and grant, Pell Grant, had a revenue increase of over \$1 million, which is an increase of 47% from the prior fiscal year. The student tuition and fees is directly affected by the tuition rate increase mandated by the State of North Carolina. The College Store experienced a sales increase of over \$180,000 thereby increasing the revenue for sales and services. The State of North Carolina required both a budget reversion and cash

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

management techniques during fiscal year 2003 reducing both the State aid and State capital aid. The overall increase in State capital aid is a result of two projects funded by the bond referendum. The increase in noncapital gifts and grants line is due to new reporting requirements. Last year the federal pass through funds were classified in federal grants and contracts, but this year they are classified as noncapital grants. With the construction projects underway, the county capital allotment increased substantially over the previous year. The College Foundation experienced an upturn in their investments due to their diversification of the investment portfolio and the improvement in the market.

			<i>(In millions)</i>	
	2003	2002	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees	\$ 3.89	\$ 3.69	\$ 0.20	5.4
Federal Grants and Contracts	3.78	3.16	0.62	19.6
State and Local Grants and Contracts	0.30	0.17	0.13	76.5
Sales and Services	2.22	2.02	0.20	9.9
	<u>10.19</u>	<u>9.04</u>	<u>1.15</u>	
Total Operating Revenues				
Less Operating Expenses	24.83	23.83	1.00	4.2
Operating Loss	<u>(14.64)</u>	<u>(14.79)</u>	<u>0.15</u>	
Nonoperating Revenues:				
State Aid	11.14	12.00	(0.86)	(7.2)
County Appropriations	1.67	1.79	(0.12)	(6.7)
Noncapital Gifts and Grants, Net	0.49	0.13	0.36	276.9
Investment Income, net	0.13	(0.18)	0.31	(172.2)
Interest and Fees on Capital Asset Debt	(0.01)	(0.02)	0.01	
State Capital Aid	1.72	0.49	1.23	251.0
County Capital Appropriations	0.33	0.12	0.21	175.0
Other Nonoperating Revenues	0.15	0.16	(0.01)	(6.3)
	<u>15.62</u>	<u>14.49</u>	<u>1.13</u>	
Total Nonoperating Revenues				
Increase (Decrease) in Net Assets	<u>\$ 0.98</u>	<u>\$ (0.30)</u>		

Analysis of Expenditures

The College experienced an overall increase in expenditures from FY02 greatly due to the increase in scholarships and fellowships expenditures. As the Pell Grant revenue increases, so do the expenditures associated with the rewarding of scholarships and fellowships. We received over \$1 million more in grant revenue this fiscal year, and therefore we bestowed over \$1 million more in awards.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

	2003	2002	(In millions) Increase (Decrease)	Percent Change
Personal Services	\$ 15.15	\$ 15.14	\$ 0.01	0.1
Supplies and Materials	3.75	3.70	0.05	1.4
Services	1.82	1.90	(0.08)	(4.2)
Scholarships and Fellowships	3.02	1.93	1.09	56.5
Utilities	0.43	0.49	(0.06)	(12.2)
Depreciation	0.66	0.67	(0.01)	(1.5)
Total Expenditures	<u>\$ 24.83</u>	<u>\$ 23.83</u>	<u>\$ 1.00</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
June 30, 2003

Exhibit A

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	2,068,354.91
Restricted Cash and Cash Equivalents		37,240.91
Short-Term Investments		519,437.00
Restricted Short-Term Investments		93,390.00
Receivables (Note 4)		624,836.31
Inventories		368,530.19
Prepaid Items		68,710.44
Notes Receivable (Note 4)		1,333.00
Total Current Assets		3,781,832.76

Noncurrent Assets:

Restricted Cash and Cash Equivalents		60,975.26
Restricted Due from Primary Government		1,239,900.31
Endowment Investments		1,594,721.00
Other Long-Term Investments		49,000.00
Notes Receivable (Note 4)		46,218.00
Capital Assets - Nondepreciable (Note 5)		1,312,836.67
Capital Assets - Depreciable, Net (Note 5)		10,613,442.53
Total Noncurrent Assets		14,917,093.77
Total Assets		18,698,926.53

