STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Sandhills Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. 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 Sandhills Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

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

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 - The following significant deficiencies in internal control over financial reporting were noted as a result of our audit:

   Findings

   1. Weak Internal Controls Over Cash
   2. Internal Controls Over Bank Reconciliations

   These matters are described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

3. **Objective** - To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement.*

   Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance, which require disclosure herein under *OMB Circular A-133*.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

TABLE OF CONTENTS

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sandhills Community College
Pinehurst, North Carolina

We have audited the accompanying basic financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, 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 did not audit the financial statements of Sandhills Community College Foundation, Inc., which represent 26 percent, 24 percent, and seven percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sandhills Community College Foundation, Inc., is based on the report of the other auditors.

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. The financial statements of Sandhills Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards.* 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Community College as of June 30, 2004, 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2005, 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 grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, 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 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 31, 2005

This section provides a discussion and analysis of Sandhills Community College's financial performance during the fiscal year ended June 30, 2004, as compared to fiscal year ended June 30, 2003. Management's Discussion and Analysis (MD&A) is designed to focus on current activities, resulting change, and currently known facts. Please read this section in conjunction with the College's financial statements.

Financial Highlights

College revenue increased by $5,816,960.77.

Spending increased by 3.13%.

Student Center construction continued - total expenses at June 30, 2004 were $4,782,055.92.

Technology Center construction began - total expenses at June 30, 2004 were $827,043.24.

Overview of the Financial Statements

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, Statement of Cash Flows, and Notes to the Financial Statements.

Condensed Statement of Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 5,421,401.57	$ 5,390,707.85	$ 30,693.72	0.57%
Noncurrent Assets:				
Capital	23,432,498.54	19,575,346.14	3,857,152.40	19.70%
Other	15,938,213.83	13,205,888.19	2,732,325.64	20.69%
Total Assets	44,792,113.94	38,171,942.18	6,620,171.76	
LIABILITIES				
Current Liabilities	2,738,312.35	2,371,197.54	367,114.81	15.48%
Noncurrent Liabilities	1,259,018.14	438,144.83	820,873.31	187.35%
Total Liabilities	3,997,330.49	2,809,342.37	1,187,988.12	42.29%
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	23,418,909.84	19,571,938.64	3,846,971.20	19.66%
Restricted	14,145,367.92	12,631,287.31	1,514,080.61	11.99%
Unrestricted	3,230,505.69	3,159,373.86	71,131.83	2.25%
Total Net Assets	$ 40,794,783.45	$ 35,362,599.81	$ 5,432,183.64	15.36%

County bond funds were expended during the fiscal year on the Student Center and Technology Center construction projects. The increase in noncurrent assets is the result of the College recording $4.6 million in State bond receivables and a $1.5 million decrease in county bond receivables.

The College's capital assets incurred a net increase of 19.7%, or $3.9 million. The majority of the increase is associated with the ongoing construction of the Student Center and Technology Center, which increased the construction in progress by $4,604,316.58. The College's capital assets were decreased by depreciation of $941,616.32. The College reflected $23,432,498.54 in net capital assets on the financial statements.

The College's liabilities increased by 42.29%, or $1.2 million. The increase was mainly due to an increase in accounts payable associated with the major construction projects in progress at year end of $882,087.86. In addition, deferred revenue and the long-term liabilities associated with compensated absences and annuities increased during the fiscal year, $380,534.06 and $600,827.41, respectively.

