



STATE OF NORTH CAROLINA

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

STANLY COMMUNITY COLLEGE

ALBEMARLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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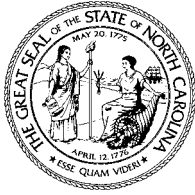
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2010, 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 disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

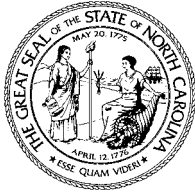
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Stanly Community College
Albemarle, North Carolina

We have audited the accompanying financial statements of Stanly Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Stanly Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the component unit, are 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 opinions.

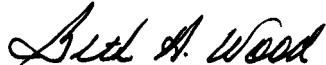
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stanly Community College and its discretely presented component unit as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

June 28, 2011

STANLY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Stanly Community College's Financial Statements provides an overview of the College's financial activities for the fiscal year ended June 30, 2010, with comparative data for the fiscal year ended June 30, 2009. Information contained herein has been prepared for the purpose of identifying significant transactions, trends, and events that have impacted the fiscal health of the College and that may continue to exert influence in future years. It is recommended that this discussion and analysis be read in conjunction with the College's basic financial statements and notes to the financial statements.

Overview of the Financial Statements

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

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

These three basic financial statements provide information on the whole operations of the College. Management's Discussion and Analysis will concentrate on the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets.

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 an example 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

For Fiscal Years Ended June 30, 2010, and June 30, 2009:

	<u>2009-2010</u>	<u>2008-2009</u> (as restated)	<u>%</u> <u>Change</u>	<u>Increase</u> <u>(Decrease)</u>
Assets				
Current Assets	\$ 1,663,799.05	\$ 1,069,895.03	55.51%	\$ 593,904.02
Noncurrent Assets	14,414.97	275,000.00	-94.76%	(260,585.03)
Capital Assets	<u>11,188,488.30</u>	<u>11,162,289.30</u>	0.23%	<u>26,199.00</u>
Total Assets	<u>12,866,702.32</u>	<u>12,507,184.33</u>	2.87%	<u>359,517.99</u>
Liabilities				
Current Liabilities	1,172,780.18	759,288.51	54.46%	413,491.67
Noncurrent Liabilities	<u>563,465.33</u>	<u>552,931.29</u>	1.91%	<u>10,534.04</u>
Total Liabilities	<u>1,736,245.51</u>	<u>1,312,219.80</u>	32.31%	<u>424,025.71</u>
Net Assets				
Invested in Capital Assets	11,113,488.30	11,162,289.30	-0.44%	(48,801.00)
Restricted	21,041.77	32,675.23	-35.60%	(11,633.46)
Unrestricted	<u>(4,073.26)</u>	<u></u>		<u>(4,073.26)</u>
Total Net Assets	<u>\$ 11,130,456.81</u>	<u>\$ 11,194,964.53</u>	-0.58%	<u>\$ (64,507.72)</u>

Total Net Assets for the College decreased by \$64,507.72 from the prior year's restated balance due to a combination of increases and decreases in assets and liabilities.

Current Assets increased by \$593,904.02, primarily in the area of restricted cash and receivables. During the fiscal year ended June 30, 2010, the College received a large grant from the Cannon Foundation and became the fiscal agent for the Statewide EBS Consortium which resulted in an increase in restricted cash and cash equivalents. The increase in receivables was mainly a result of the increase in student enrollment and an increase in the accounts receivable for bookstore vendors. Inventories decreased slightly.

Noncurrent assets decreased by \$260,585.03 as a result of a decrease of Advance Planning Construction funds due from the North Carolina Community College System and the expiration of two Golden Leaf Foundation grants.