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		453,550.19
Funds Held for Others		3,462.23
Long-Term Liabilities - Current Portion (Note 7)		170,479.87
Total Current Liabilities		627,492.29

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		698,455.03
Total Noncurrent Liabilities		698,455.03
Total Liabilities		1,325,947.32

NET ASSETS

Invested in Capital Assets, Net of Related Debt		11,655,663.00
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		1,594,721.00
Other		6,095.49
Expendable:		
Capital Projects		1,524,565.62
Other		19,319.00
Unrestricted		2,572,615.10
Total Net Assets	\$	17,372,979.21

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

Coastal Carolina Community College		
Statement of Revenues, Expenses, and Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	3,885,703.19
Federal Grants and Contracts		3,782,850.40
State and Local Grants and Contracts		300,538.09
Sales and Services, Net (Note 9)		2,216,739.36
Total Operating Revenues		10,185,831.04
EXPENSES		
Operating Expenses:		
Personal Services		15,151,831.06
Supplies and Materials		3,745,918.27
Services		1,822,001.92
Scholarships and Fellowships		3,016,571.17
Utilities		427,277.30
Depreciation		661,558.58
Total Operating Expenses		24,825,158.30
Operating Loss		(14,639,327.26)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,142,022.50
County Appropriations		1,673,458.00
Noncapital Grants		347,433.56
Noncapital Gifts		140,253.00
Investment Income, Net		131,555.14
Interest and Fees on Capital Asset-Related Debt		(14,448.98)
Other Nonoperating Revenues		156,974.03
Net Nonoperating Revenues		13,577,247.25
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,062,080.01)
State Capital Aid		1,717,686.96
County Capital Appropriations		332,000.00
Increase in Net Assets		987,606.95
NET ASSETS		
Net Assets, July 1, 2002 as Restated (Note 15)		16,385,372.26
Net Assets, June 30, 2003	\$	17,372,979.21
The accompanying notes to the financial statements are an integral part of this statement.		

Coastal Carolina Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 10,263,825.53
Payments to Employees and Fringe Benefits		(14,830,008.23)
Payments to Vendors and Suppliers		(5,962,467.69)
Payments for Scholarships and Fellowships		(3,016,571.17)
Collection of Loans to Students		1,349.00
Other Receipts		159,430.34
	Net Cash Used by Operating Activities	(13,384,442.22)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,142,022.50
County Appropriations		1,673,458.00
Noncapital Grants Received		347,433.56
Noncapital Gifts and Endowments Received		140,253.00
	Net Cash Provided by Noncapital Financing Activities	13,303,167.06
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		514,650.84
County Capital Appropriations		332,000.00
Proceeds from Sale of Capital Assets		(6,619.78)
Acquisition and Construction of Capital Assets		(527,840.75)
Principal Paid on Capital Debt and Leases		(108,463.02)
Interest Paid on Capital Debt and Leases		14,448.98
	Net Cash Provided by Capital and Related Financing Activities	218,176.27
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		131,555.14
Purchase of Investments and Related Fees		(63,054.39)
	Net Cash Provided by Investing Activities	68,500.75
	Net Increase in Cash and Cash Equivalents	205,401.86
	Cash and Cash Equivalents, July 1, 2002	1,961,169.22
	Cash and Cash Equivalents, June 30, 2003	\$ 2,166,571.08

Coastal Carolina Community College		
Statement of Cash Flows		Exhibit C
For the Fiscal Year Ended June 30, 2003		Page 2
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (14,639,327.26)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		661,558.58
Miscellaneous Nonoperating Income		156,974.02
Changes in Assets and Liabilities:		
Receivables, Net		77,994.49
Inventories		(13,200.90)
Prepaid Items		2,842.49
Notes Receivable, Net		1,349.00
Accounts Payable and Accrued Liabilities		68,170.13
Funds Held for Others		2,456.32
Compensated Absences		296,740.91
Net Cash Used by Operating Activities		<u>\$ (13,384,442.22)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents		\$ 2,068,354.91
Restricted Cash and Cash Equivalents		37,240.91
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		60,975.26
Total Cash and Cash Equivalents - June 30, 2003		<u>\$ 2,166,571.08</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income		\$ 1,203,036.12
The accompanying notes to the financial statements are an integral part of this statement.		