Net assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. The College's net assets increased by 15.36% or $5.4 million, over last fiscal year. Invested in capital assets, net of related debt, increased significantly as a result of increases in the construction in progress. Restricted net assets increased significantly as a result of receivables due from the State for construction projects in progress.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2004	2003	Increase/ (Decrease)	Percent Change
OPERATING REVENUES:				
Tuition and Fees	$ 1,604,266.27	$ 1,702,571.15	$ (98,304.88)	(5.77) %
Grants and Contracts	5,596,414.02	5,161,461.87	434,952.15	8.43 %
Sales and Services	245,332.42	394,698.52	(149,366.10)	(37.84) %
Other Operating Revenues	42,272.33		42,272.33	
Total Operating Revenues	7,488,285.04	7,258,731.54	229,553.50	
OPERATING EXPENSES	25,654,127.46	24,875,841.85	778,285.61	3.13 %
Operating Loss	(18,165,842.42)	(17,617,110.31)	(548,732.11)	
NONOPERATING REVENUES:				
State Aid	12,005,058.81	11,525,364.58	479,694.23	4.16 %
County Appropriations	2,965,999.92	2,616,043.92	349,956.00	13.38 %
Noncapital Grants and Gifts	1,483,603.43	2,241,926.14	(758,322.71)	(33.82) %
Investment Income	812,523.88	559,401.85	253,122.03	45.25 %
Other Nonoperating Revenues	60,662.19	48,478.49	12,183.70	25.13 %
Total Nonoperating Revenues	17,327,848.23	16,991,214.98	336,633.25	
Loss Before Other Revenues	(837,994.19)	(625,895.33)	(212,098.86)	33.89 %
CAPITAL CONTRIBUTIONS AND OTHER REVENUES:				
State Capital Aid	5,718,844.44	742,752.91	4,976,091.53	669.95 %
County Capital Appropriations	283,180.56	250,000.00	33,180.56	13.27 %
Capital Grants	5,392.80		5,392.80	
Additions to Endowments	262,760.03	26,650.90	236,109.13	885.93 %
Total Capital Contributions and Other Revenues	6,270,177.83	1,019,403.81	5,250,774.02	
Total Increase in Net Assets	5,432,183.64	393,508.48	5,038,675.16	
NET ASSETS				
Beginning of Year	35,362,599.81	35,349,607.21	12,992.60	
Restatements		(380,515.88)	380,515.88	
Ending of Year	$ 40,794,783.45	$ 35,362,599.81	$ 5,432,183.64	

The College's total revenues increased $5,816,960.77 during the fiscal year. The College is mainly supported by receipt of State and county funds. The College received 57% or $17,723,903.25 of its revenue from State aid and State capital aid. The counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received $3,249,180.48 in county appropriations and county capital appropriations, which made up 10.5% of the total College's total revenue. Moore County provided $283,180.56 of this revenue to support the College's capital projects.

The College's operating expenses totaled $25,654,127.46 at June 30, 2004. Salaries and benefits represent 64.31% or $16,498,877.03 of the expenses balance. The College expended 14.43% or $3,702,894.14 on scholarships and other financial aid.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2004, the College had received budget information projecting a $1.1 million State budget increase. This increase was followed by notification that the College would be required to hold 2% or $.275 million. The College is estimating a decrease in enrollment of approximately 4% for the Fall 2004 semester. This drop in enrollment is associated with the displaced workers that have recently completed their degree and subsequently located jobs. The College has stepped up its recruiting activities and is preparing to see increased enrollment by the Spring 2005 semester. The College will convert its summer classes to self-supporting since the State has discontinued support for the FTE the summer term generates. The College estimates receipt of approximately $100,000 in revenue in fiscal year 2004-2005 associated with this change.

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 Controller's Office, 3395 Airport Road, Pinehurst, NC 28374.

