



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

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REVIEWER'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 review of Southwestern Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. 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 Southwestern 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 Southwestern 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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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Southwestern Community College
Sylva, North Carolina

We have reviewed the accompanying Statement of Net Assets of Southwestern 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 script.

Ralph Campbell, Jr.
State Auditor

May 21, 2004

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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 for the year ended June 30, 2003. 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
- Include information, facts, decisions or conditions that are expected to have a significant effect on Southwestern Community College's financial position
- Comparative analysis with prior year data.

The Management's Discussion and Analysis should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, related notes, and this discussion are the responsibility of management.

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. Up until last fiscal year, the financial statements focused on the accountability of individual fund groups rather than on the College as a whole. The new format focuses on the financial condition, results of operations and cash flows of the College as a whole.

Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Statement of Cash Flows reports cash activity which is divided into areas of operating, capital financing, noncapital financing and investing.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights for Fiscal Year 2002/2003

The College's financial position remained strong at June 30, 2003, with assets of \$19.0 million and liabilities of \$2.8 million. Net assets, which represent the residual interest in the College's assets after liabilities were deducted, were just over \$16.2 million.

Southwestern Community College, as with other community colleges was subject to budgetary reversions of 2.18% totaling \$183,040 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. Assets are grouped into either current assets or noncurrent assets.

Current Assets include cash, cash equivalents, receivables, and inventories. The current assets for Southwestern Community College consisted primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2003 were \$1,738,734.49.

Noncurrent Assets are comprised primarily of restricted cash, restricted receivables due from primary government and capital assets, net of accumulated depreciation. At June 30, 2003 restricted cash totaled \$2,255,706.74, receivables due from primary government totaled \$544,686 and comprised of receivables due from the State for construction projects. Noncurrent assets also include capital assets (land, construction in progress, buildings, general infrastructure, and equipment), which are stated at historical cost less depreciation. Capital assets are recorded as such if the item costs \$5,000 or more and has a useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings and 2 to 25 years for equipment. Capital assets net of accumulated depreciation totaled \$14.4 million for fiscal year 2002/2003.

Current Liabilities are comprised mostly of accounts payable, accrued compensation, deferred revenue and current portions of long-term liabilities. Accounts payable and accrued compensation made up \$510,655.33 of total current liabilities. Total current liabilities at year-end were \$675,435.57.

Noncurrent Liabilities consist of funds held for others \$1,554,371.58, long-term liabilities and other noncurrent liabilities. Accrued vacation and bonus leave totaled \$594,739 and reflected the total amount of noncurrent liabilities for 2002/2003.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted Net Assets - Nonexpendable 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 include resources in which the College is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

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.

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

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, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted net assets.

Net assets invested in capital assets, net of related debt represents the College's capital assets net of accumulated depreciation and any outstanding principal balances of debt resulting from the acquisition, construction or improvement of those assets. Of the \$16,208,020 in net assets this year, \$14,493,438 was attributable to Southwestern Community College's investment in capital assets.

Total net assets at June 30, 2003 were \$16,208,019.54.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Southwestern Community College State of Net Assets Fiscal Year 2002/2003

