



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT REVIEW REPORT OF**

**SANDHILLS COMMUNITY COLLEGE**

**PINEHURST, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT REVIEW REPORT OF**

**SANDHILLS COMMUNITY COLLEGE**

**PINEHURST, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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## REVIEWER'S TRANSMITTAL

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

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

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Sandhills 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 Sandhills 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)

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

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Board of Trustees  
Sandhills Community College  
Pinehurst, North Carolina

We have reviewed the accompanying Statement of Net Assets of Sandhills 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

April 27, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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This section provides a discussion and analysis of Sandhills Community College's financial performance during the fiscal year that ended June 30, 2003. Please read this section in conjunction with the College's financial statements, which follow.

### Financial Highlights

College revenue sources increased by 5.9%.

Spending increased by 0.4%.

Kennedy Hall Health Sciences Renovation completed at a cost of \$1.2 million.

Traffic Improvements completed at a cost of \$151,741.

### Overview of the Financial Statements

The College meets the criteria set forth by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, 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.

### Net Assets

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

|                            | 2002    | 2003    | Total<br>Percentage<br>Change |
|----------------------------|---------|---------|-------------------------------|
| Current Assets             | \$ 12.4 | \$ 11.7 | -5.6%                         |
| Noncurrent Assets          | 6.1     | 6.9     | 13.1%                         |
| Capital Assets             | 18.8    | 19.6    | 4.3%                          |
| Total Assets               | 37.3    | 38.2    | 2.4%                          |
| Current Liabilities        | 1.4     | 2.1     | 50.0%                         |
| Noncurrent Liabilities     | 0.6     | 0.4     | -33.3%                        |
| Total Liabilities          | 2.0     | 2.5     | 25.0%                         |
| Net Assets                 |         |         |                               |
| Invested in Capital Assets | 18.8    | 19.6    | 4.3%                          |
| Restricted                 | 13.4    | 12.6    | -6.0%                         |
| Unrestricted               | 3.1     | 3.5     | 12.9%                         |
| Total Net Assets           | \$ 35.3 | \$ 35.7 | 1.1%                          |



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

---

The College's capital assets incurred a \$0.8 million increase related to the completion of the Kennedy Hall Health Sciences Renovation, Traffic Improvements, and a telephone system installation which totaled \$1.5 million. The \$1.5 million was decreased by \$0.89 million in depreciation to net to \$0.6 million.

The current assets incurred a net decrease of 5.6% or \$0.7 million and an increase in noncurrent assets of 13.1% or \$0.8 million (Table A-1). The change in current assets was associated with a decrease in intergovernmental receivables associated with county and State bond projects and pledges receivable associated with the end of the Sandhills Community College Foundation's 5-year pledge drive. The \$0.8 million increase in noncurrent assets was associated with the increase in market value of investments at fiscal year end.

The College's liabilities increased by a net of \$0.5 million which was mainly associated with the increase in the portion of compensated absences due within one year.

The College's total net assets increased 1.1% to \$35.7 million (Table A-1). The invested in capital assets category increased 4.3% (Table A-1) due to the \$1.5 million increase in buildings associated with the Kennedy Hall Health Sciences Renovation and the Traffic Improvements and current year's depreciation. Restricted net assets decreased \$0.8 million or 6% due to the completion of the Kennedy Hall Health Sciences Renovation and Traffic Improvements and reclassification from restricted net assets to capital assets. Unrestricted net assets increased by \$0.4 million or 12.9% (Table A-1). A portion of this increase in unrestricted net assets is a result of the \$0.4 million increase in net assets.