Sandhills Community College
Statement of Net Assets
June 30, 2004 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	2,232,660.85
Restricted Cash and Cash Equivalents		2,716,380.41
Receivables (Note 4)		326,977.11
Inventories		113,369.61
Prepaid Items		32,013.59
Total Current Assets		5,421,401.57
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,647,562.46
Receivables (Note 4)		3,035,388.37
Restricted Due from Primary Government		4,642,366.18
Endowment Investments		2,083,185.70
Other Long-Term Investments		4,529,711.12
Capital Assets - Nondepreciable (Note 5)		6,427,012.61
Capital Assets - Depreciable, Net (Note 5)		17,005,485.93
Total Noncurrent Assets		39,370,712.37
Total Assets		44,792,113.94
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		1,226,369.97
Due to Primary Government		2,996.78
Deferred Revenue		1,390,508.25
Funds Held for Others		82,632.48
Long-Term Liabilities - Current Portion (Note 7)		35,804.87
Total Current Liabilities		2,738,312.35
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,259,018.14
Total Liabilities		3,997,330.49
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		23,418,909.84
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		1,637,495.79
Other		1,904,597.09
Expendable:		
Loans		7,000.00
Capital Projects		6,647,507.74
Other		3,948,767.30
Unrestricted		3,230,505.69
Total Net Assets	$	40,794,783.45

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

Sandhills Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 1,604,266.27
Federal Grants and Contracts	5,103,096.11
State and Local Grants and Contracts	493,317.91
Sales and Services	245,332.42
Other Operating Revenues	42,272.33
Total Operating Revenues	7,488,285.04
EXPENSES	
Operating Expenses:	
Salaries and Benefits	16,498,877.03
Supplies and Materials	1,942,717.95
Services	1,959,281.05
Scholarships and Fellowships	3,702,894.14
Utilities	608,740.97
Depreciation	941,616.32
Total Operating Expenses	25,654,127.46
Operating Loss	(18,165,842.42)
NONOPERATING REVENUES	
State Aid	12,005,058.81
County Appropriations	2,965,999.92
Noncapital Grants	532,169.36
Noncapital Gifts	951,434.07
Investment Income	812,523.88
Other Nonoperating Revenues	60,662.19
Total Nonoperating Revenues	17,327,848.23
Loss Before Other Revenues	(837,994.19)
State Capital Aid	5,718,844.44
County Capital Appropriations	283,180.56
Capital Grants	5,392.80
Additions to Endowments	262,760.03
Increase in Net Assets	5,432,183.64
NET ASSETS	
Net Assets, July 1, 2003 as Restated (Note 15)	35,362,599.81
Net Assets, June 30, 2004	$ 40,794,783.45

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

Sandhills Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004 ***Exhibit A-3***

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 7,559,995.40
Payments to Employees and Fringe Benefits	(16,254,877.47)
Payments to Vendors and Suppliers	(4,419,554.72)
Payments for Scholarships and Fellowships	(3,689,350.68)
Other Receipts	100,493.46
Net Cash Used by Operating Activities	(16,703,294.01)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,005,058.81
County Appropriations	2,965,999.92
Noncapital Grants Received	532,169.36
Noncapital Gifts and Endowments Received	951,434.07
Net Cash Provided by Noncapital Financing Activities	16,454,662.16
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	5,718,844.44
County Capital Appropriations	283,180.56
Capital Grants Received	5,392.80
Proceeds from Sale of Capital Assets	1,365.10
Acquisition and Construction of Capital Assets	(5,385,705.61)
Principal Paid on Capital Debt and Leases	(9,297.10)
Net Cash Provided by Capital and Related Financing Activities	613,780.19
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	672,403.36
Investment Income	812,523.88
Purchase of Investments and Related Fees	(2,345,422.96)
Net Cash Used by Investing Activities	(860,495.72)
Net Decrease in Cash and Cash Equivalents	(495,347.38)
Cash and Cash Equivalents, July 1, 2003	7,091,951.10
Cash and Cash Equivalents, June 30, 2004	$ 6,596,603.72
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (18,165,842.42)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	941,616.32
Miscellaneous Nonoperating Income	74,498.23
Changes in Assets and Liabilities:	
Receivables, Net	70,343.93
Inventories	1,368.20
Prepaid Items	(32,013.59)
Accounts Payable and Accrued Liabilities	160,562.16
Due to Primary Government	(158.06)
Deferred Revenue	14,909.89
Funds Held for Others	25,995.23
Compensated Absences	205,426.10
Net Cash Used by Operating Activities	$ (16,703,294.01)

Sandhills Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	2,232,660.85
Restricted Cash and Cash Equivalents		2,716,380.41
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,647,562.46
Total Cash and Cash Equivalents - June 30, 2004	$	6,596,603.72
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	$	701,856.13
Change in Fair Value of Investments		439,043.89
Increase in Receivables Related to Nonoperating Income		4,468,900.11
Capital Asset Write-Offs		85,752.67

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

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 the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College.

