

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Sandhills Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Sandhills Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Sandhills Community College. A summary of our reporting objectives and audit results is:

1. **Objective** - Express an opinion on the accompanying financial statements that relate solely to Sandhills Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

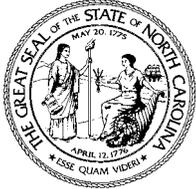
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sandhills Community College
Pinehurst, North Carolina

We have audited the accompanying basic financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2002 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

November 21, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Sandhills Community College Management's Discussion and Analysis (MD&A) provides a discussion and analysis of Sandhills Community College's financial performance during the fiscal year that ended June 30, 2002. Please read this MD&A in conjunction with the College's financial statements that follow.

Overview of the Financial Statements

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows.

Financial Highlights

College bookstore operations outsourced February 2002

Hoke Center completed at a cost of \$1.6 million

Revenues decreased 21.9%

Spending remained steady with 0.8% increase

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets

Table A-1
Sandhills Community College
Net Assets
(in millions of dollars)

	2002	2001	Total Percentage Change
Assets:			
Capital Assets	\$ 18.8	\$ 17.3	8.7%
Other Assets	18.5	20.7	(10.6)%
Total Assets	37.3	38.0	(1.8)%
Liabilities:			
Long-Term Liabilities	0.6	0.4	50.0%
Other Liabilities	1.4	1.3	7.7%
Total Liabilities	2.0	1.7	17.6%
Net Assets:			
Invested in Capital Assets, Net of Related Debt	18.8	17.3	8.7%
Restricted	13.4	16.7	(19.8)%
Unrestricted	3.1	2.2	40.9%
Total Net Assets	\$ 35.3	\$ 36.2	(2.5)%

The College's *Capital Assets* increased \$1.5 million or 8.7% this fiscal year due to new capitalization rules regarding renovations. GASB Statement Nos. 34/35 requires the capitalization of building improvements. In the past the College only capitalized building renovations if the project included the addition of space or major changes to the structure of the building.

The College's *Other Assets* decreased \$2.2 million or 10.6%. The College had a \$2.5 million decrease in intergovernmental receivables. This decrease is largely related to the completion of the Hoke Center. Capital project activity is discussed later in the MD&A. The College had approximately \$123,000 in bookstore credit memos uncollected as of June 30, 2002. These outstanding credit memos were a result of the College's decision to outsource its bookstore operations to Barnes & Noble, Inc. in February 2002.

The College's *Net Assets* decreased \$0.9 million or 2.5%. *Net Assets Invested in Capital Assets, Net of Related Debt* increased \$1.5 million or 8.7% due to building additions related to the completion of the Hoke Center, Automotive Building and Meyer Chiller Project, and Construction in Progress additions related to the start and near completion of the Kennedy Health Sciences and Student Services renovation projects during the fiscal year. *Restricted Net Assets* decreased \$3.3 million or 19.8% due to the completion of the Hoke Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Unrestricted Net Assets increased by \$0.9 million or 40.9% due to increased revenue from increased student enrollment.

Changes in Net Assets

Table A-2
Sandhills Community College
Changes in Net Assets
(in millions of dollars)

	2002	2001	Total Percentage Change
Operating Revenues			
Student tuition and fees	\$ 2.1	\$ 2.0	5.0%
Federal grants and contracts	3.9	2.8	39.3%
State and local grants and contracts	1.0	0.3	233.3%
Sales and services	1.6	1.3	23.1%
Total Operating Revenues	<u>8.6</u>	<u>6.4</u>	<u>34.4%</u>
Nonoperating Revenues			
State aid	11.6	11.9	(2.5)%
County appropriations	1.7	6.1	(72.1)%
Noncapital grants	0.1	0.2	(50.0)%
Noncapital gifts, net	0.9	4.3	(79.1)%
Investment income, net	(0.1)	0.3	(133.3)%
Other nonoperating revenues	0.1	0.1	0.0%
State capital aid	0.5	1.1	(54.5)%
Capital gifts, net	0.5	0.2	150.0%
Total Nonoperating Revenues	<u>15.3</u>	<u>24.2</u>	<u>(36.8)%</u>
Total Revenues	23.9	30.6	(21.9)%
Operating Expenses	<u>24.8</u>	<u>24.6</u>	<u>0.8%</u>
Change in Net Assets	<u>\$ (0.9)</u>	<u>\$ 6.0</u>	<u>(115.0)%</u>

Operating Revenues increased \$2.2 million or 34.4% due to an increase in federal award revenue associated with the increase in financial aid to students attending the College. *Nonoperating Revenues* decreased \$8.9 million or 36.8% due to a decrease in private donations in the current year as compared to the prior year. In the prior year, the College received a large donation (approximately \$3 million) to support the nursing and health sciences program. This year the College received less than \$1 million in private donations. In addition, *County Appropriations* decreased \$4.4 million or 72.1% due to the completion of the Hoke Center, which was supported by county bond funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Although the College experienced a \$2.2 million or 34.4% increase in *Operating Revenues* associated with the growth in student enrollment, the College maintained a low expense rate with a change of only \$0.2 million or 0.8%. Expenses increased minimally due to a small cost of living increase in employee salaries.