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

**Changes in Net Assets**

The College's total revenues increased 5.9% to \$25.3 million. (Table A-2)

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

|                                     | <u>2002</u>     | <u>2003</u>   | <b>Total<br/>Percentage<br/>Change</b> |
|-------------------------------------|-----------------|---------------|--|
| Operating Revenues                  | \$ 8.6          | \$ 7.3        | -15.1%                                 |
| Nonoperating Revenues               | 14.3            | 17.0          | 18.9%                                  |
| Other Revenues (State Aid, etc.)    | <u>1.0</u>      | <u>1.0</u>    |  |
| Total Revenues                      | <u>23.9</u>     | <u>25.3</u>   | <u>5.9%</u>                            |
| Expenditures                        |                 |               |  |
| Instruction                         | 11.2            | 11.1          | -0.9%                                  |
| Academic Support                    |                 | 1.6           | 100.0%                                 |
| Student Services                    | 2.6             | 1.3           | -50.0%                                 |
| Institutional Support               | 3.3             | 3.7           | 12.1%                                  |
| Operations and Maintenance of Plant | 2.2             | 2.8           | 27.3%                                  |
| Student Financial Aid               | 3.4             | 3.5           | 2.9%                                   |
| Auxiliary Enterprises               | 1.3             |               | -99.7%                                 |
| Depreciation                        | <u>0.8</u>      | <u>0.9</u>    | <u>12.5%</u>                           |
| Total Operating Expenses            | <u>24.8</u>     | <u>24.9</u>   | <u>0.4%</u>                            |
| Change in Net Assets                | <u>\$ (0.9)</u> | <u>\$ 0.4</u> | <u>144.0%</u>                          |

Operating revenues decreased 15.1% to \$7.3 million (Table A-2) due to the \$1.4 million decrease in bookstore revenue associated with the 2001-2002 sale of the Sandhills Community College Bookstore to Barnes & Noble. Nonoperating revenues increased 18.9% to \$17.0 million (Table A-2). This increase is associated with increases in noncapital grants related to construction, increases in revenue received from private donations, and increased in investment income. Other revenues remained the same from the previous year. These revenues consist of State and county capital aid (Table A-2). These funds fluctuate with the number and completion stage of the College's construction projects and the College's equipment needs.

The increase in revenue provided the College an opportunity to regain \$0.4 million of the \$0.9 million decrease in net assets from the previous fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Capital Assets

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

|                          | <u>2002</u>    | <u>2003</u>    | <u>Total<br/>Percentage<br/>Change</u> |
|--------------------------|----------------|----------------|--|
| Land                     | \$ 0.4         | \$ 0.4         | 0.0%                                   |
| Construction in Progress | 1.5            | 1.4            | -6.7%                                  |
| Buildings                | 15.1           | 15.8           | 4.6%                                   |
| Machinery and Equipment  | 1.1            | 1.1            |  |
| General Infrastructure   | <u>0.7</u>     | <u>0.9</u>     | <u>28.6%</u>                           |
| Total                    | <u>\$ 18.8</u> | <u>\$ 19.6</u> | <u>4.3%</u>                            |

At the end of 2003, the College had invested \$19.6 million 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 6.7% to \$1.4 million. The majority of the decrease is associated with the completion of the Kennedy Hall Health Sciences Renovation (\$1.2 million) and the Traffic Improvements (\$0.2 million). The College continued work on the Student Center, South Campus Parking Lot, Stone Hall Administrative Renovation, Heutte Hall Renovation, and Blue Hall Renovation.

Major capital asset additions during 2002-2003

- Kennedy Hall Health Sciences Renovation completed with a cost of \$1.2 million
- Traffic Improvements were completed at a cost of \$152,000
- Student Center project continued and increased to a current cost of \$943,000
- Blue Hall renovations at a cost of \$348,000
- Telephone system replaced at a cost of \$155,000

### Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2003, the College had received budget information projecting a \$0.7 million State budget increase. This increase was followed by notification that the College would be required to hold 4% or \$0.6 million. The net increase to the College's budget as projected is approximated at \$0.1 million over the prior fiscal year budget.

### Contacting the College's Financial Management

This report is designed to provide our community, students, legislative representatives, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives through grants, donations, and tuition revenues. If you have any questions about this report or if you are interested in additional financial information, contact the Sandhills Community College Director of Finance's Office, 3395 Airport Road, Pinehurst, NC 28374.

