



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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

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REVIEWER'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 review of Stanly Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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

As part of the work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures, as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Stanly Community College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

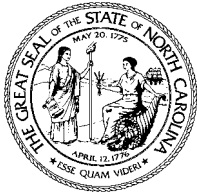
North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Stanly Community College
Albemarle, North Carolina

We have reviewed 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, 2004, as listed in the table of contents. We conducted our review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management. We did not review the financial statements of Stanly Community College Foundation, Inc., which represent 17 percent, 17 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for Stanly Community College Foundation, Inc., is based on the report of the other accountants.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.



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

April 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's 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, 2004. Please read it in conjunction with the financial statements and notes to the financial statements.

This section is intended to provide a narrative analysis that users need to interpret the basic financial statements. The discussion and analysis 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 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 \$212,775.00 of its allocated state budget.

Stanly County, despite the downturn in the economy, allocated the College \$1,200,000 for operational expenses, an increase from the previous year of \$209,295. In addition, the county allocated \$125,000 in capital funds, a decrease of \$10,000 from the previous year.

The College's financial position improved during the fiscal year ended June 30, 2004. Its combined net assets increased by \$127,812, or .93% from the previous year.

The College experienced a 10.7% increase in full time equivalent curriculum students for the year ended June 30, 2004.

Stanly Community College Foundation, Inc. (a blended component unit) received donations in the amount of \$413,290 during the 2003 calendar year.

Overview of the Financial Statements

Three basic financial statements are included with this report: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These three basic financial statements 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, 2004, and June 30, 2003

	2003-2004	2002-2003
Assets		
Current Assets	\$ 2,017,132	\$ 1,631,834
Noncurrent Assets	586,394	1,260,369
Capital Assets	11,978,534	11,759,890
Total Assets	14,582,060	14,652,093
Liabilities		
Current Liabilities	332,701	612,724
Noncurrent Liabilities	399,864	317,686
Total Liabilities	732,565	930,410
Net Assets		
Invested in Capital Assets	11,978,534	11,759,890
Restricted	1,288,255	1,220,414
Unrestricted	582,706	741,379
Total Net Assets	\$ 13,849,495	\$ 13,721,683

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2004, and June 30, 2003

	2003-2004	2002-2003
Operating Revenues:		
Tuition and Fees, Net	\$ 1,397,095	\$ 1,349,690
Federal Grants and Contracts	2,700,049	2,581,280
State and Local Grants	176,083	194,427
Sales and Services	1,112,873	1,119,465
Other Operating Revenues	64,829	
Total Operating Revenues	5,450,929	5,244,862
Total Operating Expenses	14,766,470	13,595,994
Operating Loss	(9,315,541)	(8,351,132)
Nonoperating Revenues:		
State Appropriations	7,049,989	6,347,727
County Appropriations	1,200,000	990,705
Noncapital Grants	121,985	190,790
Noncapital Gifts	192,393	327,274
Investment Income, Net	46,861	62,135
Other Nonoperating Revenues	1	30,341
Net Nonoperating Revenues	8,611,229	7,948,972
Loss Before Other Revenues	(704,312)	(402,160)
State Capital Appropriations	707,124	594,389
County Capital Appropriations	125,000	135,000
Capital Grants		3,266,870
Increase in Net Assets	127,812	3,594,099
Net Assets - Beginning of the Year	13,721,683	10,127,584
Net Assets - End of the Year	\$ 13,849,495	\$ 13,721,683

Operating revenues increased \$206,067 primarily due to the increase of \$118,769 in federal grants and contracts and the increase of \$64,289 in other operating revenues. Operating expenses increased \$1,170,476. This resulted in a net increase in operating loss of \$964,409. Nonoperating revenues increased \$662,257 primarily due to the increase in State appropriations.

