



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Stanly Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit 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 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 Stanly 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 Stanly Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Stanly Community College.

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

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

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



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A Statement of Net Assets	8
B Statement of Revenues, Expenses, and Changes in Net Assets	9
C Statement of Cash Flows	10
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	28
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29
DISTRIBUTION OF AUDIT REPORT	31



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Stanly Community College
Albemarle, North Carolina

We have audited the accompanying basic financial statements of Stanly Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, 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 Stanly Community College as of June 30, 2003, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2004 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), 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. We have applied

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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



Ralph Campbell, Jr.
State Auditor

March 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Stanly Community College's financial statements provides an overview of the College's financial activities for the year ended June 30, 2003. Please read it in conjunction with the financial statements and notes to the financial statements.

The year ending June 30, 2003 is the second year that public colleges and universities are required by GASB Statement No. 35 to include in the financials a statement of MD&A. This new section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The MD&A is required to include condensed financial information comparing the current year to the prior year.

Institutional Financial Highlights

- During the year the State of North Carolina experienced severe budget and cash flow problems. This affected all State agencies, including the community colleges. As a result, Stanly Community College had to revert or was instructed not to spend \$428,854 of its allocated State budget.
- Stanly County, despite the downturn in the economy, allocated the College \$976,270 for operational expenses, the same as the previous year. In addition the county allocated \$150,000 in capital funds, equaling the previous year.
- The College's financial position improved during the fiscal year ended June 30, 2003. Its combined net assets increased by \$3,594,099 or 35% from the previous year.
- The College experienced an 11.6% increase in full time equivalent curriculum students for the year ended June 30, 2003. Tuition was increased to \$35.50 from \$34.25 per semester hour or 3.6% for in-State students with a maximum charge of \$568.00 per semester.
- Stanly Community College Foundation (a blended component unit) received donations in the amount of \$380,823 during the 2002 calendar year.

Overview of the Financial Statements

Three basic financial statements are included with this report along with the MD&A and required supplementary information. The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows, provide information on the whole operations of the College.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the Institution as a whole and on its activities. These two reports help the users of this report to analyze the current year's operations to determine if the Institution is better or worse off than the prior year. When revenues and other support exceed expenses, the result is an increase in net assets. When expenses exceed revenues and support, the result is a decrease in net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's net assets are the difference between assets and liabilities and are one of the measures of the financial health of the Institution. Over a period of time, increases or decreases in the College's net assets are one of several indicators that determine if its financial situation is improving or deteriorating. The user will need to take into account other financial and nonfinancial factors to assess the complete health of the College. The age and condition of its buildings and grounds are just a couple of the nonfinancial factors that could have an impact on the total health of the Institution.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets use the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Revenues and expenses of the current year are taken into account regardless of when cash is received or paid.

Condensed Statement of Net Assets For Fiscal Years Ended June 30, 2003, and June 30, 2002

	<u>2002-2003</u>	<u>2001-2002</u>
Current Assets	\$ 1,617,810	\$ 1,221,464
Noncurrent Assets	1,274,393	1,422,514
Capital Assets	<u>11,759,890</u>	<u>8,187,861</u>
 Total Assets	 <u>14,652,093</u>	 <u>10,831,839</u>
 Current Liabilities	 612,724	 459,188
Noncurrent Liabilities	<u>317,686</u>	<u>245,067</u>
 Total Liabilities	 <u>930,410</u>	 <u>704,255</u>
 Net Assets:		
Invested in Capital Assets	11,759,890	8,187,861
Restricted	1,220,414	1,040,722
Unrestricted	<u>741,379</u>	<u>899,001</u>
 Total Net Assets	 <u><u>\$ 13,721,683</u></u>	 <u><u>\$ 10,127,584</u></u>

Total Net Assets increased \$3,594,099. The increase in capital assets of \$3,572,029 accounts for 99% of the change in total net assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2003, and June 30, 2002