Blended Component Unit - 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 three 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 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, NC 28374, or by calling 910-695-3703. 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).

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 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, real estate, and life income annuities. 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 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. Receivables are shown at book value with no provision for doubtful accounts considered necessary.

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 40 years for general infrastructure, 15 to 40 years for buildings, and five to 15 years for equipment.

I. **Restricted Assets** - Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include capital lease obligations, compensated absences, and annuities 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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

L. **Net Assets** - The College's net assets are classified as follows:

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

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

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

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

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

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

N. **Revenue and Expense Recognition** - The College 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. **Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was $1,000,000.00. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.

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 $19,598.91. The carrying amount of cash on deposit was $6,638,681.29 and the bank balance was $8,816,588.27.

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	$ 4,149,415.95	$ 5,885,633.60
Cash on Deposit with Private Financial Institutions	2,489,265.34	2,930,954.67
	$ 6,638,681.29	$ 8,816,588.27

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, 2004, $100,000.00 of the bank balance was covered by federal depository insurance, and $2,830,954.67 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

B. Investments - In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; 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 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, 2004, is presented below:

	Fair Value	
	Risk Category	Total
Categorized Investments:		
Corporate Securities	$ 2,981,245.80	$ 2,981,245.80
Corporate Bonds	1,511,866.82	1,511,866.82
Investments In-transit	1,805,818.55	1,805,818.55
Total Categorized Investments	$ 6,298,931.17	$ 6,298,931.17
Investments Not Categorized:		
Certificates of Deposit		$ 61,676.48
Mutual Funds		243,039.17
Real Estate		9,250.00
Total Investments Not Categorized		313,965.65
Total Investments		$ 6,612,896.82

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 part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending between to 5% of the endowment principal's market value. To the extent that the income for the current year exceeds the payout, the excess is added to the expendable net asset endowment balance. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2004, net appreciation of $1,979,043.25 was available to be spent, of which $360,069.46 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Amount
Current Receivables:	
Students	$ 110,762.78
Accounts	43,578.41
Intergovernmental	130,774.96
Pledges	9,462.00
Investment Earnings	6,690.12
Other	25,708.84
Total Current Receivables	$ 326,977.11
Noncurrent Receivables:	
Intergovernmental	$ 2,970,378.37
Pledges	65,010.00
Total Noncurrent Receivables	$ 3,035,388.37

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	$ 429,736.45	$ 0.00	$ 0.00	$ 0.00	$ 429,736.45
Construction in Progress	1,425,271.23	(32,311.65)	4,604,316.58		5,997,276.16
Total Capital Assets, Nondepreciable	1,855,007.68	(32,311.65)	4,604,316.58		6,427,012.61
Capital Assets, Depreciable:					
Buildings	22,909,614.98	12,830.92	49,428.64		22,971,874.54
Machinery and Equipment	2,266,238.95		162,775.09	129,846.67	2,299,167.37
General Infrastructure	1,474,557.47	19,480.73			1,494,038.20
Total Capital Assets, Depreciable	26,650,411.40	32,311.65	212,203.73	129,846.67	26,765,080.11
Less Accumulated Depreciation:					
Buildings	7,188,551.28		645,997.68		7,834,548.96
Machinery and Equipment	1,177,037.86		223,241.12	115,502.58	1,284,776.40
General Infrastructure	567,891.30		72,377.52		640,268.82
Total Accumulated Depreciation	8,933,480.44		941,616.32	115,502.58	9,759,594.18
Total Capital Assets, Depreciable, Net	17,716,930.96	32,311.65	(729,412.59)	14,344.09	17,005,485.93
Capital Assets, Net	$ 19,571,938.64	$ 0.00	$ 3,874,903.99	$ 14,344.09	$ 23,432,498.54