**Sandhills Community College****Statement of Net Assets****June 30, 2003****Exhibit A****ASSETS**

## Current Assets:

|                                      |    |                      |
|--------------------------------------|----|----------------------|
| Cash and Cash Equivalents            | \$ | 1,610,054.80         |
| Restricted Cash and Cash Equivalents |    | 3,277,385.47         |
| Receivables (Note 4)                 |    | 6,733,197.53         |
| Inventories                          |    | 114,737.81           |
| <b>Total Current Assets</b>          |    | <b>11,735,375.61</b> |

## Noncurrent Assets:

|  |  |                      |
|--|--|----------------------|
| Restricted Cash and Cash Equivalents       |  | 2,204,510.83         |
| Receivables (Note 4)                       |  | 45,851.00            |
| Restricted Due from Primary Government     |  | 260,072.52           |
| Endowment Investments                      |  | 1,186,548.93         |
| Other Long-Term Investments                |  | 3,243,668.45         |
| Capital Assets - Nondepreciable (Note 5)   |  | 1,858,415.18         |
| Capital Assets - Depreciable, Net (Note 5) |  | 17,716,930.96        |
| <b>Total Noncurrent Assets</b>             |  | <b>26,515,997.87</b> |

Total Assets

38,251,373.48

**LIABILITIES**

## Current Liabilities:

|   |  |                     |
|---|--|---------------------|
| Accounts Payable and Accrued Liabilities (Note 6) |  | 344,282.11          |
| Due to Primary Government                         |  | 3,154.84            |
| Deferred Revenue                                  |  | 1,009,974.19        |
| Funds Held for Others                             |  | 56,637.25           |
| Long-Term Liabilities - Current Portion (Note 7)  |  | 656,064.57          |
| <b>Total Current Liabilities</b>                  |  | <b>2,070,112.96</b> |

## Noncurrent Liabilities:

|                                |  |                     |
|--------------------------------|--|---------------------|
| Long-Term Liabilities (Note 7) |  | 438,144.83          |
| <b>Total Liabilities</b>       |  | <b>2,508,257.79</b> |

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt

19,575,346.14

## Restricted for:

## Nonexpendable:

|                              |  |              |
|------------------------------|--|--------------|
| Scholarships and Fellowships |  | 3,123,615.09 |
|------------------------------|--|--------------|

## Expendable:

|                              |  |              |
|------------------------------|--|--------------|
| Scholarships and Fellowships |  | 3,901,138.45 |
| Loans                        |  | 7,000.00     |
| Capital Projects             |  | 5,599,533.77 |

## Unrestricted

3,536,482.24

Total Net Assets

\$ 35,743,115.69

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

| <b><i>Sandhills Community College</i></b>  |    |                         |
|--|----|-------------------------|
| <b><i>Statement of Revenues, Expenses, and</i></b>   |    |                         |
| <b><i>Changes in Net Assets</i></b>  |    |                         |
| <b><i>For the Fiscal Year Ended June 30, 2003</i></b>                                      |    | <b><i>Exhibit B</i></b> |
| <b>REVENUES</b>  |    |                         |
| Operating Revenues:  |    |                         |
| Student Tuition and Fees, Net (Note 9)   | \$ | 1,702,571.15            |
| Federal Grants and Contracts   |    | 4,544,570.40            |
| State and Local Grants and Contracts   |    | 616,891.47              |
| Sales and Services   |    | 394,698.52              |
| Total Operating Revenues   |    | 7,258,731.54            |
| <b>EXPENSES</b>  |    |                         |
| Operating Expenses:  |    |                         |
| Personal Services  |    | 16,095,699.32           |
| Supplies and Materials   |    | 1,671,110.17            |
| Services   |    | 2,092,211.43            |
| Scholarships and Fellowships   |    | 3,514,154.03            |
| Utilities  |    | 606,648.66              |
| Depreciation   |    | 896,018.24              |
| Total Operating Expenses   |    | 24,875,841.85           |
| Operating Loss   |    | (17,617,110.31)         |
| <b>NONOPERATING REVENUES</b>   |    |                         |
| State Aid  |    | 11,525,364.58           |
| County Appropriations  |    | 2,616,043.92            |
| Noncapital Grants  |    | 618,372.13              |
| Noncapital Gifts   |    | 1,623,554.01            |
| Investment Income, Net   |    | 559,401.85              |
| Other Nonoperating Revenues  |    | 48,478.49               |
| Net Nonoperating Revenues  |    | 16,991,214.98           |
| Loss Before Other Revenues, Expenses, Gains, and Losses                                    |    | (625,895.33)            |
| State Capital Aid  |    | 742,752.91              |
| County Capital Appropriations  |    | 250,000.00              |
| Additions to Endowments  |    | 26,650.90               |
| Increase in Net Assets   |    | 393,508.48              |
| <b>NET ASSETS</b>  |    |                         |
| Net Assets, July 1, 2002 as Restated (Note 15)   |    | 35,349,607.21           |
| Net Assets, June 30, 2003  | \$ | 35,743,115.69           |
| The accompanying notes to the financial statements are an integral part of this statement. |    |                         |