COASTAL CAROLINA COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 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. (Foundation) 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 nonprofit 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)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, and real estate. Except for real estate not held by a governmental external investment pool, 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.

Real estate not held by a governmental external investment pool is 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Depreciation is computed using the straight-line 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** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include 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 equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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

Invested in Capital Assets, 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)

N. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

O. Internal Sales Activities – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$6,490.00. The carrying amount of cash on deposit was \$2,160,081.08 and the bank balance was \$2,452,831.05.

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
	<hr/>	<hr/>
Cash on Deposit with State Treasurer	\$ 1,453,717.68	\$ 1,449,213.22
Cash on Deposit with Private Financial Institutions	706,363.40	1,003,617.83
	<hr/>	<hr/>
	\$ 2,160,081.08	\$ 2,452,831.05
	<hr/> <hr/>	<hr/> <hr/>

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2003, \$161,047.65 of the bank balance was covered by federal depository insurance, \$712,871.81 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method), and \$129,698.37 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 nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2003 is presented below:

	Fair Value			Total
	Risk Category			
	1	2	3	
Categorized Investments:				
U.S. Government Securities	\$ 0.00	\$ 0.00	\$ 6,039.00	\$ 6,039.00
Investments Not Categorized:				
Mutual Funds				1,398,982.00
Fixed Income Fund				802,527.00
Real Estate				49,000.00
Total Investments Not Categorized				2,250,509.00
Total Investments				\$ 2,256,548.00

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	<u>Receivables</u>
Current Receivables:	
Students	\$ 310,793.03
Accounts	<u>314,043.28</u>
Total Current Receivables	<u><u>\$ 624,836.31</u></u>
Notes Receivable:	
Notes Receivable - Current:	
Real Estate Loan	<u><u>\$ 1,333.00</u></u>
Notes Receivable - Noncurrent:	
Real Estate Loan	<u><u>\$ 46,218.00</u></u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	<u>Balance July 1, 2002</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2003</u>
Capital Assets, Nondepreciable:				
Land	\$ 823,349.75	\$ 0.00	\$ 0.00	\$ 823,349.75
Construction in Progress	<u>63,365.00</u>	<u>426,121.92</u>		<u>489,486.92</u>
Total Capital Assets, Nondepreciable	<u>886,714.75</u>	<u>426,121.92</u>		<u>1,312,836.67</u>
Capital Assets, Depreciable:				
Buildings	18,046,633.48	6,044.92		18,052,678.40
Machinery and Equipment	2,284,989.70	85,300.65		2,370,290.35
General Infrastructure	<u>1,679,774.95</u>	<u>10,373.25</u>	<u>370,128.13</u>	<u>1,320,020.07</u>
Total Capital Assets, Depreciable	<u>22,011,398.13</u>	<u>101,718.82</u>	<u>370,128.13</u>	<u>21,742,988.82</u>
Less Accumulated Depreciation:				
Buildings	8,112,046.71	214,043.67		8,112,046.71
Machinery and Equipment	1,584,694.94	137,406.80	376,747.91	1,345,353.83
General Infrastructure	<u>1,147,488.21</u>	<u>310,613.87</u>		<u>1,458,102.08</u>
Total Accumulated Depreciation	<u>10,844,229.86</u>	<u>662,064.34</u>	<u>376,747.91</u>	<u>11,129,546.29</u>
Total Capital Assets, Depreciable, Net	<u>11,167,168.27</u>	<u>(560,345.52)</u>	<u>(6,619.78)</u>	<u>10,613,442.53</u>
Capital Assets, Net	<u><u>\$ 12,053,883.02</u></u>	<u><u>\$ (134,223.60)</u></u>	<u><u>\$ (6,619.78)</u></u>	<u><u>\$ 11,926,279.20</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 141,460.38
Accrued Payroll	312,089.81
Total Accounts Payable and Accrued Liabilities	\$ 453,550.19