Current liabilities increased by \$413,491.67, primarily due to increases in funds held for others and long-term liabilities over the previous year. The increase in funds held for others was a result of the College becoming the fiscal agent for the Statewide EBS Consortium. The increase in long-term liabilities resulted from the financing for the Gateway Project through the Stanly Community College Foundation.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
for the Fiscal Years Ended June 30, 2010, and June 30, 2009**

	<u>2009-2010</u>	<u>2008-2009 as restated</u>	<u>% Change</u>	<u>Increase (Decrease)</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 2,271,587.55	\$ 1,671,557.87	35.90%	\$ 600,029.68
Federal Grants and Contracts	96,037.33	213,419.09	-55.00%	(117,381.76)
State and Local Grants and Contracts	20,964.84	382,264.72	-94.52%	(361,299.88)
Sales and Services, Net	1,177,362.26	922,491.59	27.63%	254,870.67
Other Operating Revenues	160,396.13	40,504.49	296.00%	119,891.64
Total Operating Revenues	<u>3,726,348.11</u>	<u>3,230,237.76</u>	15.36%	<u>496,110.35</u>
Less Total Operating Expenses	<u>23,816,695.36</u>	<u>20,520,449.17</u>	16.06%	<u>3,296,246.19</u>
Operating Loss	<u>(20,090,347.25)</u>	<u>(17,290,211.41)</u>	16.19%	<u>(2,800,135.84)</u>
Nonoperating and Other Revenues				
State Aid	10,973,625.74	11,644,805.66	-5.76%	(671,179.92)
County Appropriations	1,326,360.00	1,332,857.00	-0.49%	(6,497.00)
Noncapital Grants	6,715,813.18	3,521,874.96	90.69%	3,193,938.22
Noncapital Gifts	109,919.48	132,773.79	-17.21%	(22,854.31)
Investment Income	1,734.29	2,231.25	-22.27%	(496.96)
Other Nonoperating Revenues	84.97	110,691.76	-99.92%	(110,606.79)
Net Nonoperating Revenues	<u>19,127,537.66</u>	<u>16,745,234.42</u>	14.23%	<u>2,382,303.24</u>
Loss Before Other Revenues	<u>(962,809.59)</u>	<u>(544,976.99)</u>	76.67%	<u>(417,832.60)</u>
State Capital Appropriations	472,547.59	322,918.75	46.34%	149,628.84
County Capital Appropriations	174,997.00	175,000.00	0.00%	(3.00)
Capital Grants	235,809.21		100.00%	235,809.21
Capital Gifts	14,948.07		100.00%	14,948.07
Increase (Decrease) in Net Assets	<u>(64,507.72)</u>	<u>(47,058.24)</u>	37.08%	<u>(17,449.48)</u>
Net Assets - Beginning of Year	<u>11,194,964.53</u>	<u>11,161,361.07</u>	0.30%	<u>33,603.46</u>
Restatement (Note 16)		80,661.70	-100.00%	(80,661.70)
Net Assets - End of Year	<u>\$ 11,130,456.81</u>	<u>\$ 11,194,964.53</u>	-0.58%	<u>\$ (64,507.72)</u>

Operating revenues increased by \$496,110.35, or 16%, primarily due to increases in tuition and fees, sales and services, and other operating revenues. Tuition and fees income increased by \$600,029.68, Sales and Services income increased by \$254,870.67, and Other Operating Revenues increased by \$119,891.64. These increases are primarily due to the increases in enrollment. Federal grants and contracts decreased by \$117,381.76 and State Grants and Contracts decreased by \$361,299.88 due to the expiration of the Golden Leaf grant funds.

Nonoperating revenues increased by \$2,382,303.24, primarily due to an increases in Federal PELL award and increases in funds received for the North Carolina Lottery and NC EARN scholarships. The largest decrease was for the reduction of State Aid due to State budget constraints.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

The following chart represents expenses of Stanly Community College by activities for the fiscal years ended June 30, 2010 and June 30, 2009:

	2009-10	2008-09	% Change	Increase (Decrease)
Salaries & Benefits	\$ 14,835,746.43	\$ 13,962,733.94	6.25%	\$ 873,012.49
Supplies & Materials	2,846,936.00	1,958,220.36	45.38%	888,715.64
Services	1,296,795.06	1,450,527.56	-10.60%	(153,732.50)
Scholarships & Fellowships	3,718,274.88	2,144,079.22	73.42%	1,574,195.66
Utilities	410,086.49	352,396.20	16.37%	57,690.29
Depreciation	708,856.50	652,491.89	8.64%	56,364.61
Total Operating Expenses	\$ 23,816,695.36	\$ 20,520,449.17	16.06%	\$ 3,296,246.19

Operating expenses increased by \$3,296,246.19 or 16%, due primarily to expense increases in Salaries and Benefits, Supplies and Materials, and Scholarships and Fellowships. The increase in Salaries and Benefits was the result of new hires, raises, and increases in health and retirement contributions. Supplies and Materials expenses increased due to the expiration of the budget freeze imposed in the prior year and due to increased enrollment at the College. Increased enrollment also resulted in increased Scholarship and Fellowship expenses.

Capital Assets

At June 30, 2010, the College's capital assets totaled \$11,188,488.30, net of accumulated depreciation of \$7,337,250.16. This balance was greater than the restated net capital asset balance of \$11,162,289.30, presented on the College's June 30, 2009 financial statements. Details of capital assets at June 30, 2010, and June 30, 2009, are shown below:

	2009-2010	2008-2009 (as restated)	Increase (Decrease)
Capital Assets, Nondepreciable:			
Land	\$ 705,187.38	\$ 618,443.39	\$ 86,743.99
Construction In Progress	110,356.88		110,356.88
Total Capital Assets, Nondepreciable	815,544.26	618,443.39	197,100.87
Capital Assets, Depreciable (Net):			
Buildings	8,783,566.03	9,119,461.82	(335,895.79)
General Infrastructure	564,857.49	616,477.66	(51,620.17)
Machinery and Equipment	1,024,520.52	807,906.43	216,614.09
Total Capital Assets, Depreciable, Net	10,372,944.04	10,543,845.91	(170,901.87)
Total Capital Assets	\$ 11,188,488.30	\$ 11,162,289.30	\$ 26,199.00

Analysis of the Overall Financial Position

Stanly Community College is well positioned to meet the needs of its growing community. The College strives to maintain a strong financial base and will continue to be an asset to its service area for many years.

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. The College received its 2010-2011 State budget allocation of \$17,351,675 in August 2010. While this represented an increase of \$2,167,395 or 14%, from the previous years initial allocation, Colleges were instructed to immediately revert a portion of their formula budget (less projected receipts) as a Management Flexibility Reduction. For Stanly Community College, this reversion amounted to \$499,262. Further, each college was instructed to hold 2% of their remaining funds in reserves for possible future reductions.

Stanly Community College experienced enrollment growth of nearly 16% for the 2009-10 academic year. Full-Time Equivalent (FTE) enrollment for Fall 2010 is anticipated to increase by approximately 4%.

The College received county appropriations of \$1,449,830 for 2010-2011. This decrease amounted to \$51,527, or 3% over the 2009-10 fiscal year.

Stanly Community College has begun several new initiatives. The JobsNow program, begun in Fall 2009, is a federally funded program with allocations to each college for short-term job training. This funding stream is available for a 16-month period and is designed to fund instructional and administrative costs for short-term continuing education courses. Stanly Community College has offered nine different programs under this funding program.

A new program that has begun in the Continuing Education area is the Heavy Equipment Operator program. This program is designed to provide training for individuals to obtain job skills in the construction industry. This program was made possible through two grants from the Golden Leaf Foundation. The program provides both simulated and hands-on training in the operation of several pieces of earth-moving equipment.

Despite the economic downturn that has impacted all of the Community Colleges, Stanly Community College continues to provide much needed training and a diverse range of course offerings.