	<u>2002/2003</u>	<u>2001/2002</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 721,398.25	\$ 1,590.00
Restricted Cash and Cash Equivalents		500.00
Receivables, Net	784,945.62	615,418.13
Due from State of North Carolina Component Units	15,000.00	43,575.78
Inventories	97,390.62	114,091.91
Notes Receivables, Net	120,000.00	
Total Current Assets	<u>1,738,734.49</u>	<u>775,175.82</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	2,255,706.74	1,820,168.90
Restricted Due from Primary Government	544,686.95	1,481,072.63
Capital Assets	14,493,438.24	14,119,405.27
Total Noncurrent Assets	<u>17,293,831.93</u>	<u>17,420,646.80</u>
Total Assets	<u>19,032,566.42</u>	<u>18,195,822.62</u>
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	510,655.33	460,640.81
Due to Primary Government		166.50
Due to State of North Carolina Component Units		1,023.00
Deferred Revenue	122,804.23	38,078.60
Funds Held for Others	11,266.46	1,240,511.05
Long-Term Liabilities - Current Portion	30,709.55	18,272.11
Total Current Liabilities	<u>675,435.57</u>	<u>1,758,692.07</u>
Noncurrent Liabilities:		
Funds Held for Others	1,554,371.58	
Long-Term Liabilities	594,739.73	376,373.80
Total Noncurrent Liabilities	<u>2,149,111.31</u>	<u>376,373.80</u>
Total Liabilities	<u>2,824,546.88</u>	<u>2,135,065.87</u>
Net Assets		
Invested in Capital	14,493,438.24	14,119,405.27
Restricted - Nonexpendable	25,500.00	25,500.00
Restricted - Expendable	1,317,918.03	1,232,136.97
Unrestricted	371,163.27	683,714.51
Total Net Assets	<u>\$ 16,208,019.54</u>	<u>\$ 16,060,756.75</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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):

	<u>FY 2002/03</u>	<u>FY2001/02</u>
Operating Revenues	\$ 6,933,518	\$ 6,427,605
Operating Expenses	<u>(16,235,999)</u>	<u>(16,288,852)</u>
Total Operating Loss	(9,302,481)	(9,861,247)
Nonoperating Revenues	<u>8,878,553</u>	<u>8,985,561</u>
Loss Before Other Revenues, Expenses, Gains and Losses	(423,928)	(875,686)
Other Revenues, Expenses, Gains and Losses	<u>571,191</u>	<u>729,443</u>
Change in Net Assets	<u>147,263</u>	<u>(146,243)</u>
Net Assets - July 1, as Previously Stated	16,060,757	23,872,552
Restatements		<u>(7,665,552)</u>
Net Assets - July 1, after GASB Restatements	16,060,757	16,207,000
Change in Net Assets (above)	<u>147,263</u>	<u>(146,243)</u>
Net Assets - June 30, 2003	<u>\$ 16,208,020</u>	<u>\$ 16,060,757</u>

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.

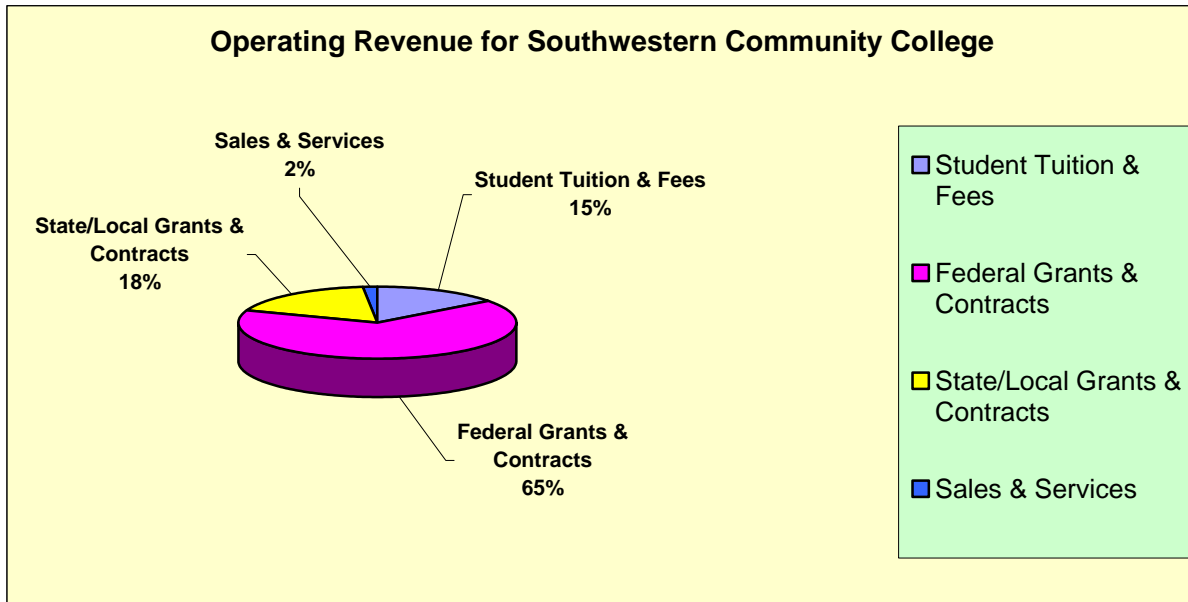
Nonoperating revenues are revenues received for which goods and services are not provided. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 \$6,933,517.55 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.