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, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Notes Payable	\$ 379,079.22	\$ 0.00	\$ 108,463.02	\$ 270,616.20	\$ 110,648.00
Compensated Absences	301,577.79	299,756.68	3,015.77	598,318.70	59,831.87
Total Long-Term Liabilities	\$ 680,657.01	\$ 299,756.68	\$ 111,478.79	\$ 868,934.90	\$ 170,479.87

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2003	Principal Outstanding 06/30/2003
Energy Project	First Citizens	4.73%	06/27/2005	\$ 810,802.00	\$ 540,185.80	\$ 270,616.20

The annual requirements to pay principal and interest on the notes payable at June 30, 2003 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2004	\$ 110,648.00	\$ 12,264.00
2005	115,943.00	6,969.00
2006	44,025.20	1,420.00
Total Requirements	\$ 270,616.20	\$ 20,653.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 117,063.00
2005	<u>22,003.00</u>
Total Minimum Lease Payments	<u><u>\$ 139,066.00</u></u>

Rental expense for all operating leases during the year was \$393,883.19.

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>
Operating Revenues:				
Student Tuition and Fees	\$ 4,781,646.78	\$ 0.00	\$ 895,943.59	<u>\$ 3,885,703.19</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Cafeteria	\$ 220,128.83	\$ 4,705.40	\$ 0.00	\$ 215,423.43
Bookstore	1,859,857.84	6,510.58		1,853,347.26
Vending and Student Activity	<u>147,968.67</u>			<u>147,968.67</u>
Total Sales and Services	<u>\$ 2,227,955.34</u>	<u>\$ 11,215.98</u>	<u>\$ 0.00</u>	<u>\$ 2,216,739.36</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,377,498.27	\$ 866,377.20	\$ 304,296.57	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,548,172.04
Academic Support	1,701,264.71	59,285.89	107,136.39				1,867,686.99
Student Services	1,416,219.30	174,235.48	192,467.96				1,782,922.74
Institutional Support	1,850,014.45	409,670.89	907,707.97				3,167,393.31
Operations and Maintenance of Plant	652,333.80	657,660.42	284,220.15		425,940.53		2,020,154.90
Student Financial Aid				3,016,571.17			3,016,571.17
Auxiliary Enterprises	154,500.53	1,578,688.39	26,172.88		1,336.77		1,760,698.57
Depreciation						661,558.58	661,558.58
Total Operating Expenses	<u>\$ 15,151,831.06</u>	<u>\$ 3,745,918.27</u>	<u>\$ 1,822,001.92</u>	<u>\$ 3,016,571.17</u>	<u>\$ 427,277.30</u>	<u>\$ 661,558.58</u>	<u>\$ 24,825,158.30</u>

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$12,864,477.66, of which \$10,018,072.28 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$601,084.34. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$207,702.21, and \$530,467.41, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$116,776.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$80,711.78 for the year ended June 30, 2003.

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, 2003, the College’s total contribution to the Plan was \$235,424.70. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2003, the College's total contribution to the DIPNC was \$52,093.98. 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 incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 \$415,768.00 and on other purchases were \$16,713.13 at June 30, 2003.

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$17,913,344.00 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 - NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2002 Net Assets as Previously Reported	\$ 16,360,168.47
Restatement of Accumulated Depreciation	<u>25,203.79</u>
July 1, 2002 Net Assets as Restated	<u><u>\$ 16,385,372.26</u></u>

Coastal Carolina Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Approved by the State Board</i>							
HVAC Replacement - #1167	Sep 2001	\$ 1,387,000.00	\$ 0.00	\$ 1,387,000.00	\$ 159,008.96	11.46%	Aug 2004
Allied Health Science Technology Building - #1263	Sep 2002	6,809,588.00		6,809,588.00	258,111.44	3.79%	Jun 2005
Continuing Education Building	May 2004	4,681,453.00		4,681,453.00			Feb 2006
Fine Arts Building Addition	Mar 2005	2,675,322.00		2,675,322.00			Oct 2006
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
Total All Projects		\$ 19,479,093.00	\$ 0.00	\$ 19,479,093.00	\$ 417,120.40		

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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June 15, 2004

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