| <b><i>Sandhills Community College</i></b>                       |  |                         |
|---|--|-------------------------|
| <b><i>Statement of Cash Flows</i></b>                           |  |                         |
| <b><i>For the Fiscal Year Ended June 30, 2003</i></b>           |  | <b><i>Exhibit C</i></b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |  |                         |
| Received from Customers   |  | \$ 7,385,645.94         |
| Payments to Employees and Fringe Benefits                       |  | (15,690,784.47)         |
| Payments to Vendors and Suppliers                               |  | (4,294,077.92)          |
| Payments for Scholarships and Fellowships                       |  | (3,636,289.48)          |
| Other Receipts  |  | 55,012.08               |
| Net Cash Used by Operating Activities                           |  | (16,180,493.85)         |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |  |                         |
| State Aid Received  |  | 11,525,364.58           |
| County Appropriations   |  | 2,616,043.92            |
| Noncapital Grants Received                                      |  | 998,423.42              |
| Noncapital Gifts and Endowments Received                        |  | 1,663,501.39            |
| Net Cash Provided by Noncapital Financing Activities            |  | 16,803,333.31           |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |  |                         |
| State Capital Aid Received                                      |  | 742,752.91              |
| County Capital Appropriations                                   |  | 250,000.00              |
| Capital Grants Received   |  | 334,265.57              |
| Proceeds from Sale of Capital Assets                            |  | 3,287.99                |
| Acquisition and Construction of Capital Assets                  |  | (1,616,393.12)          |
| Principal Paid on Capital Debt and Leases                       |  | (4,634.84)              |
| Net Cash Used by Capital and Related Financing Activities       |  | (290,721.49)            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |  |                         |
| Proceeds from Sales and Maturities of Investments               |  | 778,164.65              |
| Investment Income   |  | 309,631.87              |
| Purchase of Investments and Related Fees                        |  | (1,137,030.24)          |
| Net Cash Used by Investing Activities                           |  | (49,233.72)             |
| Net Increase in Cash and Cash Equivalents                       |  | 282,884.25              |
| Cash and Cash Equivalents, July 1, 2002                         |  | 6,809,066.85            |
| Cash and Cash Equivalents, June 30, 2003                        |  | \$ 7,091,951.10         |

|  |  |                           |
|--|--|---------------------------|
| <b><i>Sandhills Community College</i></b>  |  |                           |
| <b><i>Statement of Cash Flows</i></b>  |  | <b><i>Exhibit C</i></b>   |
| <b><i>For the Fiscal Year Ended June 30, 2003</i></b>                                      |  | <b><i>Page 2</i></b>      |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>           |  |                           |
| Operating Loss   |  | \$ (17,617,110.31)        |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:          |  |                           |
| Depreciation Expense   |  | 896,018.24                |
| Miscellaneous Nonoperating Income  |  | 57,865.95                 |
| Changes in Assets and Liabilities:   |  |                           |
| Receivables, Net   |  | (15,061.07)               |
| Inventories  |  | (27,527.68)               |
| Accounts Payable and Accrued Liabilities   |  | 133,966.36                |
| Due to Primary Government  |  | 3,154.84                  |
| Deferred Revenue   |  | 19,840.02                 |
| Funds Held for Others  |  | (2,853.87)                |
| Compensated Absences   |  | 371,213.67                |
| Net Cash Used by Operating Activities  |  | <u>\$ (16,180,493.85)</u> |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>   |  |                           |
| Current Assets:  |  |                           |
| Cash and Cash Equivalents  |  | \$ 1,610,054.80           |
| Restricted Cash and Cash Equivalents   |  | 3,277,385.47              |
| Noncurrent Assets:   |  |                           |
| Restricted Cash and Cash Equivalents   |  | 2,204,510.83              |
| Total Cash and Cash Equivalents - June 30, 2003  |  | <u>\$ 7,091,951.10</u>    |
| <b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>                                 |  |                           |
| Assets Acquired through Assumption of a Liability  |  | \$ 39,200.58              |
| Change in Fair Value of Investments  |  | 247,032.48                |
| Capital Asset Write-Offs   |  | 198,067.86                |
| The accompanying notes to the financial statements are an integral part of this statement. |  |                           |