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	$ 880,483.16
Accrued Payroll	98,694.81
Contract Retainage	180,506.89
Intergovernmental Payables	66,685.11
Total Accounts Payable and Accrued Liabilities	$ 1,226,369.97

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Capital Leases Payable	$ 22,885.80	$ 0.00	$ 9,297.10	$ 13,588.70	$ 9,154.32
Compensated Absences	892,153.60	574,416.73	368,990.63	1,097,579.70	11,678.25
Annuities Payable	179,170.00	26,410.68	21,926.07	183,654.61	14,972.30
Total Long-Term Liabilities	$ 1,094,209.40	$ 600,827.41	$ 400,213.80	$ 1,294,823.01	$ 35,804.87

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

NOTE 8 - CAPITAL LEASE OBLIGATION

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, 2004:

Fiscal Year	Amount
2005	$ 9,154.32
2006	4,434.38
Total Minimum Lease Payments	13,588.70
Present Value of Future Lease Payments	$ 13,588.70

Machinery and equipment acquired under capital lease amounted to $14,524.82 at June 30, 2004.

NOTE 9 - REVENUES

Student tuition and fees net of scholarship discounts is presented as follows:

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 3,460,033.41	$ 1,855,767.14	$ 1,604,266.27

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,880,690.17	$ 849,356.48	$ 332,123.50	$ 0.00	$ 0.00	$ 0.00	$ 11,062,170.15
Public Service	163,036.70	8,499.59	85,505.87				257,042.16
Academic Support	1,426,290.42	199,825.76	58,868.15				1,684,984.33
Student Services	1,344,327.51	53,784.40	33,062.72				1,431,174.63
Institutional Support	2,264,560.46	490,483.53	944,833.02				3,699,877.01
Operations and Maintenance of Plant	1,413,087.73	311,060.89	268,603.89		608,740.97		2,601,493.48
Student Financial Aid	2,347.50		129,680.23	3,702,894.14			3,834,921.87
Auxiliary Enterprises	4,536.54	29,707.30	106,603.67				140,847.51
Depreciation						941,616.32	941,616.32
Total Operating Expenses	$ 16,498,877.03	$ 1,942,717.95	$ 1,959,281.05	$ 3,702,894.14	$ 608,740.97	$ 941,616.32	$ 25,654,127.46

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of $13,860,468.92, of which $12,032,914.24 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $721,974.85 and $26,472.41, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were $26,472.41, $0.00, and $223,456.78, 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 $132,798.00 for the year ended June 30, 2004.

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 $225,660.00 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was $385,053.26. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from $11,000,000 to $5,000,000, 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 $5,000,000 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. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. The College has purchased property insurance with a private insurance company for the Westmoore Center, a leased facility.

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 from county and institutional funds by a policy purchased from a private insurance company. The policy covers the College for losses up to $25,000. The College is protected for errors and omissions by a policy with a private insurance company for $1,000,000 with a $25,000 deductible.

The College purchased other authorized coverage from private insurance companies for professional liability coverage of allied health students and faculty. The College purchased general liability coverage to cover bodily injury and property damage as well as excess liability coverage as needed.

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. There were no employer contributions required for the current fiscal year.

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 $7,743,386.89 at June 30, 2004.

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 $600 million 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 $7,203,457.00 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.