The Statement of Cash Flows

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Cash Flow Statement For the Fiscal Years Ended June 30, 2004, and June 30, 2003

	2003-2004	2002-2003
Cash Provided (Used) by:		
Operating Activities	\$ (8,962,221)	\$ (7,890,117)
Noncapital Financing Activities	8,481,299	7,856,500
Capital and Related Financing Activities	276,776	244,965
Investing Activities	91,945	220,183
Net Increase (Decrease) in Cash	(112,201)	431,531
Cash - Beginning of Year	1,312,763	881,232
Cash - End of Year	<u>\$ 1,200,562</u>	<u>\$ 1,312,763</u>

Capital Assets

At June 30, 2004, the College's capital assets totaled \$11,978,534, net of accumulated depreciation of \$4,536,674. This balance was higher than the \$11,759,890 in capital assets shown on the College's June 30, 2003, financial statements. Details of capital assets at June 30, 2004, and at June 30, 2003, are shown below.

	2003-2004	2002-2003
Capital Assets - Nondepreciable:		
Land	\$ 1,100,137	\$ 1,100,137
Art	54,747	
Construction in Progress	21,600	4,379,522
Total Capital Assets, Nondepreciable	<u>1,176,484</u>	<u>5,479,659</u>
Capital Assets - Depreciable, Net:		
Buildings	9,554,865	5,177,216
General Infrastructure	732,797	470,999
Machinery and Equipment	514,388	632,015
Total Capital Assets - Depreciable, Net	<u>10,802,050</u>	<u>6,280,230</u>
Total Capital Assets	<u>\$ 11,978,534</u>	<u>\$ 11,759,889</u>

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 \$1,558,332 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, 2004		Exhibit A-1
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	747,061.93
Restricted Cash and Cash Equivalents		453,499.93
Short-Term Investments		161,996.71
Restricted Short-Term Investments		80,056.91
Receivables (Note 4)		367,775.58
Due from State of North Carolina Component Units		83,067.86
Inventories		123,028.95
Notes Receivable		644.40
Total Current Assets		2,017,132.27
Noncurrent Assets:		
Restricted Due from Primary Government		63,763.41
Endowment Investments		521,589.44
Notes Receivable		1,040.39
Capital Assets - Nondepreciable (Note 5)		1,176,484.39
Capital Assets - Depreciable, Net (Note 5)		10,802,049.97
Total Noncurrent Assets		12,564,927.60
Total Assets		14,582,059.87
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		184,974.32
Deferred Revenue		34,751.07
Funds Held for Others		18,034.34
Long-Term Liabilities - Current Portion (Note 7)		94,941.06
Total Current Liabilities		332,700.79
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		399,864.30
Total Liabilities		732,565.09
NET ASSETS		
Invested in Capital Assets		11,978,534.36
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		552,068.00
Loans		83,943.00
Expendable:		
Scholarships and Fellowships		1,132.75
Loans		15,761.00
Capital Projects		104,264.48
Other		531,084.87
Unrestricted		582,706.32
Total Net Assets	\$	13,849,494.78
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, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,397,094.43
Federal Grants and Contracts		2,700,049.32
State and Local Grants and Contracts		176,082.95
Sales and Services (Note 9)		1,112,873.17
Other Operating Revenues		64,829.47
Total Operating Revenues		5,450,929.34
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,001,849.04
Supplies and Materials		1,697,443.51
Services		1,894,804.54
Scholarships and Fellowships		1,372,021.80
Utilities		288,876.04
Depreciation		511,475.64
Total Operating Expenses		14,766,470.57
Operating Loss		(9,315,541.23)
NONOPERATING REVENUES		
State Aid		7,049,989.33
County Appropriations		1,200,000.00
Noncapital Grants		121,985.07
Noncapital Gifts		192,392.92
Investment Income, Net		46,860.63
Other Nonoperating Revenues		1.00
Net Nonoperating Revenues		8,611,228.95
Income Before Other Revenues		(704,312.28)
State Capital Aid		707,123.78
County Capital Appropriations		125,000.00
Increase in Net Assets		127,811.50
NET ASSETS		
Net Assets, July 1, 2003		13,721,683.28
Net Assets, June 30, 2004	\$	13,849,494.78
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, 2004		Exhibit A-3
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	5,443,831.27
Payments to Employees and Fringe Benefits		(8,825,280.96)
Payments to Vendors and Suppliers		(4,277,022.45)
Payments for Scholarships and Fellowships		(1,348,475.38)
Collection of Loans to Students		118.09
Other Payments		44,608.82
Net Cash Used by Operating Activities		(8,962,220.61)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,049,989.33
County Appropriations		1,200,000.00
Noncapital Grants Received		38,917.21
Noncapital Gifts and Endowments Received		192,392.92
Net Cash Provided by Noncapital Financing Activities		8,481,299.46
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		881,895.95
County Capital Appropriations		125,000.00
Acquisition and Construction of Capital Assets		(730,120.16)
Net Cash Provided by Capital and Related Financing Activities		276,775.79
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		46,509.94
Investment Income		46,860.63
Purchase of Investments and Related Fees		(1,426.00)
Net Cash Provided by Investing Activities		91,944.57
Net Decrease in Cash and Cash Equivalents		(112,200.79)
Cash and Cash Equivalents, July 1, 2003		1,312,762.65
Cash and Cash Equivalents, June 30, 2004	\$	1,200,561.86
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(9,315,541.23)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		511,475.64
Miscellaneous Nonoperating Income		1.00
Changes in Assets and Liabilities:		
Receivables, Net		65,888.81
Inventories		(26,317.98)
Notes Receivable, Net		118.09
Accounts Payable and Accrued Liabilities		(370,131.85)
Deferred Revenue		(7,098.07)
Funds Held for Others		2,265.43
Compensated Absences		177,119.55
Net Cash Used by Operating Activities	\$	(8,962,220.61)