	<u>2002-2003</u>	<u>2001-2002</u>
Operating Revenues:		
Tuition and Fees, Net	\$ 1,349,690	\$ 1,119,056
Federal Grants and Contracts	2,581,280	1,567,856
State and Local Grants	194,427	131,979
Sales and Services, Net	1,119,465	912,368
Total Operating Revenues	<u>5,244,862</u>	<u>3,731,259</u>
Total Operating Expenses	<u>13,595,994</u>	<u>11,595,480</u>
Operating Loss	(8,351,132)	(7,864,221)
Nonoperating Revenues:		
State Appropriations	6,347,727	6,063,905
County Appropriations	990,705	976,270
Noncapital Grants	190,790	9,530
Noncapital Gifts	327,274	189,686
Investment Income, Net	62,135	57,763
Other Nonoperating Revenues (Expenses)	30,341	(32,574)
Net Nonoperating Revenues	<u>7,948,972</u>	<u>7,264,580</u>
Loss Before Other Revenues	(402,160)	(599,641)
State Capital Appropriations	594,389	289,171
County Capital Appropriations	135,000	172,023
Capital Grants	3,266,870	773,060
Increase in Net Assets	3,594,099	634,613
Net Assets	<u>10,127,584</u>	<u>9,492,971</u>
Net Assets-End of Year	<u>\$ 13,721,683</u>	<u>\$ 10,127,584</u>

Operating revenues increased \$1,513,603 primarily due to the increase of \$1,013,424 in federal grants and contracts. Operating expenses increased \$2,000,514. This resulted in a net increase in operating loss of \$86,911. Nonoperating revenues increased \$684,392 primarily due to the increase in State appropriations of \$283,822 and increase in noncapital gifts of \$137,588.

Changes in other revenues include an increase in State capital appropriations of \$305,218 and capital grants of \$2,493,810.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about cash receipts and cash payments of an entity during a period.

Condensed Cash Flow Statement For the Fiscal Years Ended June 30, 2003, and June 30, 2002

	<u>2002-2003</u>	<u>2001-2002</u>
Cash Provided (Used) by:		
Operating Activities	\$ (7,890,117)	\$ (7,162,665)
Noncapital Financing Activities	7,856,500	7,239,388
Capital and Related Financing Activities	244,965	(123,392)
Investing Activities	<u>220,183</u>	<u>127,639</u>
Net Increase in Cash	431,531	80,970
Cash-Beginning of Year	<u>881,232</u>	<u>800,262</u>
Cash-End of Year	<u><u>\$ 1,312,763</u></u>	<u><u>\$ 881,232</u></u>

Capital Assets

At June 30, 2003, the College's capital assets totaled \$11,759,890, net of accumulated depreciation of \$4,040,113. Capital assets increased \$3,572,029 from the College's June 30, 2002, financial statements. The largest increase was \$3,456,359 in construction-in-progress for the Western Stanly Center and the renovation of Whitley Technology Center. Details of capital assets at June 30, 2003, and at June 30, 2002, are shown below.

	<u>2002-2003</u>	<u>2001-2002</u>
Capital Assets, Nondepreciable:		
Land	\$ 1,100,137	\$ 966,533
Construction in Progress	<u>4,379,522</u>	<u>923,163</u>
Total Capital Assets, Nondepreciable	<u>5,479,659</u>	<u>1,889,696</u>
Capital Assets, Depreciable (Net):		
Buildings	5,177,216	5,304,312
General Infrastructure	470,999	606,419
Machinery and Equipment	<u>632,015</u>	<u>387,434</u>
Total Capital Assets, Depreciable (Net)	<u>6,280,230</u>	<u>6,298,165</u>
Total Capital Assets	<u><u>\$ 11,759,889</u></u>	<u><u>\$ 8,187,861</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors That Will Affect the Future

The economic position of the College is closely tied to that of the State and to a lesser degree to the county. As of the date of this report the State budget has been approved.

Budget material from the North Carolina Community College System suggests that the College will receive an estimated \$552,480 more than the prior year.

The Stanly Community College Foundation continues to provide additional funds for student scholarships, educational program enhancements, and improvements of campus facilities.