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	$ 254,915.00

NOTE 15 - NET ASSET RESTATEMENTS

As of July 1, 2003, net assets as previously reported was restated as follows:

	Amount
July 1, 2003 Net Assets as Previously Reported	$ 35,743,115.69
Restatements:	
Correction of Restricted Due from Primary Government	(79,431.30)
Correction of Deferred Revenue	(232,348.65)
Deletion of Duplicate Payable - Construction	(3,407.50)
Miscellaneous	(65,328.43)
July 1, 2003, Net Assets as Restated	$ 35,362,599.81

Sandhills Community College
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Projects Approved by the State Board									
New Student Center # 940	Mar 2004	Oct 2000	$ 1,949,455.00	$ 5,650,000.00	$ 7,599,455.00	$ 4,782,055.92	62.93%	Sep 2004	Mar 2005
New Hoke Center # 813	Jul 1998	Jul 1998	863,213.63	874,535.00	1,737,748.63	1,737,748.63	100.00%	Nov 2001	Nov 2001
Kennedy Health Sciences Renovation # 1103	Feb 2002	Feb 2002	487,000.00	734,000.00	1,221,000.00	1,221,000.00	100.00%	Mar 2003	May 2003
Technology Center # 1081	Jan 2004	Dec 2003	4,678,791.00	1,477,990.00	6,156,781.00	827,043.24	13.43%	Feb 2005	Aug 2005
South Campus Parking Lot # 1313	Jan 2003	Jan 2003	178,000.00	131,000.00	309,000.00	305,470.98	98.86%	Sep 2003	Sep 2004
Hoke Business and Technology Center # 1142	Jul 2004	Jul 2004	1,225,087.00	25,465.00	1,250,552.00			Jul 2006	Jul 2006
Blue Hall Renovation # 1004	Dec 2003	Mar 2004	700,000.00		700,000.00	10,000.00	1.43%	Dec 2005	Apr 2006
Meyer-Stone Hall Roof Replacement # 1376	Dec 2005	Dec 2005	450,000.00		450,000.00			Nov 2006	Nov 2006
Stone Hall Renovation	Apr 2005	Apr 2005	500,000.00		500,000.00			Aug 2006	Dec 2005
Stone Hall Student Services Renovation # 1154	May 2004	Jun 2001	95,000.00		95,000.00	95,000.00	100.00%	May 2004	May 2003
Improvements/Expansion Traffic System # 1242	Apr 2002	Apr 2002	151,741.00		151,741.00	151,741.01	100.00%	Aug 2002	Aug 2002
Stone Hall Administrative Renovation # 1278	Dec 2002	Dec 2002	122,013.15		122,013.15	121,431.00	100.00%	Oct 2003	Oct 2003
Athletic Field # 1347	Aug 2004	Aug 2004	295,000.00		295,000.00	6,062.18	2.05%	May 2005	May 2005
Stone Hall Lecture 111 Renovation # 1357	May 2004	May 2004	223,715.00	200,000.00	423,715.00	5,475.00	1.29%	Dec 2005	Dec 2005
Horticulture Complex # 1352	Aug 2004	Aug 2004	1,519,914.00	386,577.00	1,906,491.00			Oct 2006	Oct 2006
Projects Not Started - To Be Funded in Future Years									
Undetermined	Dec 2004	Dec 2006	157,164.22		157,164.22			Jun 2006	Dec 2007
Total All Projects			$ 13,596,094.00	$ 9,479,567.00	$ 23,075,661.00	$ 9,263,027.96			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million 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.

STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
http://www.ncauditor.net

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

Board of Trustees
Sandhills Community College
Pinehurst, North Carolina

We have audited the financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2004, and have issued our report thereon dated May 31, 2005. We did not audit the financial statements of Sandhills Community College Foundation, Inc., which represent 26 percent, 24 percent, and seven percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sandhills Community College Foundation, Inc., is based on the report of the other auditors.

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. The financial statements of Sandhills Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Sandhills Community College Foundation, Inc.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

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

Findings

1. Weak Internal Controls Over Cash
2. Internal Controls Over Bank Reconciliations

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above are material weaknesses.

<u>Compliance and Other Matters</u>

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 31, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. WEAK INTERNAL CONTROLS OVER CASH

Internal controls over cash are insufficient to prevent errors and misappropriation of assets. During our audit we noted the following:

- Cash handling responsibilities are not properly segregated. One employee has the capabilities to prepare third-party billings, receipt money including third-party payments, close out the register, run cash reports, reconcile the cash to reports, and prepare the daily deposit.
- A check log is not used to track payments received through the mail.
- Daily cash analysis reports are not reviewed daily.