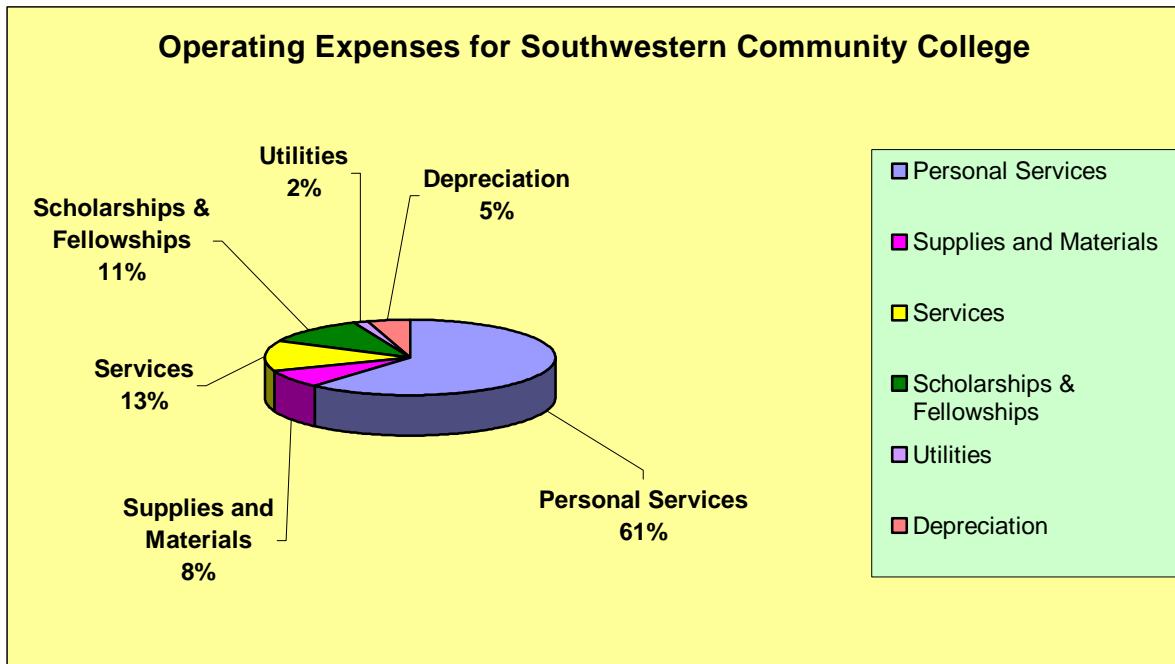
Student tuition and fees and sales and services are presented net of the scholarships and fellowships that are applied to student accounts. The net amount received from student tuition and fee revenue was \$1,029,511.

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 2002/2003, Southwestern Community College received \$4,548,368 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 funds received from the Appalachian Regional Commission for replication of the New Century Scholars Program. For fiscal year 2002/2003, Southwestern Community College received \$1,236,125 in State and local grants and contracts revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses for fiscal year 2002/2003 totaled \$16.2 million and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities and depreciation. Of the \$16.2 million in operating expenses, \$9.9 million was used for personal services expenditures.