Stanly Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 467,070.00
Restricted Cash and Cash Equivalents	437,970.16
Receivables, Net (Note 3)	593,563.22
Inventories	165,195.67
	<hr/>
Total Current Assets	1,663,799.05

Noncurrent Assets:

Restricted Due from Primary Government	14,414.97
Capital Assets - Nondepreciable (Note 4)	815,544.26
Capital Assets - Depreciable, Net (Note 4)	10,372,944.04
	<hr/>
Total Noncurrent Assets	11,202,903.27

Total Assets	<hr/> <hr/> 12,866,702.32
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	564,104.26
Unearned Revenue	314,945.50
Funds Held for Others	160,985.20
Long-Term Liabilities - Current Portion (Note 6)	132,745.22
	<hr/>
Total Current Liabilities	1,172,780.18

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 563,465.33
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Total Noncurrent Liabilities	<hr/> 563,465.33
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Total Liabilities	<hr/> <hr/> 1,736,245.51
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	11,113,488.30
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Restricted for:

Expendable:

Loans	12,722.04
Capital Projects	412.30
Other	7,907.43

Unrestricted	<hr/> (4,073.26)
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Total Net Assets	<hr/> <hr/> <hr/> \$ 11,130,456.81
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The accompanying notes to the financial statements are an integral part of this statement.

***Stanly Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 2,271,587.55
Federal Grants and Contracts	96,037.33
State and Local Grants and Contracts	20,964.84
Sales and Services, Net (Note 9)	1,177,362.26
Other Operating Revenues	160,396.13
	<hr/>
Total Operating Revenues	3,726,348.11
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EXPENSES

Operating Expenses:	
Salaries and Benefits	14,835,746.43
Supplies and Materials	2,846,936.00
Services	1,296,795.06
Scholarships and Fellowships	3,718,274.88
Utilities	410,086.49
Depreciation	708,856.50
	<hr/>
Total Operating Expenses	23,816,695.36
	<hr/>
Operating Loss	(20,090,347.25)
	<hr/>

NONOPERATING REVENUES

State Aid	10,973,625.74
County Appropriations	1,326,360.00
Noncapital Grants - Federal Student Financial Aid	5,740,243.05
Noncapital Grants	975,570.13
Noncapital Gifts	109,919.48
Investment Income	1,734.29
Other Nonoperating Revenues	84.97
	<hr/>
Net Nonoperating Revenues	19,127,537.66
	<hr/>
Loss Before Other Revenues	(962,809.59)
	<hr/>
State Capital Aid	472,547.59
County Capital Aid	174,997.00
Capital Grants	235,809.21
Capital Gifts	14,948.07
	<hr/>
Decrease in Net Assets	(64,507.72)
	<hr/>

NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 16)	11,194,964.53
	<hr/>
Net Assets, June 30, 2010	\$ 11,130,456.81
	<hr/> <hr/>

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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,510,171.15
Payments to Employees and Fringe Benefits	(14,746,784.40)
Payments to Vendors and Suppliers	(4,443,567.43)
Payments for Scholarships and Fellowships	(3,718,274.88)
Other Receipts	181,494.58
	<hr/>
Net Cash Provided Used by Operating Activities	(19,216,960.98)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,973,625.74
County Appropriations	1,326,360.00
Noncapital Grants - Federal Student Financial Aid	5,740,243.05
Noncapital Grants Received	1,187,837.28
Noncapital Gifts	109,919.48
	<hr/>
Cash Provided by Noncapital Financing Activities	19,337,985.55

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	548,132.62
County Capital Aid	174,997.00
Capital Grants Received	235,809.21
Acquisition and Construction of Capital Assets	(688,780.30)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	270,158.53

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,734.29
	<hr/>
Cash Provided by Investing Activities	1,734.29

Net Increase in Cash and Cash Equivalents	593,193.69
Cash and Cash Equivalents, July 1, 2009	311,846.47
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 905,040.16

Stanly Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (20,090,347.25)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	708,856.50
Miscellaneous Nonoperating Income	43,757.84
Changes in Assets and Liabilities:	
Receivables, Net	(193,802.35)
Inventories	1,399.63
Accounts Payable and Accrued Liabilities	149,863.57
Unearned Revenue	(22,374.61)
Funds Held for Others	137,736.74
Compensated Absences	47,948.95
Net Cash Used by Operating Activities	<u>\$ (19,216,960.98)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 467,070.00
Restricted Cash and Cash Equivalents	<u>437,970.16</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 905,040.16</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 75,000.00
Assets Acquired through a Gift	14,948.07
Increase in Receivables Related to Nonoperating Income	8,583.91
Capital Asset Write-Offs	219,424.38

