

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**STANLY COMMUNITY COLLEGE**

**ALBEMARLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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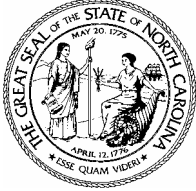
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Stanly Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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.*

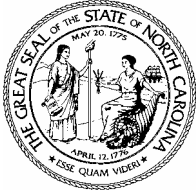
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 29, 2006

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Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Stanly Community College  
Albemarle, North Carolina

We have audited the accompanying basic financial statements of Stanly Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, 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 Stanly Community College Foundation, Inc., which represent 16.6 percent, 16.3 percent, and 2.2 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 Stanly 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 Stanly 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 the 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 Stanly Community College as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, 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 that 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.

*Leslie W. Merritt, Jr.*

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

April 7, 2006

## **STANLY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This discussion and analysis of Stanly Community College's financial statements has been prepared by management and provides an overview of the College's financial activities for the year ended June 30, 2005, with selected comparative data 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.

### **Institutional Financial Highlights**

The College's financial position improved during the fiscal year ended June 30, 2005. Its combined net assets increased by \$566,478.32, or 4.09% from the previous year.

Stanly County allocated the College a total of \$1,325,000.00 for operational and capital expenses, no change from the previous year. The College utilized \$1,175,000.00 of these funds for current operational expenses and \$150,000.00 for capital outlay expenses.

The College experienced a 5.6% decrease in full time equivalent (FTE) curriculum students for the year ended June 30, 2005. Curriculum FTE during 2004-05 was 1566, down from 1659 during 2003-04.

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 \$142,264.00 of its allocated State budget.

Significant construction projects during the year included a 3600 square foot addition to the Webb Student Center to house a new bookstore as well as renovations to the Webb Student Center. The budget for this project is \$603,800.00. Construction is expected to be completed in September 2005.

Stanly Community College Foundation (a blended component unit) received donations in the amount of \$307,897.00 for the 2004 calendar year.

### **Overview of the Financial Statements**

Three basic financial statements are included in this report along with the management's discussion and analysis and the notes to the financial statements:

1. Statement of Net Assets
2. Statement of Revenues, Expenses, and Changes in Net Assets
3. Statement of Cash Flows

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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 the Fiscal Years Ended June 30,

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Current Assets	\$ 2,142,636.13	\$ 2,017,132.00	\$ 125,504.13
Noncurrent Assets	853,277.34	586,393.24	266,884.10
Capital Assets	<u>12,261,978.52</u>	<u>12,117,774.44</u>	<u>144,204.08</u>
Total Assets	<u>15,257,891.99</u>	<u>14,721,299.68</u>	<u>536,592.31</u>
Current Liabilities	402,987.00	332,700.79	70,286.21
Noncurrent Liabilities	<u>438,931.89</u>	<u>399,864.30</u>	<u>39,067.59</u>
Total Liabilities	<u>841,918.89</u>	<u>732,565.09</u>	<u>109,353.80</u>
Net Assets:			
Invested in Capital Assets	12,261,978.52	12,117,774.44	144,204.08
Restricted	1,376,532.13	1,288,254.10	88,278.03
Unrestricted	<u>777,462.45</u>	<u>582,706.32</u>	<u>194,756.13</u>
Total Net Assets	<u>\$ 14,415,973.10</u>	<u>\$ 13,988,734.86</u>	<u>\$ 427,238.24</u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets increased by \$427,238.32, including a \$139,240.08 beginning balance restatement explained in Note 16. Current assets increased by \$125,504.13; this is primarily due to an increase in cash available at year end. Noncurrent assets increased by \$266,884.10 due to an increase in endowment investments. Capital Assets increased by \$283,444.16 due to additions of equipment, infrastructure and construction in progress. Total assets increased by \$675,832.39. Total liabilities increased by \$109,353.80; this is primarily due to an increase in current liabilities from accounts payable for construction projects ongoing at year end. Noncurrent liabilities increased \$39,067.59. This is due to an increase in the accrued leave balances payable for employees. Additional employees were hired during the year and salaries were increased over the previous year.