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

Current Assets:

Cash and Cash Equivalents	\$	751,663.23
Restricted Cash and Cash Equivalents		545,330.51
Receivables, Net (Note 4)		236,326.21
Inventories		96,710.97
Notes Receivable, Net (Note 4)		1,802.88

Total Current Assets		1,631,833.80
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Noncurrent Assets:

Restricted Cash and Cash Equivalents		15,768.91
Receivables, Net (Note 4)		197,338.18
Restricted Due from Primary Government		238,535.58
Endowment Investments		800,108.00
Other Long-Term Investments		8,619.00
Capital Assets - Nondepreciable, Net (Note 5)		5,479,659.54
Capital Assets - Depreciable, Net (Note 5)		6,280,230.30

Total Noncurrent Assets		13,020,259.51
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Total Assets		14,652,093.31
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		555,106.17
Deferred Revenue		41,849.14
Funds Held for Others		15,768.91
Long-Term Liabilities - Current Portion (Note 7)		300,159.97

Total Current Liabilities		912,884.19
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		17,525.84
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Total Noncurrent Liabilities		17,525.84
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Total Liabilities		930,410.03
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NET ASSETS

Invested in Capital Assets		11,759,889.84
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Restricted For:

Nonexpendable:

Scholarships and Fellowships		553,136.00
Other		246,972.00

Expendable:

Scholarships and Fellowships		21,383.97
Loans		15,826.16
Capital Projects		272,007.29
Other		111,088.55

Unrestricted		741,379.47
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Total Net Assets	\$	13,721,683.28
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The accompanying notes to the financial statements are an integral part of this statement.

Stanly Community College		
Statement of Revenues, Expenses, and		
Changes in Net Assets		
For the Fiscal Year Ended June 30, 2003		Exhibit B
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,349,689.81
Federal Grants and Contracts		2,581,280.09
State and Local Grants and Contracts		194,427.08
Sales and Services, Net (Note 9)		1,119,465.60
Total Operating Revenues		5,244,862.58
EXPENSES		
Operating Expenses:		
Personal Services		7,922,761.13
Supplies and Materials		1,441,820.65
Services		1,900,125.89
Scholarships and Fellowships		1,696,617.59
Utilities		262,424.81
Depreciation		372,244.11
Total Operating Expenses		13,595,994.18
Operating Loss		(8,351,131.60)
NONOPERATING REVENUES		
State Aid		6,347,727.44
County Appropriations		990,704.65
Noncapital Grants		190,790.00
Noncapital Gifts, Net (Note 9)		327,273.79
Investment Income, Net		62,135.15
Other Nonoperating Revenues		30,340.92
Net Nonoperating Revenues		7,948,971.95
Loss Before Other Revenues, Expenses, Gains, and Losses		(402,159.65)
State Capital Aid		594,388.66
County Capital Appropriations		135,000.00
Capital Grants		3,266,870.00
Increase in Net Assets		3,594,099.01
NET ASSETS		
Net Assets, July 1, 2002		10,127,584.27
Net Assets, June 30, 2003	\$	13,721,683.28
The accompanying notes to the financial statements are an integral part of this statement.		

Stanly Community College**Statement of Cash Flows****For the Fiscal Year Ended June 30, 2003****Exhibit C****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,130,637.14
Payments to Employees and Fringe Benefits	(7,853,045.30)
Payments to Vendors and Suppliers	(3,324,153.96)
Payments for Scholarships and Fellowships	(1,682,820.24)
Other Payments	(160,734.73)
Net Cash Used by Operating Activities	(7,890,117.09)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	6,347,727.44
County Appropriations	990,704.65
Noncapital Grants Received	190,794.35
Noncapital Gifts and Endowments Received	327,273.79
Net Cash Provided by Noncapital Financing Activities	7,856,500.23

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	787,367.73
County Capital Appropriations	135,000.00
Capital Grants Received	3,266,870.00
Acquisition and Construction of Capital Assets	(3,944,272.80)
Net Cash Provided by Capital and Related Financing Activities	244,964.93

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	158,047.82
Investment Income	62,135.15
Net Cash Provided by Investing Activities	220,182.97

Net Increase in Cash and Cash Equivalents	431,531.04
Cash and Cash Equivalents, July 1, 2002	881,231.61
Cash and Cash Equivalents, June 30, 2003	<u>\$ 1,312,762.65</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH**USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (8,351,131.60)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	372,244.11
Provision for Uncollectible Loans and Write-Offs	694.83
Miscellaneous Nonoperating Income	30,340.92
Changes in Assets and Liabilities:	
Receivables, Net	(168,823.27)
Inventories	402.51
Accounts Payable and Accrued Liabilities	276,217.03
Deferred Revenue	(114,225.44)
Funds Held for Others	(8,455.03)
Compensated Absences	72,618.85
Net Cash Used by Operating Activities	<u>\$ (7,890,117.09)</u>

<i>Stanly Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 751,663.23
	Restricted Cash and Cash Equivalents	545,330.51
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	15,768.91
Total Cash and Cash Equivalents - June 30, 2003		<u>\$ 1,312,762.65</u>
The accompanying notes to the financial statements are an integral part of this statement.		

