STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

Financial Statement Audit Report Of

South Piedmont Community College

Polkton, North Carolina

For the Year Ended June 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of South Piedmont Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to South Piedmont Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

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

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

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

   Finding

   1. Financial Reporting Process

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

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

We have audited the accompanying basic financial statements of South Piedmont Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Piedmont Community College as of June 30, 2002, 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 16 to the financial statements, the College implemented Governmental Accounting Standards Board 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,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* during the year ended June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2003 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

March 13, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management of South Piedmont Community College provides this Management's Discussion and Analysis for readers of the college's financial statements. This narrative overview and analysis of the financial activities of South Piedmont Community College is for the fiscal year ended June 30, 2002. We encourage readers to consider this information in conjunction with the additional information that is furnished in the College's financial statements.

Overview of the Financial Statements

The College's financial statements include three components: 1) Statement of Net Assets; 2) Statement of Revenues, Expenses, and Changes in Net Assets; and 3) Statement of Cash Flows.

As required by GASB 34 and the Office of the State Controller, the Statement of Net Assets replaces the Balance Sheet presented in prior years. The term "Net Assets" replaces "Fund Equity." The College's net assets are classified as Invested in Capital Assets, Net of Related Debt; Restricted Net Assets – Nonexpendable; Restricted Net Assets – Expendable; and Unrestricted Net Assets. Significant changes in capital asset valuation include the removal of library books and the application of accumulated depreciation.

The Statement of Revenues, Expenses, and Changes in Net Assets replaces the Statement of Changes in Fund Equity and the Statement of Current Funds Revenues, Expenditures, and Other Changes presented in prior years. As previously stated, depreciation is now presented as an operating expense under the new format.

The Statement of Cash Flows using the direct method is a new Statement mandated by GASB 34. This Statement measures cash flows from operating activities, cash flows from non-capital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. Supplemental disclosures include a reconciliation of operating loss to net cash used by operating activities and non-cash investing, capital, and financing activities.

Analysis of Financial Position

Management concludes that the College's financial position has remained stable and consistent during the past fiscal year.

Condensed Financial Information

Comparative Data

In future years, when prior year information is available, comparative analysis of key elements of the financial statements will be presented.

Analysis of Current Assets and Net Assets

For the year ended June 30, 2002, the College had a decrease in Total Net Assets in the amount of $3,180,045, or 16%. This decrease is largely due to new reporting requirements of recording all accumulated depreciation to this fiscal year's report, as well as adjusting amounts previously recorded for Artwork, Artifacts, and Literature and a decrease in State construction funds listed as a Restricted Due from Primary Government Receivable.

	2002
Assets:	
Current Assets	$ 250,272.21
Noncurrent Assets:	
Capital Assets, Net of Depreciation	14,198,219.58
Other	2,569,824.23
Total Assets	17,018,316.02
Liabilities:	
Current Liabilities	725,846.60
Noncurrent Liabilities	224,929.24
Total Liabilities	950,775.84
Net Assets:	
Invested in Capital Assets, Net of Related Debt	14,198,219.58
Restricted for:	
Expendable:	
Loans	14,182.56
Capital Projects	2,430,388.02
Other	67,011.49
Unrestricted	(642,261.27)
Total Net Assets	$ 16,067,540.38

Analysis of Liabilities

Long-term debt includes the value of accrued vacation leave of $249,921 of which $24,992 is shown as current. Accounts payable and other accrued liabilities increased by $286,752, largely due to an increase in construction project activity at the close of the fiscal year end.

	2002
Current Liabilities:	$ 700,854.46
Long-Term Liabilities – Current Portion	24,992.14
Total Current Liabilities	725,846.60
Noncurrent Liabilities:	
Long-Term Liabilities	224,929.24
Total Noncurrent Liabilities	224,929.24
Total Liabilities	$ 950,775.84

Analysis of Revenues

Total operating revenues and nonoperating revenues combined for a decrease of $2,632,721 or 5.5% from the previous year. This decrease was largely due to a decrease in State aid, which decreased by $2,426,952. The major decline in student tuition and fees is due to new reporting requirements requiring scholarship discounting. These amounts were previously also recorded as tuition and fees revenues ($686,446).