Personal services expenses are salary and benefits for the faculty and staff of the College. Expenditures for personal services in fiscal year 2002/2003 totaled \$9.9 million.

Supplies and Material expenditures totaled \$1,270,481 and consisted mainly of maintenance supplies, instructional supplies used in the classrooms and laboratories, gasoline and motor vehicle supplies and office supplies.

Current services expenditures totaled \$2,119,911 for fiscal year 2002/2003. 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 2002/2003 were \$1,829,554.58.

Utility expenditures include the costs for heating, electricity, water, and garbage/waste disposal. Utility costs for fiscal year 2002/2003 totaled \$281,106.

Depreciation Expense for fiscal year 2002/2003 was \$775,924.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues received totaled \$9.4 million and consisted primarily of State appropriations and county appropriations. Other nonoperating revenues included noncapital grants & gifts and investment income. Of the \$9.4 million received in nonoperating revenues Southwestern Community College received over \$7.3 million in State and \$1.4 million in county appropriations in fiscal year 2002/2003. State appropriations comprise over 57% of total revenue received by the College. This year Southwestern Community College was required to revert \$183,040.00 to the State.

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, 2003:

	<u>FY 2002/03</u>	<u>FY2001/02</u>
Cash Provided (Used) by:		
Operating Activities	\$ (7,844,843.42)	\$ (9,181,237.74)
Noncapital Financing Activities	8,889,161.24	8,906,284.21
Capital Financing Activities	77,667.63	(418,305.20)
Investing Activities	32,860.64	44,643.64
	<u>1,154,846.09</u>	<u>(648,615.09)</u>
Net Change in Cash		
Cash at Beginning of Year	1,822,258.90	2,470,873.99
	<u>\$ 2,977,104.99</u>	<u>\$ 1,822,258.90</u>

Southwestern Community College's Capital Assets

Southwestern Community College had 14.4 million invested in capital assets at year-end. There was a net increase of \$374,032 for the year. This increase is due to additions in Construction in Progress, Land Acquisitions and Machinery/Equipment totaling \$1,180,482, however, this increase was offset by depreciation expense of \$775,925 and loss on assets retired of \$30,525. Capital assets for the College were comprised of nondepreciable and depreciable assets.

Nondepreciable assets were:

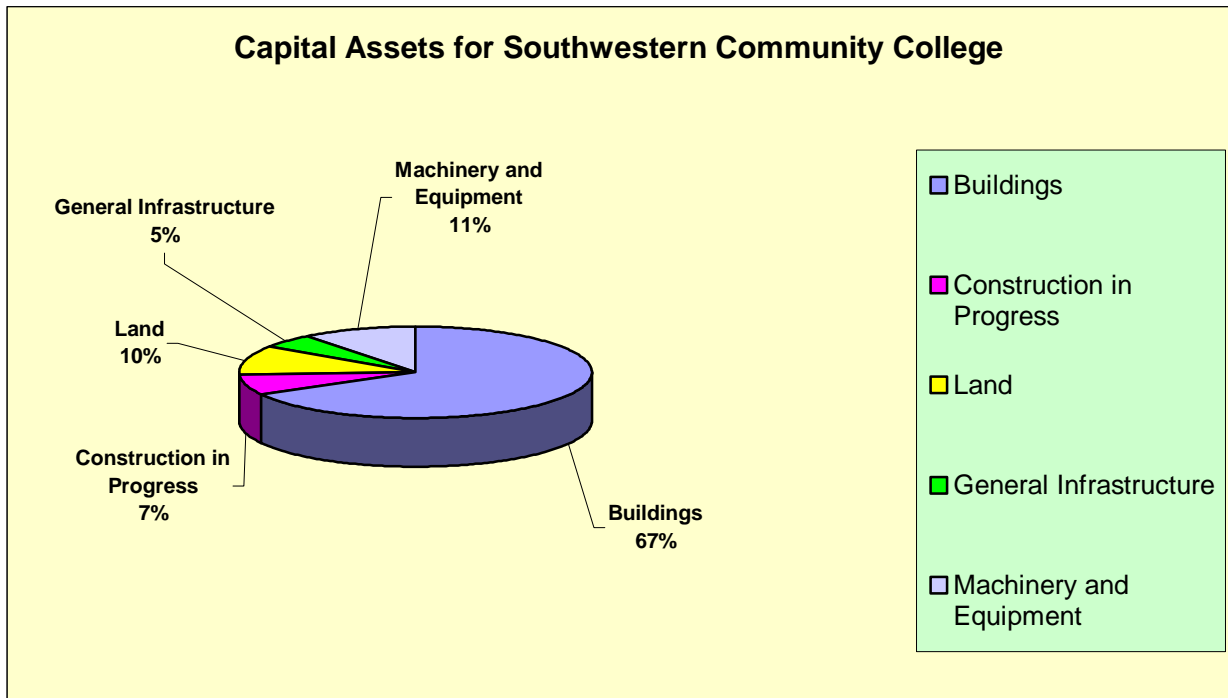
- Land
- Construction in Progress

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Depreciable assets were:

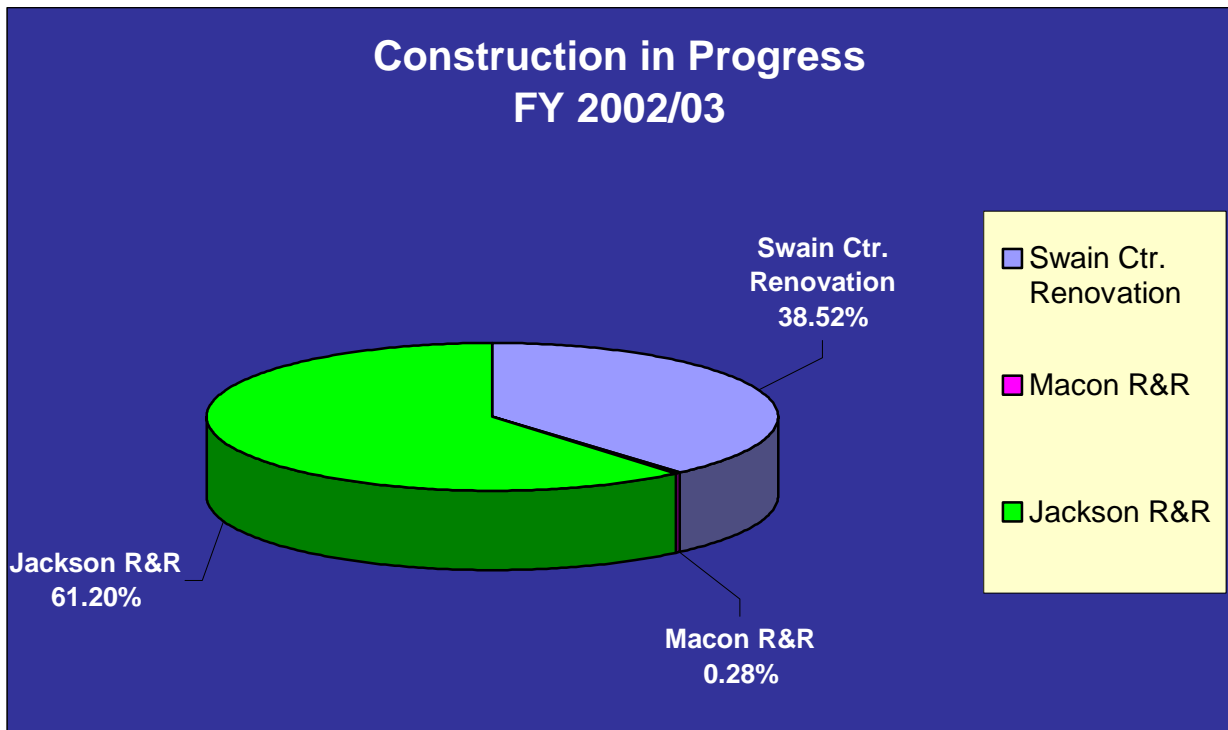
- Buildings
- General Infrastructure
- Machinery and Equipment