**SANDHILLS COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

The Foundation is governed by a 27-member board consisting of 3 ex officio directors and 24 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Sandhills Community College Foundation, Inc. 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 Director of Finance'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)

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - This classification includes long-term fixed income investments, equity investments, mutual funds, certificates of deposit, life income annuities, and real estate. Except for 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 provider's conditions have been satisfied.

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

Depreciation is computed using the straight-line 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.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include capital lease obligations, 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

**M. Scholarship Discounts** – Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

**O. Internal Sales Activities** – 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 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.

### NOTE 2 - DEPOSITS AND INVESTMENTS

**A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s 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)

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\$765.00. The carrying amount of cash on deposit was \$7,151,489.60 and the bank balance was \$7,289,817.25.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

|  | <u>Book<br/>Balance</u> | <u>Bank<br/>Balance</u> |
|--|-------------------------|-------------------------|
| Cash on Deposit with State Treasurer                   | \$ 5,613,303.35         | \$ 5,061,687.77         |
| Cash on Deposit with Private<br>Financial Institutions | <u>1,538,186.25</u>     | <u>2,228,129.48</u>     |
|  | <u>\$ 7,151,489.60</u>  | <u>\$ 7,289,817.25</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 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.

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 \$2,128,129.48 was covered by collateral held by an

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Foundation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

|  | Fair Value     |                        |                | Total                  |
|--|----------------|------------------------|----------------|------------------------|
|  | Risk Category  |                        |                |                        |
|  | 1              | 2                      | 3              |                        |
| <b>Categorized Investments:</b>          |                |                        |                |                        |
| Corporate Securities                     | \$ 0.00        | \$ 2,721,577.45        | \$ 0.00        | \$ 2,721,577.45        |
| Corporate Bonds                          |                | 1,425,423.00           |                | 1,425,423.00           |
| <b>Total Categorized Investments</b>     | <b>\$ 0.00</b> | <b>\$ 4,147,000.45</b> | <b>\$ 0.00</b> | 4,147,000.45           |
| <b>Investments Not Categorized:</b>      |                |                        |                |                        |
| Certificates of Deposit                  |                |                        |                | 60,303.50              |
| Mutual Funds                             |                |                        |                | 213,663.43             |
| Real Estate                              |                |                        |                | 9,250.00               |
| <b>Total Investments Not Categorized</b> |                |                        |                | <b>283,216.93</b>      |
| <b>Total Investments</b>                 |                |                        |                | <b>\$ 4,430,217.38</b> |

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 income for the current year exceeds the payout, the excess is added to the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2003, net appreciation of \$2,271,787.33 was available to be spent, of which \$435,159.57 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

|                                  | <u>Net<br/>Receivables</u>    |
|----------------------------------|-------------------------------|
| <b>Current Receivables:</b>      |                               |
| Students                         | \$ 124,306.24                 |
| Accounts                         | 97,886.42                     |
| Intergovernmental                | 6,397,899.06                  |
| Pledges                          | 87,882.00                     |
| Investment Earnings              | 6,657.30                      |
| Other                            | <u>18,566.51</u>              |
| <b>Total Current Receivables</b> | <u><u>\$ 6,733,197.53</u></u> |
| <b>Noncurrent Receivables:</b>   |                               |
| Pledges                          | <u><u>\$ 45,851.00</u></u>    |