	2002
Operating Revenues:	
Student Tuition and Fees	$ 247,674.00
Federal Grants and Contracts	2,260,572.00
State and Local Grants and Contracts	55,779.00
Sales and Services, Net	372,952.80
Other Revenues	22,187.00
Total Operating Revenues	2,959,164.80
Less Operating Expenses	12,080,527.15
Operating Loss	(9,121,362.35)
Nonoperating Revenues:	
State Aid	6,725,576.04
County Appropriations	908,441.00
Noncapital Grants	198,037.00
Noncapital Gifts, Net	271,656.50
Investment Income, Net	7,412.00
State Capital Aid	349,146.00
County Capital Appropriations	20,000.00
Capital Grants	302,976.00
Capital Gifts, Net	112,167.00
Total Nonoperating Revenues	8,895,411.54
Decrease in Net Assets	$ (225,950.81)

Analysis of Expenses

Total expenses decreased at a lower rate than revenues, with $616,625, or 5% less spent than in the previous year. The decreased expenses were in the categories of personal services, services, supplies and materials, and scholarships and fellowships, which were offset by increased expenses in the categories of utilities and depreciation.

	2002
Personal Services	$ 7,941,218.59
Supplies and Materials	1,377,990.76
Services	1,042,466.00
Scholarships and Fellowships	1,000,070.80
Utilities	352,965.00
Depreciation	365,816.00
Total Expenses	$ 12,080,527.15

Analysis of Capital Assets

South Piedmont Community College's capital assets as of June 30, 2002 amount to $14,198,220, with net accumulated depreciation of $2,306,480. In addition, the College reclassified some capital assets resulting in a net reduction of $471,281. Again, this change is due primarily to library books no longer being considered a capital asset and the inclusion of accumulated depreciation.

	2002
Capital Assets:	
Land	$ 1,165,160.17
Buildings	12,193,751.81
Machinery and Equipment	971,377.56
General Infrastructure	75,500.00
Construction in Progress	2,098,909.96
Total	16,504,699.50
Less: Accumulated Depreciation	2,306,479.92
Net Capital Assets	$ 14,198,219.58

Capital Asset Activity

A number of capital construction projects were underway this fiscal year, including the Garibaldi Remodeling Project, construction of the Learning Resources Center, and the major renovation of the Lockhart Taylor Continuing Education Center. The Lockhart Taylor Center Project (Continuing Education Center Renovations – Project # 932B) is the first of several planned construction projects as approved by the North Carolina General Assembly general obligation bond issuance in 1999-2000.

Economic Factors and Next Year's Budget

The State of North Carolina has experienced a revenue shortfall during the past two years and this may have a significant impact on future budgets. The College is required to hold back 6% of its State allocation, $460,000, as a potential reversion in the expectation of continued revenue shortfalls. This revenue shortfall also directly affects the potential funding of the counties that support South Piedmont Community College.

South Piedmont Community College		
Statement of Net Assets		
June 30, 2002		***Exhibit A***
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	6,061.90
Restricted Cash and Cash Equivalents		34,678.10
Receivables, Net (Note 4)		118,737.21
Inventories		90,795.00
Total Current Assets		250,272.21
Noncurrent Assets:		
Restricted Due from Primary Government		2,545,963.73
Endowment Investments		23,860.50
Capital Assets, Net (Note 5)		14,198,219.58
Total Noncurrent Assets		16,768,043.81
Total Assets		17,018,316.02
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		695,347.46
Funds Held for Others		5,507.00
Long-Term Liabilities - Current Portion (Note 7)		24,992.14
Total Current Liabilities		725,846.60
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		224,929.24
Total Noncurrent Liabilities		224,929.24
Total Liabilities		950,775.84
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		14,198,219.58
Restricted for:		
Expendable:		
Loans		14,182.56
Capital Projects		2,430,388.02
Other		67,011.49
Unrestricted		(642,261.47)
Total Net Assets	$	16,067,540.18