The chart below reflects the relationship of each category to capital 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. Construction in Progress and Land comprise 17% of capital assets. At the end of Fiscal Year 2002/2003, Southwestern Community College had over \$1 million invested in Construction in Progress, which included the renovation of the Swain Center and Jackson County campus renovation and reconstruction projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)



Southwestern Community College continues to address its Building and Infrastructure needs through ongoing capital improvement planning. Projects planned for Fiscal Year 2003/2004 include completion of the renovation to the Swain Center, address replacement of the air-conditioning system in the Balsam Center on the Jackson County Campus and begin the planning and architectural stages of the new Macon County Campus. Projects are approved and funded from State Capital Improvement and local 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, 2003		Exhibit A
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	721,398.25
Receivables, Net (Note 3)		784,945.62
Due from State of North Carolina Component Units		15,000.00
Inventories		97,390.62
Notes Receivable		120,000.00
Total Current Assets		1,738,734.49
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,255,706.74
Restricted Due from Primary Government		544,686.95
Capital Assets - Nondepreciable, Net (Note 4)		2,537,699.79
Capital Assets - Depreciable, Net (Note 4)		11,955,738.45
Total Noncurrent Assets		17,293,831.93
Total Assets		19,032,566.42
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		510,655.33
Deferred Revenue		122,804.23
Funds Held for Others		11,266.46
Long-Term Liabilities - Current Portion (Note 6)		30,709.55
Total Current Liabilities		675,435.57
Noncurrent Liabilities:		
Funds Held for Others		1,554,371.58
Long-Term Liabilities (Note 6)		594,739.73
Total Noncurrent Liabilities		2,149,111.31
Total Liabilities		2,824,546.88
NET ASSETS		
Invested in Capital Assets		14,493,438.24
Restricted for:		
Nonexpendable:		
Other		25,500.00
Expendable:		
Capital Projects		668,486.66
Other		649,431.37
Unrestricted		371,163.27
Total Net Assets	\$	16,208,019.54
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, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	1,029,510.94
Federal Grants and Contracts		4,548,368.63
State and Local Grants and Contracts		1,236,125.20
Sales and Services, Net (Note 8)		119,512.78
Total Operating Revenues		6,933,517.55
EXPENSES		
Operating Expenses:		
Personal Services		9,959,021.12
Supplies and Materials		1,270,481.22
Services		2,119,911.13
Scholarships and Fellowships		1,829,554.58
Utilities		281,106.63
Depreciation		775,924.48
Total Operating Expenses		16,235,999.16
Operating Loss		(9,302,481.61)
NONOPERATING REVENUES (EXPENSES)		
State Aid		7,050,327.38
County Appropriations		1,236,962.25
Noncapital Grants		603,779.41
Noncapital Gifts, Net (Note 8)		81,864.78
Investment Income, Net		33,779.83
Other Nonoperating Expenses		(128,161.28)
Net Nonoperating Revenues		8,878,552.37
Loss Before Other Revenues, Expenses, Gains, and Losses		(423,929.24)
State Capital Aid		327,482.15
County Capital Appropriations		243,709.88
Increase in Net Assets		147,262.79
NET ASSETS		
Net Assets, July 1, 2002		16,060,756.75
Net Assets, June 30, 2003	\$	16,208,019.54
The accompanying notes to the financial statements are an integral part of this statement.		