Stanly Community College				
Statement of Cash Flows				Exhibit A-3
For the Fiscal Year Ended June 30, 2004				Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
	Current Assets:			
	Cash and Cash Equivalents		\$	747,061.93
	Restricted Cash and Cash Equivalents			453,499.93
Total Cash and Cash Equivalents - June 30, 2004			\$	1,200,561.86
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
	Increase in Receivables Related to Nonoperating Income		\$	83,067.86
The accompanying notes to the financial statements are an integral part of this statement.				

STANLY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 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. Stanly Community College Foundation, Inc. (Foundation), although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit – Although legally separate, the 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 Vice President for Fiscal Services, 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, 2004, except for the Stanly Community College Foundation, Inc., whose blended financial statements are as of and for the calendar year ended December 31, 2003.

- 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, savings accounts, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. 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 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 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 valued at cost using either the first-in, first-out, last invoice cost, or average cost 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 requires 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 forward each July 1st or for which an employee can be paid upon

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 – 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 and the amount that is paid by students or by third parties on the students’

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 accounts, and certificates of deposit. At year end, cash on hand was

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$1,175.00. The carrying amount of cash on deposit was \$1,958,104.92 and the bank balance was \$2,219,316.70.

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	\$ 117,669.09	\$ 117,669.09
Cash on Deposit with Private Financial Institutions	1,840,435.83	2,101,647.61
	<u>\$ 1,958,104.92</u>	<u>\$ 2,219,316.70</u>

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

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

Of the cash on deposit with private financial institutions at June 30, 2004, \$300,000.00 of the bank balance was covered by federal depository insurance, \$1,801,647.61 was collateralized under either the dedicated method or the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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
Investments Not Categorized:	
Certificates of Deposit	758,718.00
Mutual Funds	4,925.00
Total Investments	<u><u>\$ 763,643.00</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, 2004, were as follows:

	Amount
Current Receivables:	
Students	\$ 143,531.21
Accounts	<u>224,244.37</u>
Total Current Receivables	<u><u>\$ 367,775.58</u></u>