Although the College maintained spending with an increase of only 0.8%, the 21.9% decrease in revenue left the College with a decrease in *Net Assets* of \$0.9 million or 115.0%.

Capital Assets

**Table A-3
Sandhills Community College
Capital Assets
(net of depreciation, in millions of dollars)**

	2002	2001	Total Percentage Change
Land	\$ 0.4	\$ 0.4	0.0%
Construction-in-Progress	1.5	1.9	(21.1)%
Buildings	15.1	13.0	16.2%
Machinery and Equipment	1.1	1.0	10.0%
General Infrastructure	0.7	0.7	0.0%
Totals	\$ 18.8	\$ 17.0	10.6%

At the end of 2002, the College had \$18.8 million invested in capital assets. Due to the nature of the College's services, the majority of the College's capital asset expenditures are incurred to increase classroom space.

Construction-in-Progress decreased \$0.4 million or 21.1% due to the completion of the Hoke Center totaling \$1.6 million. During the fiscal year, the College began work on a number of other capital projects. The majority of new construction in progress at June 30, 2002, is associated with renovations to Kennedy Health Sciences (\$0.7 million) and Student Services (\$0.1 million). At year-end, these projects were nearing completion. Another \$0.2 million was spent to begin the planning phase of the Education Center.

Major capital asset additions during 2001-2002:

- Hoke Center completed with a total cost of \$1.6 million
- Automotive Shop additions completed with a total cost of \$0.8 million
- Meyer Chiller Project completed with a total cost of \$0.2 million

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- Kennedy Health Sciences renovation started and nearly completed with a current cost of \$0.7 million
- Student Services renovation started and nearly completed with a current cost of \$0.1 million
- Education Center is in the planning phase, problems were encountered with the architect after approximately \$0.2 million had been invested.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2002, the College had not received any official information on the 2002-2003 budget. However, the State of North Carolina is encountering a budget crisis and the College anticipates further decreases in revenue in the upcoming year.