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended

	<u>2005</u>	<u>2004</u>	<u>Change</u>
Operating Revenues:			
Tuition and Fees, Net	\$ 1,454,349.88	\$ 1,397,094.43	\$ 57,255.45
Federal Grants and Contracts	2,552,651.87	2,700,049.32	(147,397.45)
State and Local Grants	135,041.58	176,082.95	(41,041.37)
Sales and Services, Net	897,955.33	1,112,873.17	(214,917.84)
Other Operating Revenues	76,482.94	64,829.47	11,653.47
Total Operating Revenues	<u>5,116,481.60</u>	<u>5,450,929.34</u>	<u>(334,447.74)</u>
Total Operating Expenses	<u>15,768,160.32</u>	<u>14,627,230.49</u>	<u>1,140,929.83</u>
Operating Loss	(10,651,678.72)	(9,176,301.15)	(1,475,377.57)
Nonoperating Revenues:			
State Appropriations	8,498,556.89	7,049,989.33	1,448,567.56
County Appropriations	1,175,000.00	1,200,000.00	(25,000.00)
Noncapital Grants	7,500.00	121,985.07	(114,485.07)
Noncapital Gifts	496,849.80	192,392.92	304,456.88
Investment Income, Net	36,876.51	46,860.63	(9,984.12)
Other Nonoperating Revenues (Expenses)	(23,657.87)	1.00	(23,658.87)
Net Nonoperating Revenues	<u>10,191,125.33</u>	<u>8,611,228.95</u>	<u>1,579,896.38</u>
Income (Loss) Before Other Revenues	(460,553.39)	(565,072.20)	104,518.81
Capital Contributions	<u>887,791.63</u>	<u>832,123.78</u>	<u>55,667.85</u>
Increase in Net Assets	427,238.24	267,051.58	160,186.66
Net Assets Beginning of Year, as Restated	<u>13,988,734.86</u>	<u>13,721,683.28</u>	<u>267,051.58</u>
Net Assets - End of Year	<u>\$ 14,415,973.10</u>	<u>\$ 13,988,734.86</u>	<u>\$ 427,238.24</u>

Operating revenues decreased by \$334,447.74 or 6.14%, primarily due to the expiration of a Federal Department of Labor grant during the year as well as the recording of scholarship

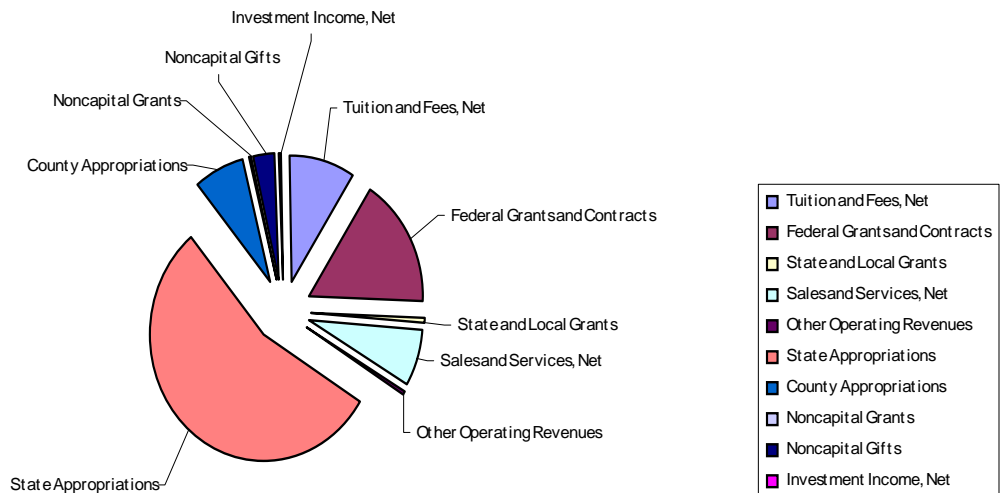
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

discount for bookstore sales and services. Operating expenses increased \$1,140,929.83 or 7.8%. The increases occurred primarily in the areas of personal services, supplies and materials, and depreciation expense. This resulted in a net increase in operating loss of \$1,475,377.57, or 16.08%. Nonoperating revenues increased by \$1,579,896.38, or 18.35%, primarily due to the increase in State appropriations.

### Revenues:

Total revenues for fiscal year ended June 30, 2005, were \$16,195,398.56 while total revenues for June 30, 2004, were \$14,894,282.07. The increase of \$1,301,116.49 is described above.

The following chart depicts graphically the revenues of the College's activities for the fiscal year.