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

Stanly Community College Foundation, Inc.
Statement of Financial Position
December 31, 2009

Exhibit B-1

ASSETS:

Cash and Cash Equivalents	\$ 485,213.00
Investments	1,224,701.00
Pledges Receivable	4,523.00
Accounts Receivable	72,125.00
Interest Receivable	50,918.00
Property and Equipment, Net	<u>1,082,329.00</u>
Total Assets	<u>\$ 2,919,809.00</u>

LIABILITIES:

Accounts Payable	<u>\$ 2,345.00</u>
Total Liabilities	<u>2,345.00</u>

NET ASSETS:

Unrestricted	698,969.00
Temporarily Restricted	732,887.00
Permanently Restricted	<u>1,485,608.00</u>
Total Net Assets	<u>2,917,464.00</u>
Total Liabilities and Net Assets	<u>\$ 2,919,809.00</u>

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

Stanly Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended December 31, 2009

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT:				
Contributions	\$ 6,404.00	\$ 203,205.00	\$ 30,494.00	\$ 240,103.00
Less: Estimated Uncollectible	(1,411.00)			(1,411.00)
Interest Income	6,143.00	50,339.00		56,482.00
Fund Raisers and Seminars		33,680.00		33,680.00
Other	129.00			129.00
Net Assets Released from Restrictions				
Satisfaction of Purpose Restrictions	299,491.00	(299,491.00)		
Total Revenues and Other Support	<u>310,756.00</u>	<u>(12,267.00)</u>	<u>30,494.00</u>	<u>328,983.00</u>
EXPENSES:				
Program Services	278,347.00			278,347.00
General and Administrative	62,241.00			62,241.00
Fund Raisers	8,409.00			8,409.00
Total Expenses	<u>348,997.00</u>			<u>348,997.00</u>
Changes in Net Assets	<u>(38,241.00)</u>	<u>(12,267.00)</u>	<u>30,494.00</u>	<u>(20,014.00)</u>
NET ASSETS:				
Beginning of Year, as Previously Reported	735,824.00	746,540.00	1,455,114.00	2,937,478.00
Prior Year Adjustment	1,386.00	(1,386.00)		
Beginning of Year, as Restated	<u>737,210.00</u>	<u>745,154.00</u>	<u>1,455,114.00</u>	<u>2,937,478.00</u>
End of Year	<u>\$ 698,969.00</u>	<u>\$ 732,887.00</u>	<u>\$ 1,485,608.00</u>	<u>\$ 2,917,464.00</u>

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

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STANLY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

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 (GAAP), 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - The Stanly Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of thirteen members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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 the Governmental Accounting Standards Board (GASB) revenue

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 discretely presented component unit are presented as of and for the fiscal year ended June 30 010, except for the Stanly Community College Foundation, Inc. whose financial statements are as of and for the fiscal year ended December 31, 2009.

During the year ended June 30, 2010, the Foundation distributed \$246,187.72 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, money market accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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. 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.
- G. 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. 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 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

Restricted Net Assets – 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- L. 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' 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.
- M. 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.
- N. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as bookstores. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

- 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 by the College.

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 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 \$1,675.00, and deposits in private financial institutions with a carrying value of \$900,336.11 and a bank balance of \$1,035,351.77.