<i>Sandhills Community College</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2002</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	1,359,377.03
Restricted Cash and Cash Equivalents		3,185,610.06
Receivables, Net (Note 4)		7,331,205.73
Due from State of North Carolina Component Units		392,647.43
Inventories		87,210.13
Total Current Assets		12,356,050.38
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,264,079.76
Receivables, Net (Note 4)		127,826.00
Endowment Investments		1,069,677.94
Other Long-Term Investments		2,713,773.18
Capital Assets, Net (Note 5)		18,828,446.13
Total Noncurrent Assets		25,003,803.01
Total Assets		37,359,853.39
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		210,573.72
Deferred Revenue		1,068,647.69
Funds Held for Others		59,491.12
Long-Term Liabilities - Current Portion (Note 7)		67,456.41
Total Current Liabilities		1,406,168.94
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		603,102.16
Total Liabilities		2,009,271.10
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		18,828,446.13
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		3,108,163.11
Expendable:		
Scholarships and Fellowships		2,968,358.60
Loans		7,000.00
Capital Projects		7,356,533.33
Unrestricted		3,082,081.12
Total Net Assets	\$	35,350,582.29
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Sandhills Community College</i>		
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,150,756.42
Federal Grants and Contracts		3,861,638.15
State and Local Grants and Contracts		1,041,051.81
Sales and Services, Net (Note 8)		1,577,036.00
Total Operating Revenues		8,630,482.38
EXPENSES		
Operating Expenses:		
Personal Services		15,348,268.72
Supplies and Materials		2,883,680.52
Services		1,949,434.65
Scholarships and Fellowships		3,280,984.94
Utilities		556,514.10
Depreciation		804,000.74
Total Operating Expenses		24,822,883.67
Operating Loss		(16,192,401.29)
NONOPERATING REVENUES:		
State Aid		11,603,068.73
County Appropriations		1,705,437.10
Noncapital Grants		87,184.13
Noncapital Gifts, Net (Note 8)		973,095.90
Investment Income, Net		(106,984.27)
Other Nonoperating Revenues		64,702.85
Net Nonoperating Revenues		14,326,504.44
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,865,896.85)
State Capital Aid		529,440.49
Capital Gifts, Net (Note 8)		468,014.13
Increase (Decrease) in Net Assets		(868,442.23)
NET ASSETS		
Net Assets, July 1, 2001 as Restated		36,219,024.52
Net Assets, June 30, 2002	\$	35,350,582.29
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Sandhills Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	8,451,395.71
Payments to Employees and Fringe Benefits		(15,275,129.76)
Payments to Vendors and Suppliers		(5,268,524.00)
Payments for Scholarships and Fellowships		(3,289,692.57)
Other Receipts		67,046.35
Net Cash Used by Operating Activities		(15,314,904.27)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,603,068.73
County Appropriations		1,705,437.10
Noncapital Grants Received		152,501.69
Noncapital Gifts and Endowments Received		952,086.58
Net Cash Provided by Noncapital Financing Activities		14,413,094.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		529,440.49
Capital Grants Received		2,520,287.48
Capital Gifts Received		413,724.13
Proceeds from Sale of Capital Assets		1,687.41
Acquisition and Construction of Capital Assets		(2,289,882.64)
Net Cash Provided by Capital and Related Financing Activities		1,175,256.87
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		391,210.06
Interest on Investments		349,225.13
Purchase of Investments and Related Fees		(371,769.89)
Net Cash Provided by Investing Activities		368,665.30
Net Increase in Cash and Cash Equivalents		642,112.00
Cash and Cash Equivalents, July 1, 2001		6,166,954.85
Cash and Cash Equivalents, June 30, 2002	\$	6,809,066.85
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(16,192,401.29)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		804,000.74
Miscellaneous Nonoperating Income		63,015.44
Changes in Assets and Liabilities:		
Receivables, Net		(190,594.30)
Inventories		148,510.49
Accounts Payable and Accrued Liabilities		(985.05)
Funds Held for Others		6,830.91
Compensated Absences		46,718.79
Net Cash Used by Operating Activities	\$	(15,314,904.27)

<i>Sandhills Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	\$	70,479.07
Assets Acquired through a Gift		100,152.00
Change in Fair Value of Investments		(455,396.74)
Increase in Receivables Related to Nonoperating Income		201,807.38
The accompanying notes to the financial statements are an integral part of this statement.		

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Sandhills Community College is a component unit of the North Carolina Community College System which is a part of the primary government of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

The Foundation is governed by a board consisting of no fewer than fifteen and no more than twenty-five members, at least four of whom shall be members of the Sandhills Community College board of trustees. 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 Sandhills Community College Board of Trustees and the Foundation's sole purpose is to benefit Sandhills 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, 3395 Airport Road, Pinehurst, North Carolina 28374, or by calling (910) 695-3719. 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* effective for the College’s year ended June 30, 2002, the full scope of the College’s activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, commercial paper, and short-term investments with the State Treasurer’s Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, money market funds, certificates of deposit, life income annuities, and real estate. Except for money market funds, certificates of deposit, and 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Money market funds, certificates of deposit, and real estate not held by a governmental external investment pool are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied.
- G. Inventories** – Inventories, consisting of expendable supplies, postage, and fuel oil held for consumption, are stated at the lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for infrastructure, 10 to 50 years for buildings, and 3 to 25 years for equipment.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences and other liabilities 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 July 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 July 1st plus the leave earned, less the leave taken between July 1st and June 30th.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

N. Revenue and Expense Recognition – The College presents its revenues and expenses as operating or nonoperating based on recognition

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

- O. Internal Sales Activities** – The College has miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the 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 vehicles, and maintenance equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

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 G.S. § 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$765.00. The carrying amount of cash on deposit was \$6,866,430.55 and the bank balance was \$7,456,768.12.

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	\$ 5,867,479.00	\$ 5,867,479.00
Cash on Deposit with Private Financial Institutions	998,951.55	1,589,289.12
	<u>\$ 6,866,430.55</u>	<u>\$ 7,456,768.12</u>

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

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

Of the cash on deposit with private financial institutions at June 30, 2002, \$120,250.69 of the bank balance was covered by federal depository insurance, \$125,741.67 was uncollateralized deposits held by a fiscal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

agent in the name of the nominee (category 2 risk), and \$1,343,296.76 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- 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; 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 will not be able to recover the value of investment or collateral securities