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	\$ 1,100,137.39	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,100,137.39
Art, Literature, and Artifacts			54,747.00		54,747.00
Construction in Progress	<u>4,379,522.15</u>	<u>(4,703,838.38)</u>	<u>345,916.23</u>		<u>21,600.00</u>
Total Capital Assets, Nondepreciable	<u>5,479,659.54</u>	<u>(4,703,838.38)</u>	<u>400,663.23</u>		<u>1,176,484.39</u>
Capital Assets, Depreciable:					
Buildings	8,159,842.46	4,703,838.38			12,863,680.84
Machinery and Equipment	947,321.97		157,547.21	14,914.84	1,089,954.34
General Infrastructure	<u>1,213,179.21</u>		<u>171,909.72</u>		<u>1,385,088.93</u>
Total Capital Assets, Depreciable	<u>10,320,343.64</u>	<u>4,703,838.38</u>	<u>329,456.93</u>	<u>14,914.84</u>	<u>15,338,724.11</u>
Less Accumulated Depreciation:					
Buildings	2,982,625.98		326,190.20		3,308,816.18
Machinery and Equipment	476,322.80		114,157.96	14,914.84	575,565.92
General Infrastructure	<u>581,164.56</u>		<u>71,127.48</u>		<u>652,292.04</u>
Total Accumulated Depreciation	<u>4,040,113.34</u>		<u>511,475.64</u>	<u>14,914.84</u>	<u>4,536,674.14</u>
Total Capital Assets, Depreciable, Net	<u>6,280,230.30</u>	<u>4,703,838.38</u>	<u>(182,018.71)</u>		<u>10,802,049.97</u>
Capital Assets, Net	<u><u>\$ 11,759,889.84</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 218,644.52</u></u>	<u><u>\$ 0.00</u></u>	<u><u>\$ 11,978,534.36</u></u>

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 178,565.51
Accrued Payroll	<u>6,408.81</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 184,974.32</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 317,685.81	\$ 384,645.39	\$ 207,525.84	\$ 494,805.36	\$ 94,941.06

NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 51,670.60
2006	42,279.00
2007	40,074.80
2008	6,901.68
2009	6,901.68
Total Minimum Lease Payments	\$ 147,827.76

Rental expense for all operating leases during the year was \$94,040.09.

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	\$ 1,810,826.35	\$ 413,731.92	\$ 1,397,094.43
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Vending	\$ 5,162.51	\$ 0.00	\$ 5,162.51
Bookstore	1,043,112.39		1,043,112.39
Other	61,682.27		61,682.27
Sales and Services of Education and Related Activities	2,916.00		2,916.00
Total Sales and Services	\$ 1,112,873.17	\$ 0.00	\$ 1,112,873.17

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 5,592,239.78	\$ 403,302.57	\$ 899,290.48	\$ 161,023.05	\$ 0.00	\$ 0.00	\$ 7,055,855.88
Academic Support	536,032.53	42,725.84	55,245.59				634,003.96
Student Services	617,567.75	15,847.16	96,102.84	(384,511.92)			345,005.83
Institutional Support	1,742,283.19	228,593.28	564,189.63				2,535,066.10
Operations and Maintenance of Plant	407,912.50	238,251.78	195,649.07		288,876.04		1,130,689.39
Student Financial Aid			7,092.02	1,595,510.67			1,602,602.69
Auxiliary Enterprises	105,813.29	768,722.88	77,234.91				951,771.08
Depreciation						511,475.64	511,475.64
Total Operating Expenses	<u>\$ 9,001,849.04</u>	<u>\$ 1,697,443.51</u>	<u>\$ 1,894,804.54</u>	<u>\$ 1,372,021.80</u>	<u>\$ 288,876.04</u>	<u>\$ 511,475.64</u>	<u>\$ 14,766,470.57</u>

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 \$7,587,124.21, of which \$6,062,061.51 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$363,726.80 and \$13,336.63, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$13,336.63, \$0.00, and \$104,046.34, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$143,918.00 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 \$28,562.00 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 \$193,985.97. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

Comprehensive collision and liability insurance for 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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 \$42,711.23 and on other purchases were \$77,716.24 at June 30, 2004.
- B. **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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$729,922.00 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.

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

Schedule 1

	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
Capital Improvement Projects									
<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	\$ 3,826,740.00	100.00%		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		814,929.00	53,865.00	868,794.00	868,794.00	100.00%		Aug 2003
Campus Renovations - Project #1369	Aug 2003		150,000.00		150,000.00	150,000.00	100.00%		Jun 2004
Student Center Building Renovation - Project #1355	Jan 2004	Jun 2004	123,071.00	291,929.00	415,000.00	21,600.00	5.20%	Jul 2005	
<i>Projects Pending Approval by the State Board</i>									
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	\$ 883,794.00	\$ 6,020,385.00	\$ 4,967,134.00			
<p>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.</p>									

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Director, Fiscal Research Division

June 30, 2005

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