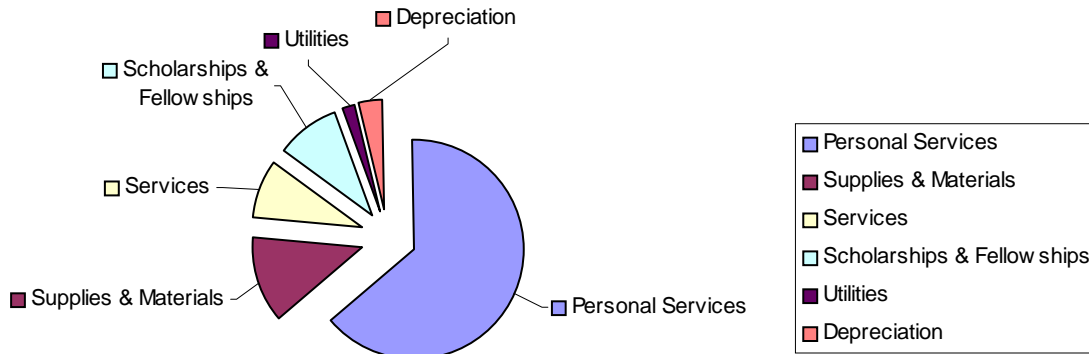
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Expenditures:**

The following chart represents expenses of Stanly Community College by activities for the fiscal year:

	<u>2004-2005</u>	<u>2003-2004</u>	<u>Change</u>
Operating Expenses:			
Personal Services	\$ 10,114,074.13	\$ 9,001,849.04	\$ 1,112,225.09
Supplies & Materials	2,021,046.37	1,558,203.43	462,842.94
Services	1,428,775.12	1,894,804.54	(466,029.42)
Scholarships & Fellowships	1,359,774.08	1,372,021.80	(12,247.72)
Utilities	258,679.66	288,876.04	(30,196.38)
Depreciation	585,810.96	511,475.64	74,335.32
<b>Total Operating Expenses</b>	<b><u>\$ 15,768,160.32</u></b>	<b><u>\$ 14,627,230.49</u></b>	<b><u>\$ 1,140,929.83</u></b>

The following is a graphic illustration of total operating expenses for June 30, 2005:



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

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### **Capital Assets:**

The College had a net increase in capital assets of \$144,204.08. The most significant increase was in construction in progress, \$479,902.93. Buildings, machinery and equipment, and general infrastructure had a net increase of \$220,423.44. These increases were offset by an increase in depreciation of \$556,122.29.

### **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.

Budget material from the North Carolina Community College System suggests that the College will receive an estimated \$169,835.00 more than the previous year's initial allocation. Management has been advised to withhold 1.5% of its State funds budget allocation for 2005-06 for possible reversions. The College has adjusted its budget accordingly. The allotment from Stanly County has increased by \$75,000.00 over the previous year.

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

Management believes the College is well-positioned to continue its strong financial condition and level of excellence.

**Stanly Community College**  
**Statement of Net Assets**  
**June 30, 2005**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 869,907.26
Restricted Cash and Cash Equivalents	516,658.77
Short-Term Investments	157,071.71
Restricted Short-Term Investments	150,000.00
Receivables (Note 4)	372,446.79
Inventories	76,551.60
	<hr/>
Total Current Assets	2,142,636.13

Noncurrent Assets:

Restricted Cash and Cash Equivalents	18,922.96
Restricted Due from Primary Government	156,409.23
Endowment Investments	677,945.15
Capital Assets - Nondepreciable (Note 5)	1,656,387.32
Capital Assets - Depreciable, Net (Note 5)	10,605,591.20
	<hr/>
Total Noncurrent Assets	13,115,255.86

Total Assets	<hr/> <hr/> 15,257,891.99
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	304,353.40
Deferred Revenue	57,962.66
Funds Held for Others	14,755.64
Long-Term Liabilities - Current Portion (Note 7)	25,915.30
	<hr/>
Total Current Liabilities	402,987.00

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	438,931.89
	<hr/>
Total Liabilities	841,918.89

**NET ASSETS**

Invested in Capital Assets	12,261,978.52
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	687,591.97
Expendable:	
Scholarships and Fellowships	62.00
Loans	13,986.80
Capital Projects	103,658.64
Other	571,232.72
Unrestricted	777,462.45
	<hr/>
Total Net Assets	\$ 14,415,973.10

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, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,454,349.88
Federal Grants and Contracts	2,552,651.87
State and Local Grants and Contracts	135,041.58
Sales and Services (Note 9)	897,955.33
Other Operating Revenues	76,482.94

Total Operating Revenues	5,116,481.60
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**EXPENSES**

Operating Expenses:

Personal Services	10,114,074.13
Supplies and Materials	2,021,046.37
Services	1,428,775.12
Scholarships and Fellowships	1,359,774.08
Utilities	258,679.66
Depreciation	585,810.96

Total Operating Expenses	15,768,160.32
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Operating Loss	(10,651,678.72)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,498,556.89
County Appropriations	1,175,000.00
Noncapital Grants	7,500.00
Noncapital Gifts	496,849.80
Investment Income, Net	36,876.51
Other Nonoperating Expenses	(23,657.87)