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	Fair Value			
	Risk Category			Total
	1	2	3	
Investments Categorized:				
Corporate Securities	\$ 0.00	\$ 2,085,229.36	\$ 0.00	\$ 2,085,229.36
Corporate Bonds		793,059.18		793,059.18
Total Investments Categorized	\$ 0.00	\$ 2,878,288.54	\$ 0.00	\$ 2,878,288.54
Investments Not Categorized:				
Certificates of Deposit				58,128.70
Mutual Funds				652,957.26
Money Market Funds				184,826.62
Real Estate				9,250.00
Total Investments				\$ 3,783,451.12

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. 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 expendable net asset endowment balances and are available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending to 5% of the original endowment principal. To the extent that the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

income for the current year exceeds the payout, the excess is added to the expendable net asset endowment balance. If current year earnings do not meet the payout requirements, the College uses accumulated income from the expendable net asset endowment balances to make up the difference. At June 30, 2002, net appreciation of \$2,129,183.52 was available to be spent, of which \$359,913.87 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	<u>Net Receivables</u>
Current Receivables:	
Students	\$ 65,010.55
Accounts	117,249.24
Intergovernmental	7,012,984.89
Pledges	97,717.00
Investment Earnings	15,236.63
Other	<u>23,007.42</u>
Total Current Receivables	<u>\$ 7,331,205.73</u>
Noncurrent Receivables:	
Pledges	<u>\$ 127,826.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	\$ 429,736.45	\$ 0.00	\$ 0.00	\$ 0.00	\$ 429,736.45
Construction in Progress	1,866,902.79		1,143,270.32	(1,476,080.54)	1,534,092.57
Total Capital Assets, Non-Depreciable	2,296,639.24		1,143,270.32	(1,476,080.54)	1,963,829.02
Capital Assets, Depreciable:					
Buildings	19,007,999.61	242,713.52	2,436,897.12		21,687,610.25
Machinery and Equipment	2,155,328.45		124,130.93	(27,557.38)	2,251,902.00
General Infrastructure	1,167,064.46				1,167,064.46
Totals	22,330,392.52	242,713.52	2,561,028.05	(27,557.38)	25,106,576.71
Less Accumulated Depreciation:					
Buildings	6,027,117.49	1,257.00	538,619.21		6,566,993.70
Machinery and Equipment	1,101,032.19	(98,198.07)	201,646.38	(27,557.38)	1,176,923.12
General Infrastructure	469,510.45	(35,202.82)	63,735.15		498,042.78
Totals	7,597,660.13	(132,143.89)	804,000.74	(27,557.38)	8,241,959.60
Total Capital Assets, Depreciable, Net	14,732,732.39	374,857.41	1,757,027.31		16,864,617.11
Capital Assets, Net	\$ 17,029,371.63	\$ 374,857.41	\$ 2,900,297.63	\$ (1,476,080.54)	\$ 18,828,446.13

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 52,266.51
Accrued Payroll	26,420.17
Contract Payable	73,880.16
Intergovernmental Payables	58,006.88
Total Accounts Payable and Accrued Liabilities	\$ 210,573.72

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Other Long-Term Liabilities	\$ 0.00	\$ 149,618.64	\$ 0.00	\$ 149,618.64	\$ 12,009.00
Compensated Absences	472,338.78	512,181.10	(463,579.95)	520,939.93	55,447.41
Total Long-Term Liabilities	\$ 472,338.78	\$ 661,799.74	\$ (463,579.95)	\$ 670,558.57	\$ 67,456.41

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	\$ 3,110,612.70	\$ (959,856.28)	\$ 2,150,756.42
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Student Union Services	\$ 75,987.43	\$ 0.00	\$ 75,987.43
Bookstore	1,283,213.04		1,283,213.04
Parking	6,206.00		6,206.00
Other	211,629.53		211,629.53
Total Sales and Services	\$ 1,577,036.00	\$ 0.00	\$ 1,577,036.00
Nonoperating - Noncapital Gifts	\$ 973,095.90	\$ 0.00	\$ 973,095.90
Capital Gifts	\$ 468,014.13	\$ 0.00	\$ 468,014.13

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	\$ 9,658,340.81	\$ 1,183,996.69	\$ 362,265.08	\$ 0.00	\$ 0.00	\$ 0.00	\$ 11,204,602.58
Public Service	7,716.36	20,775.73					28,492.09
Student Services	2,382,606.38	87,062.07	145,578.96				2,615,247.41
Institutional Support	1,948,716.77	293,412.10	987,929.27		27,347.42		3,257,405.56
Operations and Maintenance of Plant	1,251,536.06	226,794.02	209,593.53		529,166.68		2,217,090.29
Student Financial Aid			76,024.50	3,280,984.94			3,357,009.44
Auxiliary Enterprises	99,352.34	1,071,639.91	168,043.31				1,339,035.56
Depreciation						804,000.74	804,000.74
Total Operating Expenses	\$ 15,348,268.72	\$ 2,883,680.52	\$ 1,949,434.65	\$ 3,280,984.94	\$ 556,514.10	\$ 804,000.74	\$ 24,822,883.67