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

South Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Exhibit B

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	247,674.00
Federal Grants and Contracts		2,260,572.00
State and Local Grants and Contracts		55,779.00
Sales and Services, Net (Note 9)		372,952.80
Other Operating Revenues		22,187.00
Total Operating Revenues		2,959,164.80
EXPENSES		
Operating Expenses:		
Personal Services		7,941,218.59
Supplies and Materials		1,377,990.76
Services		1,042,466.00
Scholarships and Fellowships		1,000,070.80
Utilities		352,965.00
Depreciation		365,816.00
Total Operating Expenses		12,080,527.15
Operating Loss		(9,121,362.35)
NONOPERATING REVENUES		
State Aid		6,725,576.04
County Appropriations		908,441.00
Noncapital Grants		198,037.00
Noncapital Gifts		271,656.50
Investment Income		7,412.00
Net Nonoperating Revenues		8,111,122.54
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,010,239.81)
State Capital Aid		349,146.00
County Capital Appropriations		20,000.00
Capital Grants		302,976.00
Capital Gifts		112,167.00
Decrease in Net Assets		(225,950.81)
NET ASSETS		
Net Assets, July 1, 2001 as Restated		16,293,490.99
Net Assets, June 30, 2002	$	16,067,540.18

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

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002 ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	3,077,653.81
Payments to Employees and Fringe Benefits		(7,978,296.47)
Payments to Vendors and Suppliers		(2,433,575.94)
Payments for Scholarships and Fellowships		(1,000,070.80)
Other Payments		(4,956.00)
Net Cash Used by Operating Activities		(8,339,245.40)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,725,576.04
County Appropriations		908,441.00
Noncapital Grants Received		478,911.82
Noncapital Gifts and Endowments Received		271,656.50
Net Cash Provided by Noncapital Financing Activities		8,384,585.36
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		349,146.00
County Capital Appropriations		20,000.00
Capital Grants Received		2,564,685.12
Capital Gifts Received		112,167.00
Proceeds from Sale of Capital Assets		6,082.01
Acquisition and Construction of Capital Assets		(3,299,926.54)
Net Cash Used by Capital and Related Financing Activities		(247,846.41)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales and Maturities of Investments		121,596.05
Interest on Investments		7,412.00
Purchase of Investments and Related Fees		(23,860.50)
Net Cash Provided by Investing Activities		105,147.55
Net Decrease in Cash and Cash Equivalents		(97,358.90)
Cash and Cash Equivalents, July 1, 2001		138,098.90
Cash and Cash Equivalents, June 30, 2002	$	40,740.00
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(9,121,362.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		365,816.00
Changes in Assets and Liabilities:		
Receivables, Net		118,489.01
Inventories		27,345.45
Accounts Payable and Accrued Liabilities		266,716.27
Funds Held for Others		(4,956.00)
Compensated Absences		8,706.22
Net Cash Used by Operating Activities	$	(8,339,245.40)

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

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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. South Piedmont 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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,* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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.

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.

D. **Cash and Cash Equivalents –** This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.

E. **Investments** - This classification includes equity investments and certificates of deposit. Except for certificates of deposit, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. **Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from 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 providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

H. **Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

I. Restricted Assets – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

J. Noncurrent Long-Term Liabilities – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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

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

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' 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 presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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

A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Cash and

Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $800.00. The carrying amount of cash on deposit was $59,940.00 and the bank balance was $74,323.86. All of the cash was on 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.