Net Nonoperating Revenues	10,191,125.33
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Loss Before Other Revenues	(460,553.39)
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State Capital Aid	387,931.23
County Capital Appropriations	150,000.00
Capital Grants	320,071.00
Capital Gifts	29,789.40

Increase in Net Assets	427,238.24
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**NET ASSETS**

Net Assets, July 1, 2004 as Restated (Note 16)	13,988,734.86
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Net Assets, June 30, 2005	\$ 14,415,973.10
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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, 2005**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,315,402.98
Payments to Employees and Fringe Benefits	(10,144,032.30)
Payments to Vendors and Suppliers	(3,542,644.72)
Payments for Scholarships and Fellowships	(1,661,472.97)
Collection of Loans to Students	1,684.79
Other Receipts	118,312.73
	<hr/>
Net Cash Used by Operating Activities	(9,912,749.49)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,498,556.89
County Appropriations	1,175,000.00
Noncapital Grants Received	90,567.86
Noncapital Gifts and Endowments Received	496,849.80
	<hr/>
Cash Provided by Noncapital Financing Activities	10,260,974.55

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	295,285.41
County Capital Appropriations	150,000.00
Capital Grants Received	320,071.00
Capital Gifts Received	29,789.40
Acquisition and Construction of Capital Assets	(753,946.45)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	41,199.36

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	36,876.51
Purchase of Investments and Related Fees	(221,373.80)
	<hr/>
Net Cash Used by Investing Activities	(184,497.29)

Net Increase in Cash and Cash Equivalents	204,927.13
Cash and Cash Equivalents, July 1, 2004	1,200,561.86
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 1,405,488.99

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

Operating Loss	\$ (10,651,678.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	585,810.96
Miscellaneous Nonoperating Income	273.54
Changes in Assets and Liabilities:	
Receivables, Net	(4,671.21)
Inventories	46,477.35
Notes Receivable, Net	1,684.79
Accounts Payable and Accrued Liabilities	119,379.08
Deferred Revenue	23,211.59
Funds Held for Others	(3,278.70)
Compensated Absences	(29,958.17)
	<hr/>
Net Cash Used by Operating Activities	\$ (9,912,749.49)

**Stanly Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2005**

**Exhibit A-3**  
**Page 2**

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 869,907.26
Restricted Cash and Cash Equivalents	516,658.77
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>18,922.96</u>
Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 1,405,488.99</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	\$ 92,645.82
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The accompanying notes to the financial statements are an integral part of this statement.



**STANLY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. 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 were part of the College.

**Blended Component Unit** - Although legally separate, Stanly Community College Foundation, Inc., 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 Chief Financial Office, 141 College Drive, Albemarle, NC 28001, or by calling (704) 991-0176. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

The Stanly Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Financial statements for the College and its blended presented component unit are presented as of and for the fiscal year ended June 30, 2005, except for Stanly Community College Foundation, Inc., whose financial statements are as of and for the fiscal year ended December 31, 2004.

During the year ended December 31, 2004, the Foundation distributed \$86,403.28 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Rebecca Wall, Treasurer, 141 College Drive, Albemarle, NC 28001.

- 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 petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 certificates of deposit. Certificates of deposit 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 charged 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.
- 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 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.

- 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 January 1 or for which an employee can be paid upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. 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

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,175.00, and deposits in private financial institutions with a carrying value of \$1,404,313.81 and a bank balance of \$1,495,833.93. The amount shown on the Statement of Net Assets as Short-Term Investments of \$157,071.71, Restricted Short-Term Investments of \$150,000.00, and Endowment Investments of \$677,945.15 includes certificates of deposit with private financial institutions.

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.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 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 G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, 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.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$.18 which represents the College's equity