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, 2010, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,029.05 which represents the College's equity 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$ 1,675.00
Carrying Amount of Deposits with Private Financial Institutions	900,336.11
Investments in the Short Term Investment Fund	<u>3,029.05</u>
Total Deposits and Investments	<u>\$ 905,040.16</u>
Current:	
Cash and Cash Equivalents	\$ 467,070.00
Restricted Cash and Cash Equivalents	<u>437,970.16</u>
Total	<u>\$ 905,040.16</u>

Component Unit - Investments of the College's discretely presented component unit, the Stanly Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Stanly Community College Foundation, Inc. reports under the FASB reporting model, disclosures of the various investment risks are not required.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Current investment in savings consists of three certificates of deposit whose maturity dates and penalty for withdrawal conditions do not meet the requirements of FAS-ASC 230-10-05 for classification as cash equivalents. The current certificates have maturity dates of one, twelve, and thirteen months from the year-end of December 31, 2009; the interest rates range from 2.10% to 4.50%. Additionally, the Stanly Community College Foundation, Inc. has invested in the State Treasurer's Short Term Investment Fund.

All investments are valued in the financial statements at fair value based on publicly available trading values. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. The fair value of the investments held by the fiscal agent at December 31, 2009, compared to their original cost basis was as follows:

	Cost	Carrying Value	Fair Value
Certificates of Deposit	\$ 1,224,701.00	\$ 1,224,701.00	\$ 1,224,701.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 488,830.18	\$ 45,004.48	\$ 443,825.70
Accounts	107,869.10		107,869.10
Intergovernmental	32,145.35		32,145.35
Other	9,723.07		9,723.07
Total Current Receivables	\$ 638,567.70	\$ 45,004.48	\$ 593,563.22

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 618,443.39	\$ 86,743.99	\$ 0.00	\$ 705,187.38
Construction in Progress		110,356.88		110,356.88
Total Capital Assets, Nondepreciable	<u>618,443.39</u>	<u>197,100.87</u>		<u>815,544.26</u>
Capital Assets, Depreciable:				
Buildings	14,330,296.12	32,960.00	28,687.78	14,334,568.34
Machinery and Equipment	1,659,872.93	508,260.86	190,736.60	1,977,397.19
General Infrastructure	1,357,822.03	40,406.64		1,398,228.67
Total Capital Assets, Depreciable	<u>17,347,991.08</u>	<u>581,627.50</u>	<u>219,424.38</u>	<u>17,710,194.20</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	5,210,834.30	364,393.05	24,225.04	5,551,002.31
Machinery and Equipment	851,966.50	252,436.64	151,526.47	952,876.67
General Infrastructure	741,344.37	92,026.81		833,371.18
Total Accumulated Depreciation	<u>6,804,145.17</u>	<u>708,856.50</u>	<u>175,751.51</u>	<u>7,337,250.16</u>
Total Capital Assets, Depreciable, Net	<u>10,543,845.91</u>	<u>(127,229.00)</u>	<u>43,672.87</u>	<u>10,372,944.04</u>
Capital Assets, Net	<u>\$ 11,162,289.30</u>	<u>\$ 69,871.87</u>	<u>\$ 43,672.87</u>	<u>\$ 11,188,488.30</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 224,474.57
Accrued Payroll	256,513.57
Intergovernmental Payables	83,116.12
Total Accounts Payable and Accrued Liabilities	<u>\$ 564,104.26</u>

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Additions	Reductions	Balance June 30, 2010	Current Portion
Notes Payable	\$ 0.00	\$ 75,000.00	\$ 0.00	\$ 75,000.00	\$ 50,000.00
Compensated Absences	604,353.96	417,152.41	400,295.82	621,210.55	82,745.22
Total Long-Term Liabilities	<u>\$ 604,353.96</u>	<u>\$ 492,152.41</u>	<u>\$ 400,295.82</u>	<u>\$ 696,210.55</u>	<u>\$ 132,745.22</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Gateway Project	Stanly Community College Foundation, Inc.	2.00%	07/01/2013	\$ 75,000.00	\$ 0.00	\$ 75,000.00

The annual requirements to pay principal and interest on notes payable at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2011	\$ 50,000.00	\$ 1,500.00
2012	25,000.00	500.00
Total Requirements	<u>\$ 75,000.00</u>	<u>\$ 2,000.00</u>