Of the cash on deposit with private financial institutions at June 30, 2002, $74,323.86 of the bank balance was covered by federal depository insurance.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies;

repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2002 is presented below:

	Fair Value			
	Risk Category			
	1	2	3	Total
Investments Categorized:				
U.S. Government Securities	$ 3,860.00	$ 0.00	$ 0.00	$ 3,860.00
Investments Not Categorized:				
Certificates of Deposit				20,000.00
Total Investments				$ 23,860.00

The above certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 116,458.72	$ 25,720.62	$ 90,738.10
Pledges	22,926.75		22,926.75
Other	5,072.36		5,072.36
Total Current Receivables	$ 144,457.83	$ 25,720.62	$ 118,737.21

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Adjustments	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:					
Land	$ 1,165,160.17	$ 0.00	$ 0.00	$ 0.00	$ 1,165,160.17
Construction in Progress	687,374.58	(1,828,332.81)	3,239,868.19		2,098,909.96
Total Capital Assets, Non-Depreciable	1,852,534.75	(1,828,332.81)	3,239,868.19		3,264,070.13
Capital Assets, Depreciable:					
Buildings	10,365,419.00	1,828,332.81			12,193,751.81
Machinery and Equipment	924,530.98		60,058.35	13,211.77	971,377.56
General Infrastructure	75,500.00				75,500.00
Total Capital Assets, Depreciable	11,365,449.98	1,828,332.81	60,058.35	13,211.77	13,240,629.37
Less Accumulated Depreciation:					
Buildings	1,448,461.12		274,256.76		1,722,717.88
Machinery and Equipment	484,232.10		86,525.84	7,129.50	563,628.44
General Infrastructure	15,100.20		5,033.40		20,133.60
Total Accumulated Depreciation	1,947,793.42		365,816.00	7,129.50	2,306,479.92
Total Capital Assets, Depreciable, Net	9,417,656.56	1,828,332.81	(305,757.65)	6,082.27	10,934,149.45
Capital Assets, Net	$ 11,270,191.31	$ 0.00	$ 2,934,110.54	$ 6,082.27	$ 14,198,219.58

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	$ 559,302.67
Accrued Payroll	136,044.79
Total Accounts Payable and Accrued Liabilities	$ 695,347.46

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Compensated Absences	$ 241,215.16	$ 212,485.76	$ 203,779.54	$ 249,921.38	$ 24,992.14

NOTE 8 - OPERATING LEASES

Rental expense for all operating leases that expired during the year was $19,200.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 945,937.00	$ 686,446.00	$ 11,817.00	$ 247,674.00
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 619,971.00	$ 233,114.20	$ 13,904.00	$ 372,952.80

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,832,809.95	$ 194,661.00	$ 284,973.00	$ 0.00	$ 0.00	$ 0.00	$ 5,312,443.95
Academic Support	847,393.98	47,943.00	90,341.00				985,677.98
Student Services	612,241.81	29,640.00	6,975.00				648,856.81
Institutional Support	1,383,737.40	579,939.76	41,623.00				2,005,300.16
Operations and Maintenance of Plant	220,398.45	68,450.00	577,883.00		352,965.00		1,219,696.45
Student Financial Aid				1,000,070.80			1,000,070.80
Auxiliary Enterprises	44,637.00	457,357.00	40,671.00				542,665.00
Depreciation						365,816.00	365,816.00
Total Operating Expenses	$ 7,941,218.59	$ 1,377,990.76	$ 1,042,466.00	$ 1,000,070.80	$ 352,965.00	$ 365,816.00	$ 12,080,527.15

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 multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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, 2002, these rates were set at

1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of $6,665,616.30, of which $5,676,607.66 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $340,596.47 and $111,829.17, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $111,829.17, $284,859.35, and $417,254.43, respectively.

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

B. 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. The voluntary contributions by employees amounted to $2,042.88 for the year ended June 30, 2002.

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 $81,781.00 for the year ended June 30, 2002.

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 non-profit 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 $29,901.00 for the year ended June 30, 2002.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was $133,400.28. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. For the fiscal year ended

June 30, 2002, the College's total contribution to the DIPNC was $29,518.36. 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 $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than $10,000,000 per occurrence. The excess insurer provides property coverage up to $30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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

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

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. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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.

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 $3,488,662.00 at June 30, 2002.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued 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 $376,297.00 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.