Good internal controls require management to establish effective custodial accountability procedures and adequate segregation of duties.

Recommendation: We recommend that the College improve internal control procedures over the cash receipting process including the proper segregation of duties. Management should ensure that mail receipts are properly recorded and that the daily cash analysis reports are reviewed timely.

College's Response: We appreciate the recommendation regarding better internal controls. We believe internal controls are important and have worked diligently during the Colleague implementation to maintain proper segregation of duties while alleviating excessive workloads. Lack of funding this fiscal year and next will prohibit our office from hiring a "cashier". Therefore, we have reviewed current work processes and have redistributed accounts receivable duties to other business office employees in order to compensate for the lack of a "cashier", to include the elimination of a single person being responsible for the third party billing and receipting. We believe this redistribution of duties compensates for the lack of a "cashier".

2. INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The College did not properly complete reconciliations for the institutional fund bank account during the 2003-2004 audit period. In addition, the bank account remains unreconciled on a current basis. The review process was not sufficient to correct errors in the bank reconciliation process. Implementation of the new Colleague accounting software contributed in part to the College's inability to balance and complete the bank reconciliation process.

Recommendation: For adequate controls over cash, we recommend that the College reconcile bank statements and post reconciling items each month, as bank reconciliations are prepared. Any variances with the general ledger cash balances should be investigated and reconciled in a timely manner. Internal controls should include strengthening the review process to ensure that bank reconciliations are prepared properly and timely.

College's Response: We appreciate the audit team work on the cash accounts. As noted by the audit team, the Colleague implementation on July 1, 2003, caused a general ledger problem in relation to the bank account reconciliation. We take the bank reconciliation process seriously and performed a number of research attempts throughout the fiscal year and prior to the submission of our financial statements. However, we were not able to locate the discrepancy and did not post a generic entry in order to balance at year-end. We continued to search for our discrepancy and resolved the bank reconciliation issue May 2005. We will not have any further issues with regard to this management comment.

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. John R. Dempsey	President, Sandhills Community College
Mr. Richard Gough	Vice President for Business and Administrative Services Sandhills Community College
Mr. George W. Little	Chairman, Board of Trustees Sandhills Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore
Senator Marc Basnight, Co-Chair
Senator Charles W. Albertson
Senator Thomas M. Apodaca
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator Charlie S. Dannelly
Senator James Forrester
Senator Linda Garrou
Senator Kay R. Hagan
Senator Fletcher L. Hartsell, Jr.
Senator David W. Hoyle
Senator John H. Kerr, III
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator Anthony E. Rand
Senator R. C. Soles, Jr.
Senator Richard Y. Stevens
Senator A. B. Swindell, IV
Senator Scott Thomas

Speaker of the House
Representative James B. Black, Co-Chair
Representative Alma S. Adams
Representative Martha B. Alexander
Representative Harold J. Brubaker
Representative Lorene T. Coates
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative Beverly M. Earle
Representative Pryor A. Gibson, III
Representative Joe Hackney
Representative R. Phillip Haire
Representative Dewey L. Hill
Representative Lindsey H. Holliman
Representative Julia C. Howard
Representative Howard J. Hunter, Jr.
Representative Margaret M. Jeffus
Representative Daniel F. McComas
Representative Charles L. McLawhorn
Representative Henry M. Michaux, Jr.
Representative Richard T. Morgan
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Deborah K. Ross
Representative Drew P. Saunders
Representative Wilma M. Sherrill
Representative Joe P. Tolson
Representative Edith D. Warren
Representative Thomas E. Wright
Representative Douglas Y. Yongue

Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division

June 30, 2005

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: http://www.ncauditor.net

Telephone: 919/807-7500

Facsimile: 919/807-7647