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

### 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.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Amount</u>
<b>Current Receivables:</b>	
Students	\$ 267,357.87
Accounts	102,875.42
Pledges	<u>2,213.50</u>
<b>Total Current Receivables</b>	<u><u>\$ 372,446.79</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	\$ 1,100,137.39	\$ 0.00	\$ 0.00	\$ 1,100,137.39
Art, Literature, and Artifacts	54,747.00			54,747.00
Construction in Progress	21,600.00	479,902.93		501,502.93
<b>Total Capital Assets, Nondepreciable</b>	<b>1,176,484.39</b>	<b>479,902.93</b>		<b>1,656,387.32</b>
Capital Assets, Depreciable:				
Buildings	12,863,680.84	116,225.00		12,979,905.84
Machinery and Equipment	1,159,290.92	112,651.79	53,620.08	1,218,322.63
General Infrastructure	1,479,729.60	45,166.73		1,524,896.33
<b>Total Capital Assets, Depreciable</b>	<b>15,502,701.36</b>	<b>274,043.52</b>	<b>53,620.08</b>	<b>15,723,124.80</b>
Less Accumulated Depreciation:				
Buildings	3,308,816.18	335,242.98		3,644,059.16
Machinery and Equipment	587,334.22	146,449.60	29,688.67	704,095.15
General Infrastructure	665,260.91	104,118.38		769,379.29
<b>Total Accumulated Depreciation</b>	<b>4,561,411.31</b>	<b>585,810.96</b>	<b>29,688.67</b>	<b>5,117,533.60</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>10,941,290.05</b>	<b>(311,767.44)</b>	<b>23,931.41</b>	<b>10,605,591.20</b>
<b>Capital Assets, Net</b>	<b>\$ 12,117,774.44</b>	<b>\$ 168,135.49</b>	<b>\$ 23,931.41</b>	<b>\$ 12,261,978.52</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 164,889.02
Accrued Payroll	120,231.38
Contract Retainage	19,233.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 304,353.40</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 494,805.36	\$ 390,247.74	\$ 420,205.91	\$ 464,847.19	\$ 25,915.30



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 35,377.44
2007	33,173.24
2008	<u>2,727.70</u>
Total Minimum Lease Payments	<u>\$ 71,278.38</u>

Rental expense for all operating leases during the year was \$115,026.32.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	\$ 1,861,122.16	\$ 406,772.28	\$ 1,454,349.88
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Vending	\$ 5,575.67	\$ 0.00	\$ 5,575.67
Bookstore	1,010,598.48	175,709.79	834,888.69
Other	53,388.97		53,388.97
Sales and Services of Education and Related Activities	<u>4,102.00</u>		<u>4,102.00</u>
<b>Total Sales and Services</b>	<u>\$ 1,073,665.12</u>	<u>\$ 175,709.79</u>	<u>\$ 897,955.33</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,159,069.95	\$ 1,089,225.28	\$ 531,756.55	\$ 243,305.87	\$ 0.00	\$ 0.00	\$ 8,023,357.65
Academic Support	706,528.44	42,966.00	56,314.62				805,809.06
Student Services	705,057.02	37,134.89	103,699.91	(378,620.28)			467,271.54
Institutional Support	2,010,841.21	136,214.49	472,051.42	89,687.91			2,708,795.03
Operations and Maint of Plant	390,131.20	120.80	186,118.57		258,679.66		835,050.23
Student Financial Aid			3,695.00	1,405,400.58			1,409,095.58
Auxiliary Enterprises	142,446.31	715,384.91	75,139.05				932,970.27
Depreciation						585,810.96	585,810.96
Total Operating Expenses	<u>\$ 10,114,074.13</u>	<u>\$ 2,021,046.37</u>	<u>\$ 1,428,775.12</u>	<u>\$ 1,359,774.08</u>	<u>\$ 258,679.66</u>	<u>\$ 585,810.96</u>	<u>\$ 15,768,160.32</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 G.S. 135-5 and G.S. 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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$8,558,492.25, of which \$7,051,894.52 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$423,113.93 and \$153,026.11, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$153,026.11, \$13,336.63, and \$0.00, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. There were no voluntary contributions by employees for the year ended June 30, 2005.

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 \$143,383.00 for the year ended June 30, 2005.

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 \$26,948.00 for the year ended June 30, 2005.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2005, the College's total contribution to the Plan was \$225,660.62. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$31,380.93. 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$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.

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 and a \$50,000 deductible. Losses from employees paid from County and Institutional funds are covered by a \$100,000.00 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$239,061.50 and on other purchases were \$115,451.48 at June 30, 2005.
- 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 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 \$409,851.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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### **NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

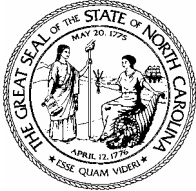
### **NOTE 16 - NET ASSET RESTATEMENT**

As of July 1, 2004, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2004 Net Assets as Previously Reported	\$ 13,849,494.78
Restatement:	
Foundation Capital Assets	<u>139,240.08</u>
July 1, 2004 Net Assets as Restated	<u><u>\$ 13,988,734.86</u></u>

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

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**Office of the State Auditor**

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**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**

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Board of Trustees  
Stanly Community College  
Albemarle, North Carolina

We have audited the financial statements of Stanly Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated April 7, 2006. We did not audit the financial statements of Stanly Community College Foundation, Inc., which represent 16.6 percent, 16.3 percent, and 2.2 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 Stanly Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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 Stanly Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Stanly 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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

**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)**

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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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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, the State Board of Community Colleges, management 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

April 7, 2006

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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