NOTE 15 - SOUTH PIEDMONT COMMUNITY COLLEGE FOUNDATION, INC.

The South Piedmont Community College Foundation, Inc. is a separately incorporated non-profit Foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $5,000 for the year ended June 30, 2002.

NOTE 16 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, and classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 17 - NET ASSET RESTATEMENTS

As referred to in Note 16, the College implemented 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.*

July 1, 2001 Fund Equity as previously reported	$ 19,247,585.67
Implementation of GASB 34/35	(1,774,830.68)
Restatement due to corrections related to prior year implementation of GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*	(1,179,264.00)
July 1, 2001 Net Assets as Restated	$ 16,293,490.99

South Piedmont Community College
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Started							
Continuing Education Center Renovations (#932B)	Feb 2001	$ 300,000.00	$ 1,447,258.00	$ 1,747,258.00	$ 1,605,275.83	91.87%	Aug 2002
Renovations to the Continuing Ed Ctr. - Union (#1166)	Jan 2002	300,000.00	2,756,430.00	3,056,430.00	15,600.00	0.51%	Dec 2003
Projects Pending Approval by the State Board							
Union Campus Renovations	Jul 2003	79,723.00		79,723.00			Mar 2004
Total All Projects		$ 679,723.00	$ 4,203,688.00	$ 4,883,411.00	$ 1,620,875.83		

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

STATE OF NORTH CAROLINA
Office of the State Auditor

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State Auditor

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

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

We have audited the financial statements of South Piedmont Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 13, 2003.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board 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,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* during the year ended June 30, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards:*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Financial Reporting Process

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider Finding 1 to be a material weakness.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

March 13, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents significant deficiencies in internal controls or noncompliance with laws, regulations, contracts, or grants.

1. FINANCIAL REPORTING PROCESS

The College's financial statements and notes presented for audit contained material errors and were incomplete. The College's Statement of Cash Flows, Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures, and Management's Discussion and Analysis were not completed timely. The financial statements and notes required numerous adjustments to fairly present the college's financial position and results of operations.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors and misstatements in a timely manner.

Recommendation: We recommend that the College implement controls to ensure that the year-end financial statements are adequately prepared and reviewed to ensure material misstatements and presentation errors are detected and corrected prior to submission of the statements and related notes to the Office of the State Controller and the Office of the State Auditor.

College's Response: Financial reporting pro forma packages for 2002 were more numerous and cumbersome than in prior years. South Piedmont Community College received reporting requirements from the following resources:

- Office of the State Auditor
- Office of the State Controller
- Governmental Accounting Standards Board
- New State software system (Datatel's Colleague)

The Finance and Administrative Services Division had been given the expectation that the new State software system would be capable of producing the required financial statements. Unfortunately, that did not materialize creating complications and delays in the process. During the final weeks and even days before the reporting deadline, new methods for obtaining information were presented to the College that added to the time requirements in order to comply with the August 31, 2002 deadline. The Governmental

Accounting Standards Board adopted major changes in reporting requirements that caused many adjustments based on changing accounting methods. Additionally, there was a staffing turnover in the Finance Division. The College's Finance and Administrative Services Division experienced a significant learning curve based on all these circumstances. Although every effort was made to remit the statements as required, we regret that the statements were remitted with inaccurate or incomplete data.

The Finance and Administrative Services Division has been restructured to help compensate for the complications experienced with the new State accounting software and other reporting requirement changes, as well as strengthen all internal controls. The College will also continue to work with the State on the new accounting software to enhance the performance of the software.

DISTRIBUTION OF AUDIT REPORT

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

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Donald P. Altieri	President, South Piedmont Community College
Ms. Rebecca T. Wall	Vice President for Finance South Piedmont Community College
Mr. E. Lynn Raye	Chairman, Board of Trustees South Piedmont Community College

LEGISLATIVE BRANCH

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Senator Anthony E. Rand	Majority Leader of the N. C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

April 7, 2003

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