Southwestern Community College		
Statement of Cash Flows		
For the Fiscal Year Ended June 30, 2003		Exhibit C
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	6,989,695.59
Payments to Employees and Fringe Benefits		(9,709,091.98)
Payments to Vendors and Suppliers		(3,498,209.66)
Payments for Scholarships and Fellowships		(1,838,786.72)
Loans Issued		(120,000.00)
Other Receipts		331,549.35
Net Cash Used by Operating Activities		(7,844,843.42)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,050,327.38
County Appropriations		1,236,962.25
Noncapital Grants Received		520,006.83
Noncapital Gifts and Endowments Received		81,864.78
Net Cash Provided by Noncapital Financing Activities		8,889,161.24
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,263,867.83
County Capital Appropriations		243,709.88
Capital Grants Received		(18,746.92)
Proceeds from Sale of Capital Assets		(106,125.26)
Acquisition and Construction of Capital Assets		(1,305,037.90)
Net Cash Provided by Capital and Related Financing Activities		77,667.63
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		32,860.64
Net Cash Provided by Investing Activities		32,860.64
Net Increase in Cash and Cash Equivalents		1,154,846.09
Cash and Cash Equivalents, July 1, 2002		1,822,258.90
Cash and Cash Equivalents, June 30, 2003	\$	2,977,104.99
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(9,302,481.61)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		775,924.48
Miscellaneous Nonoperating Income		8,489.99
Changes in Assets and Liabilities:		
Receivables, Net		(39,847.36)
Inventories		16,701.29
Notes Receivable, Net		(120,000.00)
Accounts Payable and Accrued Liabilities		176,903.30
Due to Primary Government		(1,189.50)
Deferred Revenue		84,725.63
Funds Held for Others		325,126.99
Compensated Absences		230,803.37
Net Cash Used by Operating Activities	\$	(7,844,843.42)

<i>Southwestern Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	721,398.25
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,255,706.74
Total Cash and Cash Equivalents - June 30, 2003	\$	2,977,104.99
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	\$	129,680.13
The accompanying notes to the financial statements are an integral part of this statement.		

SOUTHWESTERN 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. 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 nonprofit 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*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Notes receivable consist of a note receivable held by the Southwestern Community College Foundation. 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 valued at cost using the last invoice cost method.
- 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.
- H. 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.

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.

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 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.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 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.

M. 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.

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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,190.00. The carrying amount of cash on deposit was \$2,974,914.99 and the bank balance was \$3,191,164.64. The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 2,895,874.54	\$ 2,747,564.73
Cash on Deposit with Private Financial Institutions	79,040.45	443,599.91
	\$ 2,974,914.99	\$ 3,191,164.64

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, \$100,000.00 of the bank balance was covered by federal depository insurance and \$343,599.91 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 103,064.03	\$ 46,284.64	\$ 56,779.39
Intergovernmental	488,111.73		488,111.73
Investment Earnings	8,486.87		8,486.87
Other	231,567.63		231,567.63
Total Current Receivables	\$ 831,230.26	\$ 46,284.64	\$ 784,945.62

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2002	Adjustments	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:					
Land	\$ 1,489,329.33	\$ 0.00	\$ 2,325.00	\$ 0.00	\$ 1,491,654.33
Construction in Progress	1,608,213.80	(1,330,236.72)	768,068.38		1,046,045.46
Total Capital Assets, Nondepreciable	3,097,543.13	(1,330,236.72)	770,393.38		2,537,699.79
Capital Assets, Depreciable:					
Buildings	14,413,166.07	791,461.00			15,204,627.07
Machinery and Equipment	3,451,699.02		410,090.08	136,651.27	3,725,137.83
General Infrastructure	983,003.17	538,775.72			1,521,778.89
Total Capital Assets, Depreciable	18,847,868.26	1,330,236.72	410,090.08	136,651.27	20,451,543.79
Less Accumulated Depreciation:					
Buildings	5,117,479.36		388,246.31		5,505,725.67
Machinery and Equipment	2,010,381.66		297,641.95	106,125.26	2,201,898.35
General Infrastructure	698,145.10		90,036.22		788,181.32
Total Accumulated Depreciation	7,826,006.12		775,924.48	106,125.26	8,495,805.34
Total Capital Assets, Depreciable, Net	11,021,862.14	1,330,236.72	(365,834.40)	30,526.01	11,955,738.45
Capital Assets, Net	\$ 14,119,405.27	\$ 0.00	\$ 404,558.98	\$ 30,526.01	\$ 14,493,438.24