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

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

|   | Balance<br>July 1, 2002 | Adjustments           | Increases            | Decreases           | Balance<br>June 30, 2003 |
|---|-------------------------|-----------------------|----------------------|---------------------|--------------------------|
| Capital Assets, Nondepreciable:               |                         |                       |                      |                     |                          |
| Land  | \$ 429,736.45           | \$ 0.00               | \$ 0.00              | \$ 0.00             | \$ 429,736.45            |
| Construction in Progress                      | 1,534,092.57            | (1,529,497.74)        | 1,424,083.90         |                     | 1,428,678.73             |
| <b>Total Capital Assets, Nondepreciable</b>   | <u>1,963,829.02</u>     | <u>(1,529,497.74)</u> | <u>1,424,083.90</u>  |                     | <u>1,858,415.18</u>      |
| Capital Assets, Depreciable:                  |                         |                       |                      |                     |                          |
| Buildings                                     | 21,687,610.25           | 1,222,004.73          |                      |                     | 22,909,614.98            |
| Machinery and Equipment                       | 2,251,902.00            |                       | 231,509.80           | 217,172.85          | 2,266,238.95             |
| General Infrastructure                        | 1,167,064.46            | 307,493.01            |                      |                     | 1,474,557.47             |
| <b>Total Capital Assets, Depreciable</b>      | <u>25,106,576.71</u>    | <u>1,529,497.74</u>   | <u>231,509.80</u>    | <u>217,172.85</u>   | <u>26,650,411.40</u>     |
| Less Accumulated Depreciation:                |                         |                       |                      |                     |                          |
| Buildings                                     | 6,566,993.70            |                       | 621,557.58           |                     | 7,188,551.28             |
| Machinery and Equipment                       | 1,176,923.12            |                       | 204,612.14           | 204,497.40          | 1,177,037.86             |
| General Infrastructure                        | 498,042.78              |                       | 69,848.52            |                     | 567,891.30               |
| <b>Total Accumulated Depreciation</b>         | <u>8,241,959.60</u>     |                       | <u>896,018.24</u>    | <u>204,497.40</u>   | <u>8,933,480.44</u>      |
| <b>Total Capital Assets, Depreciable, Net</b> | <u>16,864,617.11</u>    | <u>1,529,497.74</u>   | <u>(664,508.44)</u>  | <u>12,675.45</u>    | <u>17,716,930.96</u>     |
| <b>Capital Assets, Net</b>                    | <u>\$ 18,828,446.13</u> | <u>\$ 0.00</u>        | <u>\$ 759,575.46</u> | <u>\$ 12,675.45</u> | <u>\$ 19,575,346.14</u>  |

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

|   | Amount               |
|---|----------------------|
| Accounts Payable                                      | \$ 229,345.82        |
| Accrued Payroll                                       | 60,121.35            |
| Contract Retainage                                    | 7,799.40             |
| Intergovernmental Payables                            | 47,015.54            |
| <b>Total Accounts Payable and Accrued Liabilities</b> | <u>\$ 344,282.11</u> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

|                                    | Balance<br>July 1, 2002 | Additions            | Reductions           | Balance<br>June 30, 2003 | Current<br>Portion   |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| Capital Leases Payable             | \$ 0.00                 | \$ 27,520.64         | \$ 4,634.84          | \$ 22,885.80             | \$ 8,391.46          |
| Other Long-Term Liabilities        | 149,618.64              | 43,645.66            | 14,094.30            | 179,170.00               | 16,181.60            |
| Compensated Absences               | 520,939.93              | 844,002.72           | 472,789.05           | 892,153.60               | 631,491.51           |
| <b>Total Long-Term Liabilities</b> | <u>\$ 670,558.57</u>    | <u>\$ 915,169.02</u> | <u>\$ 491,518.19</u> | <u>\$ 1,094,209.40</u>   | <u>\$ 656,064.57</u> |

Additional information regarding capital lease obligations is included in Note 8.