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Stanly 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, Stanly Community College Foundation, Inc. (Foundation) is reported as if it were part of the College.

The Foundation is governed by a 16-member board. 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 Stanly Community College Board of Trustees and the Foundation's sole purpose is to benefit Stanly 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's Vice-President for Fiscal Services, 141 College Drive, Albemarle, NC, 28001, or by calling 704-991-0230. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The financial statements are presented as of and for the fiscal year ended June 30, 2003, except for the Stanly Community College Foundation, Inc., whose blended financial statements are as of and for the calendar year ended December 31, 2002.

- C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. **Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. **Investments** - This classification includes mutual funds and certificates of deposit. Except for certificates of deposit, investments are accounted for at fair value, as determined by quoted market prices, or amounts 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 are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. Receivables are shown at book value with no provision for doubtful accounts considered necessary.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

The College does not capitalize the library collections. These collections adhere to the College's policy to maintain for public exhibition, education or research; protect, keep unencumbered, care for and preserve; and require proceeds from their sale to be used to acquire other collection items. Accounting principles generally accepted in the United States of America permit collections maintained in this manner to be charged to operations at time of purchase rather than be capitalized.

- 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 compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accounts, and certificates of deposit. At year-end, cash on hand was \$775.00. The carrying amount of cash on deposit was \$2,112,095.65 and the bank balance was \$2,264,218.57.

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	\$ 113,563.87	\$ 113,563.87
Cash on Deposit with Private Financial Institutions	1,998,531.78	2,150,654.70
	<u>\$ 2,112,095.65</u>	<u>\$ 2,264,218.57</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Of the cash on deposit with private financial institutions at June 30, 2003, \$300,000.00 of the bank balance was covered by federal depository insurance, \$1,850,654.70 was collateralized under the dedicated and pooling method.

- B. Investments** – 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

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 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 Foundation's investments at December 31, 2002 is presented below:

	<u>Fair Value</u>
Investments Not Categorized:	
Certificates of Deposit	\$ 800,108.00
Mutual Funds	<u>8,619.00</u>
Total Investments	<u><u>\$ 808,727.00</u></u>

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 on the total return concept (yield plus appreciation). Current year endowment earnings are allocated to related expendable funds. If current year allocations do not meet the payout requirements, the accumulated income and appreciation in the expendable funds are used to make up the difference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	\$ 167,077.63
Accounts	69,248.58
Total Current Receivables	\$ 236,326.21
Total Noncurrent Receivables	\$ 197,338.18
Notes Receivable:	
Notes Receivable - Current:	
Institutional Student Loan Programs	\$ 1,802.88
Total Notes Receivable - Current	\$ 1,802.88

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2002	Increases	Balance June 30, 2003
Capital Assets, Nondepreciable:			
Land	\$ 966,533.39	\$ 133,604.00	\$ 1,100,137.39
Construction in Progress	923,162.96	3,456,359.19	4,379,522.15
Total Capital Assets, Nondepreciable	1,889,696.35	3,589,963.19	5,479,659.54
Capital Assets, Depreciable:			
Buildings	8,076,536.46	83,306.00	8,159,842.46
Machinery and Equipment	771,123.14	176,198.83	947,321.97
General Infrastructure	1,118,374.43	94,804.78	1,213,179.21
Total Capital Assets, Depreciable	9,966,034.03	354,309.61	10,320,343.64
Less Accumulated Depreciation:			
Buildings	2,772,224.10	210,401.88	2,982,625.98
Machinery and Equipment	383,689.25	92,633.55	476,322.80
General Infrastructure	511,955.88	69,208.68	581,164.56
Total Accumulated Depreciation	3,667,869.23	372,244.11	4,040,113.34
Total Capital Assets, Depreciable, Net	6,298,164.80	(17,934.50)	6,280,230.30
Capital Assets, Net	\$ 8,187,861.15	\$ 3,572,028.69	\$ 11,759,889.84