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 249,713.95
Accrued Payroll	260,941.38
Total Accounts Payable and Accrued Liabilities	\$ 510,655.33

NOTE 6 - 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
Compensated Absences	\$ 394,645.91	\$ 585,329.55	\$ 354,526.18	\$ 625,449.28	\$ 30,709.55

NOTE 7 - OPERATING LEASE OBLIGATIONS

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

Fiscal Year	Amount
2004	\$ 23,988.00
2005	15,572.00
2006	12,564.00
2007	8,376.00
Total Minimum Lease Payments	\$ 60,500.00

Rental expense for all operating leases during the year was \$35,988.00

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	\$ 1,636,679.74	\$ 607,168.80	\$ 1,029,510.94
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Student Union Services	\$ 32,797.75	\$ 0.00	\$ 32,797.75
Health, Physical Education, and Recreation Services	163.25		163.25
Bookstore	24,292.40		24,292.40
Parking	2,450.00		2,450.00
Other	47,891.38		47,891.38
Sales and Services of Education and Related Activities	11,918.00		11,918.00
Total Sales and Services	\$ 119,512.78	\$ 0.00	\$ 119,512.78
Nonoperating - Noncapital Gifts	\$ 81,864.78	\$ 0.00	\$ 81,864.78

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	\$ 5,638,854.00	\$ 487,982.28	\$ 765,872.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,892,708.53
Public Service	7,000.00	3,985.54	353,204.50				364,190.04
Academic Support	1,060,079.42	28,911.84	83,198.45				1,172,189.71
Student Services	744,682.83	191,366.31	196,820.79				1,132,869.93
Institutional Support	1,883,940.22	119,047.51	349,089.69				2,352,077.42
Operations and Maintenance of Plant	624,464.65	416,056.72	327,109.48		281,106.63		1,648,737.48
Student Financial Aid			44,414.64	1,829,554.58			1,873,969.22
Auxiliary Enterprises		23,131.02	201.33				23,332.35
Depreciation						775,924.48	775,924.48
Total Operating Expenses	\$ 9,959,021.12	\$ 1,270,481.22	\$ 2,119,911.13	\$ 1,829,554.58	\$ 281,106.63	\$ 775,924.48	\$ 16,235,999.16

NOTE 10 - PENSION PLANS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$8,425,187.14, of which \$6,641,516.41 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$398,491.07. 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, \$132,728.38, and \$351,619.20, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$66,406.20 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. The voluntary contributions by employees amounted to \$46,503.00 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 \$16,500.00 for the year ended June 30, 2003.

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, 2003, the College's total contribution to the Plan was \$156,075.63. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$34,535.88. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$71,823.33

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$9,465,951.41 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 - THE SOUTHWESTERN COMMUNITY COLLEGE FOUNDATION

The Southwestern Community College Foundation is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing 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 \$278,097.00 for the year ended June 30, 2003.

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

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	\$ 356,734.67	89.18%	Aug 2003
Jackson County R & R	Jul 2001	658,942.00		658,942.00	640,153.45	97.15%	Jun 2004
Macon R & R	Sep 2001	90,000.00		90,000.00	2,890.47	3.21%	Jun 2004
Parking Lots Re-surfaced	Jul 2004	140,000.00		140,000.00			Oct 2006
<i>Projects Pending Approval by the State Board</i>							
General Building - New Campus	Sep 2003	2,944,018.00	2,941,510.00	5,885,528.00			
Academic / Administration Building	Jul 2005	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	\$ 999,778.59		
<p>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.</p>							

DISTRIBUTION OF REVIEW REPORT

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June 30, 2004

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