### NOTE 8 - CAPITAL LEASE OBLIGATIONS

A capital lease obligation relating to a motor vehicle is recorded at the present value of the minimum lease payments. Future minimum lease payments under the capital lease obligation consists of the following at June 30, 2003:

| <u>Fiscal Year</u>                     | <u>Amount</u>       |
|--|---------------------|
| 2004                                   | \$ 8,391.46         |
| 2005                                   | 9,154.32            |
| 2006                                   | <u>5,340.02</u>     |
| Total Minimum Lease Payments           | <u>22,885.80</u>    |
| Present Value of Future Lease Payments | <u>\$ 22,885.80</u> |

Machinery and equipment acquired under capital lease amounted to \$27,520.64 at June 30, 2003.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

|                                 | Gross<br>Revenues | Less<br>Scholarship<br>Discounts | Net<br>Revenues |
|---------------------------------|-------------------|----------------------------------|-----------------|
| <b>Operating Revenues:</b>      |                   |                                  |                 |
| <b>Student Tuition and Fees</b> | \$ 2,934,658.32   | \$ 1,232,087.17                  | \$ 1,702,571.15 |

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

|                                     | Salaries<br>and<br>Benefits | Supplies<br>and<br>Materials | Services               | Scholarships<br>and<br>Fellowships | Utilities            | Depreciation         | Total                   |
|-------------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|----------------------|----------------------|-------------------------|
| Instruction                         | \$ 10,127,863.56            | \$ 582,494.53                | \$ 371,968.64          | \$ 0.00                            | \$ 0.00              | \$ 0.00              | \$ 11,082,326.73        |
| Academic Support                    | 1,407,322.46                | 102,040.86                   | 69,293.79              |                                    |                      |                      | 1,578,657.11            |
| Student Services                    | 1,038,461.44                | 41,787.75                    | 232,434.50             | 2,362.25                           |                      |                      | 1,315,045.94            |
| Institutional Support               | 2,234,960.34                | 294,046.39                   | 1,145,387.43           | 72,048.81                          |                      |                      | 3,746,442.97            |
| Operations and Maintenance of Plant | 1,287,091.52                | 642,847.28                   | 258,836.43             |                                    | 606,648.66           |                      | 2,795,423.89            |
| Student Financial Aid               |                             |                              |                        | 3,432,840.72                       |                      |                      | 3,432,840.72            |
| Auxiliary Enterprises               |                             | 7,893.36                     | 14,290.64              | 6,902.25                           |                      |                      | 29,086.25               |
| Depreciation                        |                             |                              |                        |                                    |                      | 896,018.24           | 896,018.24              |
| <b>Total Operating Expenses</b>     | <b>\$ 16,095,699.32</b>     | <b>\$ 1,671,110.17</b>       | <b>\$ 2,092,211.43</b> | <b>\$ 3,514,154.03</b>             | <b>\$ 606,648.66</b> | <b>\$ 896,018.24</b> | <b>\$ 24,875,841.85</b> |

### NOTE 11 - PENSION PLANS

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

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

For the year ended June 30, 2003, the College had a total payroll of \$13,554,185.76, of which \$11,754,931.55 was covered under the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$705,295.89. 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, \$223,456.78, and \$585,843.89, 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. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$122,948.00 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 \$223,195.00 for the year ended June 30, 2003.

### NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$276,240.89. 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, 2003, the College's total contribution to the DIPNC was \$61,125.64. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence, subject to a \$20 million annual aggregate. Reinsurance is

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. 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 is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College 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.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$14,201,540.33 at June 30, 2003.
- B. Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$12,374,048.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**D. 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, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, 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   | \$ 218,152.00 |
| Permanent Endowments | 3,809,357.00  |

### NOTE 15 - NET ASSET RESTATEMENTS

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

|  | Amount                  |
|--|-------------------------|
| July 1, 2002 Net Assets as Previously Reported | \$ 35,350,582.29        |
| Adjustment of Agency Fund                      | (4,898.60)              |
| Adjust Accounts Receivable/Accounts Payable    | 3,923.52                |
| July 1, 2002 Net Assets as Restated            | <u>\$ 35,349,607.21</u> |