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>Amount</u>
Accounts Payable	\$ 554,554.70
Accrued Payroll	<u>551.47</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 555,106.17</u></u>

NOTE 7 - LONG-TERM LIABILITIES

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

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Balance June 30, 2003</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 245,066.96</u>	<u>\$ 72,618.85</u>	<u>\$ 317,685.81</u>	<u>\$ 300,159.97</u>

NOTE 8 - OPERATING LEASES

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

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$ 50,027.76
2005	14,911.10
2006	<u>2,472.00</u>
Total Minimum Lease Payments	<u><u>\$ 67,410.86</u></u>

Rental expense for all operating leases during the year was \$183,683.15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,822,261.70	\$ 472,571.89	\$ 1,349,689.81
Sales and Services;			
Sales and Services of Auxiliary Services:			
Vending	\$ 5,531.65	\$ 0.00	\$ 5,531.65
Bookstore	959,769.47		959,769.47
Other	144,483.73		144,483.73
Sales and Services of Education and Related Activities	9,680.75		9,680.75
Total Sales and Services	\$ 1,119,465.60	\$ 0.00	\$ 1,119,465.60
Nonoperating - Noncapital Gifts	\$ 327,273.79	\$ 0.00	\$ 327,273.79

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,682,603.50	\$ 347,753.30	\$ 1,020,398.43	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,050,755.23
Academic Support	343,260.74	41,533.38	20,638.14				405,432.26
Student Services	540,937.39	19,096.59	101,768.06				661,802.04
Institutional Support	1,847,843.32	311,312.54	479,485.18				2,638,641.04
Operations and Maintenance of Plant	360,086.59	49,109.22	200,024.80		262,424.81		871,645.42
Student Financial Aid	52,285.65	212.55	3,668.94				56,167.14
Auxiliary Enterprises	95,743.94	672,803.07	74,142.34	1,696,617.59			2,539,306.94
Depreciation						372,244.11	372,244.11
Total Operating Expenses	\$ 7,922,761.13	\$ 1,441,820.65	\$ 1,900,125.89	\$ 1,696,617.59	\$ 262,424.81	\$ 372,244.11	\$ 13,595,994.18

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$6,760,893.15, of which \$5,421,896.49 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$325,313.79 and \$0.00, respectively. 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, \$104,046.34, and \$277,129.98, 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. The voluntary contributions by employees amounted to \$143,325.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$29,626.00 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 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 \$127,414.57. 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 \$28,193.86. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from employees paid from county and institutional funds are covered by a \$100,000 blanket policy obtained through a private insurance company.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

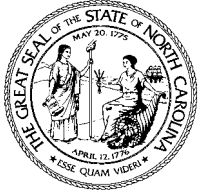
- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$299,825.06 and on other purchases were \$281,219.93 at June 30, 2003.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State 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 \$1,213,592.58 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.

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

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Western Stanly Center - Project #903	Oct 2000	\$ 3,288,740.00	\$ 538,000.00	\$ 3,826,740.00	\$ 3,679,868.62	96.16%	May 2003
Patterson Building Roof Replacement - Project #1207	Aug 2001	100,000.00		100,000.00	100,000.00	100.00%	Dec 2001
Renovation Whitley Technology Center - Project #1231	Feb 2002	938,000.00	62,000.00	1,000,000.00	708,738.30	70.87%	Aug 2003
<i>Projects Pending Approval by the State Board</i>							
Corporate Education/Shop Building	Aug 2003	150,000.00		150,000.00			
Kelley Building Roof Replacement	Aug 2004	250,000.00		250,000.00			
Parking Lot Resurfacing	Mar 2005	409,851.00		409,851.00			
Total All Projects		\$ 5,136,591.00	\$ 600,000.00	\$ 5,736,591.00	\$ 4,488,606.92		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

Board of Trustees
Stanly Community College
Albemarle, North Carolina

We have audited the financial statements of Stanly Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 16, 2004.

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*.

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 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

**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)**

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

March 16, 2004

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Michael R. Taylor	President, Stanly Community College
Mr. Donnie N. Lowder	Vice-President for Fiscal Services, Stanly Community College
Mr. Elbert L. Whitley, Jr.	Chairman, Board of Trustees Stanly Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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Other Legislative Officials

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April 13, 2004

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