NOTE 7 - LEASE OBLIGATIONS

Operating Lease Obligations - The College entered into operating leases for equipment and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 105,597.12
2012	90,823.32
2013	72,450.12
2014	32,965.61
Total Minimum Lease Payments	<u>\$ 301,836.17</u>

Rental expense for all operating leases during the year was \$177,485.15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenues under the noncancelable operating lease related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 44,310.96
2012	44,310.96
2013	44,310.96
2014	44,310.96
2015	44,310.96
2016-2020	221,554.80
2021-2025	221,554.80
2026-2030	221,554.80
2031-2035	221,554.80
2036	44,310.96
Total Minimum Lease Payments	\$ 1,152,084.96

Rental revenue for the operating lease during the year was \$44,310.96.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	\$ 3,994,673.30	\$ 0.00	\$ 1,698,184.83	\$ 24,900.92	\$ 2,271,587.55
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	\$ 7,692.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,692.33
Bookstore	2,006,845.99	4,263.40	956,068.27	20,103.56	1,026,410.76
Other	143,259.17				143,259.17
Total Sales and Services	\$ 2,157,797.49	\$ 4,263.40	\$ 956,068.27	\$ 20,103.56	\$ 1,177,362.26

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	\$ 9,288,555.97	\$ 790,205.75	\$ 170,955.64	\$ 0.00	\$ 2,452.83	\$ 0.00	\$ 10,252,170.19
Academic Support	1,565,860.04	55,172.55	71,726.68				1,692,759.27
Student Services	1,004,181.64	20,958.02	127,005.33				1,152,144.99
Institutional Support	2,271,697.59	180,735.37	512,287.63				2,964,720.59
Operations and Maintenance of Plant	503,093.10	279,320.58	144,929.56		402,633.66		1,329,976.90
Student Financial Aid			12,382.78	3,718,274.88			3,730,657.66
Auxiliary Enterprises	202,358.09	1,520,543.73	257,507.44		5,000.00		1,985,409.26
Depreciation						708,856.50	708,856.50
Total Operating Expenses	<u>\$ 14,835,746.43</u>	<u>\$ 2,846,936.00</u>	<u>\$ 1,296,795.06</u>	<u>\$ 3,718,274.88</u>	<u>\$ 410,086.49</u>	<u>\$ 708,856.50</u>	<u>\$ 23,816,695.36</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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$12,120,863.83, of which \$9,794,561.50 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$349,665.85 and \$587,673.62, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$349,665.85, \$320,747.25, and \$277,932.31, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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.

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 \$155,702.00 for the year ended June 30, 2010.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$440,755.27, \$391,388.01, and \$373,613.92, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about these programs can be located 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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$50,931.72, \$49,639.45, and \$47,385.18, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from employee dishonesty for employees paid from county and institutional funds are covered by a private insurance company.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$2,039.28 and on other purchases were \$147,246.46 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30 010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 11,114,302.83
Restatements:	
To Correct Capital Asset Balances Expensed in Prior Years	<u>80,661.70</u>
July 1, 2009 Net Assets as Restated	<u>\$ 11,194,964.53</u>

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Beth A. Wood, CPA
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**

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, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 28, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

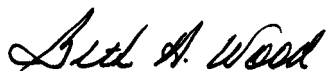
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

June 28, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control. Management's response is presented after the finding. We did not audit the response, and accordingly, we express no opinion on it. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever we disagree with an audit finding response. In accordance with this requirement and to ensure that the nature and seriousness of the finding is not minimized or misrepresented, we have provided comments to the College's response as appropriate.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Stanly Community College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Misstatements noted during our audit included:

- a. The College incorrectly classified its money market accounts as investments, resulting in the understatement of cash and cash equivalents and the overstatement of the short-term investments captions by \$201,961.
- b. The unearned revenue account was overstated and the net student tuition and fees account was understated by \$220,671 as the College failed to reverse out beginning balances related to prior year summer school tuition.
- c. The College had not properly accounted for a 2007 fiscal year restatement related to its capital assets. Audit adjustments were made to the capital assets and the related accumulated depreciation subaccounts to correct overstatements in the amounts of \$648,056 and \$662,802, respectively. The net effect of the overstatements was an understatement of depreciable capital assets account caption on the Statement of Net Assets by \$14,746. Additional audit adjustments impacted depreciation expense for the year.
- d. The current portion of long-term liabilities was understated by \$43,718 and the noncurrent portion was overstated by \$108,092 due to errors in the calculation of compensated absences and notes payable account balances. The compensated absences calculation error also resulted in an overstatement of the salaries and benefits account by \$64,374.
- e. The loss on disposal of assets written-off was presented in the supplies and materials account instead of the other nonoperating revenues (expenses) account caption, resulting in the overstatement of both accounts by \$43,673.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- f. The College's exhibits related to the discretely presented component unit, the Stanly Community College Foundation, Inc., did not agree to the information reported in the Foundation's audit report for the fiscal year ended December 31, 2009.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the accuracy and completeness of the financial statements.

College Response: In regards to the audit findings and recommendations for Stanly Community College's 2009/2010 audit we accept the June 22, 2011 report with the following responses.

Deficiencies in financial reporting:

- a. The College incorrectly classified its money market accounts as investments, resulting in the understatement of cash and cash equivalents and the overstatement of the short-term investments captions by \$201,961.

SCC Response: The College will make the change accordingly.

- b. The unearned revenue account was overstated and the net student tuition and fees account was understated by \$220,671 as the College failed to reverse out beginning balances related to prior year summer school tuition.

SCC Response: The College will put into place an additional review of all reversing entries to ensure accuracy.

- c. The College had not properly accounted for a 2007 fiscal year restatement related to its capital assets. Audit adjustments were made to the capital assets and the related accumulated depreciation subaccounts to correct overstatements in the amounts of \$648,056 and \$662,802, respectively. The net effect of the overstatements was an understatement of depreciable capital assets account caption on the Statement of Net Assets by \$14,746. Additional audit adjustments impacted depreciation expense for the year.

SCC Response: The College utilized the FXRM process as prescribed by NCCCS to extend the useful lives of Fixed Assets that were fully depreciated. This process was performed during 2006-07 and again during 2009-10. The Office of the State Auditor performed an audit during 2008 of the 2006-07 statements, and this process was reviewed. At no time was there any indication that this methodology was not correct. The OSA had no findings during that audit; therefore the College considered this an affirmation that the process was correct. Further, no updated guidance had been received by the College from NCCCS to indicate this process had been changed. That being said, the College will make the appropriate adjustments to the capital assets as presented by the OSA.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

- d. The current portion of long-term liabilities was understated by \$43,718 and the noncurrent portion was overstated by \$108,092 due to errors in the calculation of compensated absences and notes payable account balances. The compensated absences calculation error also resulted in an overstatement of the salaries and the benefits account by \$64,374.

SCC Response: The College will utilize Datatel Colleague reports for calculating Compensated Absences.

- e. The loss on disposal of assets written-off was presented in the supplies and materials account instead of the other nonoperating revenues (expenses) account caption, resulting in the overstatement of both accounts by \$43,673.

SCC Response: The College will make the appropriate changes to the Colleague program so that losses on disposals appear as non-operating expenses.

- f. The College's exhibits related to the discretely presented component unit, the Stanly Community College Foundation, Inc, did not agree to the information reported in the Foundation's audit report for the fiscal year ended December 31, 2009.

SCC Response: The SCC Foundation's audit report was not received until December 2010, several months after the College statements had been submitted, and too late to incorporate any changes to the statements as a result of the audit. The College will request that the Foundation Audit be completed in a more timely manner.

Per the recommendation, the college will place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure accuracy and completeness of the financial statements.

Auditor Comment: In isolation, the capital assets error noted in c. above would not be considered a material misstatement and therefore may not be detected in an audit. However, when considered with the other misstatements identified, there is an indication of a deficiency in internal control over financial reporting.

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