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

**Schedule 1**

|  | Projected Start Date | General Obligation Bonds Authorized | Other Sources   | Total Project Budget | Amount Expended | Percent Completed | Expected Completion Date |
|--|----------------------|-------------------------------------|-----------------|----------------------|-----------------|-------------------|--------------------------|
| <b>Capital Improvement Projects</b>                        |                      |                                     |                 |                      |                 |                   |                          |
| <i>Projects Approved by the State Board</i>                |                      |                                     |                 |                      |                 |                   |                          |
| New Student Center #940                                    | Mar 2004             | \$ 1,949,455.00                     | \$ 5,473,000.00 | \$ 7,422,455.00      | \$ 942,707.93   | 12.70%            | Sep 2004                 |
| New Hoke County Center #813                                | Jul 1998             | 308,380.00                          | 874,535.00      | 1,182,915.00         | 1,737,748.63    | 100.00%           | Nov 2001                 |
| Kennedy Hall Health Sciences Renovation #1103              | Feb 2002             | 487,000.00                          | 734,000.00      | 1,221,000.00         | 1,222,004.73    | 100.00%           | Mar 2003                 |
| Technology Center #1081                                    | Jan 2004             | 4,006,491.00                        | 2,160,290.00    | 6,166,781.00         |                 |                   | Feb 2005                 |
| Parking Lot - South Campus #1313                           | Jan 2003             | 79,431.00                           | 131,000.00      | 210,431.00           | 95,608.40       | 45.43%            | Sep 2003                 |
| Stone Hall Administrative Renovation #1278                 | Dec 2002             | 220,000.00                          |                 | 220,000.00           | 8,453.20        | 3.84%             | Oct 2003                 |
| Stone Hall Student Services Renovation #1154               | May 2004             | 95,000.00                           |                 | 95,000.00            |                 |                   | May 2004                 |
| Hoke Business and Technology Center #1142                  | Jul 2004             | 1,225,087.00                        | 25,465.00       | 1,250,552.00         |                 |                   | Jul 2006                 |
| Heutte Hall Renovation #1002                               | Jun 2005             | 293,509.00                          |                 | 293,509.00           | 16,170.00       | 5.51%             | Apr 2006                 |
| Blue Hall Renovation #1004                                 | Dec 2003             | 1,500,000.00                        |                 | 1,500,000.00         | 347,821.81      | 23.19%            | Dec 2005                 |
| Improvements/Expansion Traffic System #1242                | Apr 2002             | 151,741.00                          |                 | 151,741.00           | 151,741.01      | 100.00%           | Aug 2002                 |
| Stone Hall Renovation                                      | Apr 2005             | 500,000.00                          |                 | 500,000.00           |                 |                   | Aug 2006                 |
| Causey Hall Renovation                                     | Aug 2004             | 500,000.00                          |                 | 500,000.00           |                 |                   | Dec 2005                 |
| <i>Projects Not Started - To Be Funded in Future Years</i> |                      |                                     |                 |                      |                 |                   |                          |
| Undetermined   | Dec 2004             | 2,280,000.00                        |                 | 2,280,000.00         |                 |                   | Jun 2006                 |
| Total All Projects   |                      | \$ 13,596,094.00                    | \$ 9,398,290.00 | \$ 22,994,384.00     | \$ 4,522,255.71 |                   |                          |

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.

## DISTRIBUTION OF REVIEW REPORT

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

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| The Honorable Beverly M. Perdue  | Lieutenant Governor of North Carolina  |
| The Honorable Richard H. Moore   | State Treasurer  |
| The Honorable Roy A. Cooper, III | Attorney General   |
| Mr. David T. McCoy               | State Budget Officer   |
| Mr. Robert L. Powell             | State Controller   |
| Mr. H. Martin Lancaster          | President, North Carolina Community College System                                     |
| Dr. John R. Dempsey              | President, Sandhills Community College   |
| Mr. Richard Gough                | Vice President for Business and Administrative Services<br>Sandhills Community College |
| Mr. George W. Little             | Chairman, Board of Trustees<br>Sandhills Community College                             |

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|                      |                                    |
|----------------------|------------------------------------|
| Mr. James D. Johnson | Director, Fiscal Research Division |
|----------------------|------------------------------------|

May 26, 2004

## ORDERING INFORMATION

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