NOTE 10 - PENSION PLANS

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

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$13,037,959.17 of which \$11,342,983.53 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$680,579.01 and \$223,456.78, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$223,456.78, \$585,843.89, and \$828,496.70, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina *Comprehensive Annual Financial Report*. An electronic version of this report is available 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. 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. The voluntary contributions by employees amounted to \$103,629.00 for the year ended June 30, 2002.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$244,273.00 for the year ended June 30, 2002.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$266,560.11. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$58,983.51. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. In addition the College has purchased a \$5,000,000 comprehensive boiler and machinery insurance policy from a private insurance company. 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 are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid by County and Institutional funds by a policy with a private insurance company for \$25,000 per loss with a \$250 deductible. The College is protected for losses from errors and omissions by a policy with a private insurance company for \$1,000,000 with a \$25,000 deductible. The College is protected under an umbrella policy with a private insurance company for \$1,000,000 limit and a \$10,000 retention.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

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

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

NOTE 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 \$528,393.01 at June 30, 2002.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$12,171,808.78 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

- C. Other Contingent Receivables** - The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, can not begin to be satisfied. In accordance with generally accepted accounting principles these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Restricted Pledges	\$ 185,611.00
Permanent Endowments	3,266,458.00

NOTE 14 - ACCOUNTING CHANGES

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 15 - NET ASSET RESTATEMENTS

As referred to in Note 14, the College implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*.

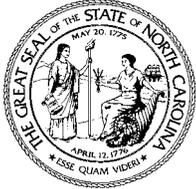
July 1, 2001 Fund Equity as previously reported	\$ 42,749,192.06
Implementation of GASB 34/35:	
Capital Assets	1,831,722.35
Accumulated Depreciation	(7,597,660.13)
Other Restatements:	
Correct Deferred Revenue beginning balance	(1,125,716.65)
Correct Capital Assets beginning balance	242,713.52
Correct Long-Term Liabilities beginning balance	(4,222.54)
Other adjustments	<u>122,995.91</u>
July 1, 2001 Net Assets as Restated	<u>\$ 36,219,024.52</u>

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
New Student Center	Mar 2003	\$ 1,949,455.00	\$ 5,473,000.00	\$ 7,422,455.00	\$ 488,604.57	6.58%	Sep 2003
New Hoke County Center	May 2005	333,131.00	1,454,994.00	1,788,125.00	1,737,748.63	97.18%	Sep 2005
Kennedy Hall Health Sciences Renovation	Feb 2002	487,000.00	734,000.00	1,221,000.00	775,380.89	63.50%	Aug 2002
Technology Center	Nov 2001	4,006,491.00	2,160,290.00	6,166,781.00	203,204.50	3.30%	Mar 2004
Stone Hall Student Services Renovation	Jun 2001	95,000.00		95,000.00	30,615.44	32.23%	Aug 2002
Hoke Business and Technology Center	Jul 2004	1,200,336.00		1,200,336.00			Jul 2006
Heutte Hall Renovation	Jun 2005	293,509.00		293,509.00	5,600.00	1.91%	Apr 2006
Blue Hall Renovation	Jan 2003	1,500,000.00		1,500,000.00			May 2005
Stone Hall Renovation	Aug 2004	500,000.00		500,000.00			Dec 2005
Causey Hall Renovation	Aug 2004	500,000.00		500,000.00			Dec 2005
Projects Pending Approval by the State Board							
Robbins Land Purchase		100,000.00		100,000.00			
Improvements/Expansion Traffic System	Apr 2002	231,172.00		231,172.00	34,932.02	15.11%	Aug 2002
Stone Hall Administration Renovation	Aug 2002	120,000.00		120,000.00			Aug 2003
Projects To Be Determined							
New Construction Projects	Dec 2004	2,280,000.00		2,280,000.00			Jun 2006
Total All Projects		\$ 13,596,094.00	\$ 9,822,284.00	\$ 23,418,378.00	\$ 3,276,086.05		
<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>							

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Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Sandhills Community College
Pinehurst, North Carolina

We have audited the financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 21, 2002. As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

November 21, 2002

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Mr. George W. Little	Chairman, Board of Trustees Sandhills Community College

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Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

December 18, 2002

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