



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

E. LYNN RAYE, CHAIRMAN

HENRY H. MORTON, VICE CHAIRMAN

**FRANK CARPENTER
KENNETH E. COLLINS
ANNE M. COVINGTON
THOMAS L. CROOKE, SR.
KENNETH W. HORNE, JR.
HOY S. LANNING, JR.**

**W. CLIFF MARTIN
GEORGE LEE MILLER
DR. CHARLES F. PALMER
RICHARD STONE
JARVIS T. WOODBURN**

ADMINISTRATIVE OFFICERS

DR. JOHN R. MCKAY, PRESIDENT

JOHN C. DE VITTO, VICE PRESIDENT OF FINANCE AND ADMINISTRATIVE SERVICES



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

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, 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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to 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.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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.

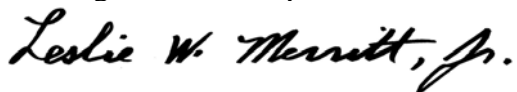
Results - The following significant deficiency in internal control over financial reporting and instances of noncompliance was noted as a result of our audit:

Finding

Financial Reporting Process Needs Improvement

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

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



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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	8
A-3 Statement of Cash Flows	9
B-1 Statement of Financial Position	11
B-2 Statement of Activities	12
Notes to the Financial Statements	13
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures	29
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	31
AUDIT FINDINGS AND RECOMMENDATIONS	33
DISTRIBUTION OF AUDIT REPORT	35



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

STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

We have audited the accompanying financial statements of South Piedmont 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, 2004, which collectively comprise South Piedmont Community 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 South Piedmont Community College Foundation, Inc., which represent 100% of the College's discretely presented component unit. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of South Piedmont Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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 South Piedmont Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Leslie Merritt, Jr., CPA, CFP
State Auditor

June 16, 2005

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, 2004. 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.

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

Comparative Data

A comparative analysis of key elements of the financial statements relative to the previous fiscal year is presented in this analysis.

Financial Highlights

The capital construction project completed this fiscal year was the Learning Resources Center, on the Old Charlotte Highway (OCH) Campus in Monroe. This project was completed in August 2003, and had a budget of \$5.5 million. The building was occupied and opened for classes but the contract was not closed out due to litigation by the General Contractor. Also at OCH, the 82,000 square foot classroom/office building will undergo a \$3 million renovation to its roofing and HVAC Systems as well as some interior room modifications.

Analysis of Financial Position

Analysis of Current Assets and Net Assets

For the year ended June 30, 2004, the College had an increase in total net assets in the amount of \$1,949,790.62, or 12%. This was primarily due to the \$1,248,000.00 capital gift of land from Union County that consolidated the Monroe Campus at the Old Charlotte Highway location. Also impacting the College was the completion and opening of the Library Resources Center and classroom building at Old Charlotte Highway location. Net assets restricted for capital projects decreased due to funds being expended. Unrestricted net assets decreased primarily for the \$136,854.56 compensated absences liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>FYE 2004</u>	<u>FYE 2003</u>	<u>Change</u>	<u>% Change</u>
Assets:				
Current Assets	\$ 862,361.51	\$ 456,622.78	\$ 405,738.73	89 %
Noncurrent Assets				
Capital Assets, Net of Depreciation	19,033,421.27	16,362,393.96	2,671,027.31	16 %
Other	<u>416,760.48</u>	<u>1,144,723.38</u>	<u>(727,962.90)</u>	(64) %
Total Assets	<u>20,312,543.26</u>	<u>17,963,740.12</u>	<u>2,348,803.14</u>	13 %
Liabilities:				
Current Liabilities	1,091,939.52	816,879.19	275,060.33	34 %
Noncurrent Liabilities	<u>359,812.43</u>	<u>235,860.24</u>	<u>123,952.19</u>	53 %
Total Liabilities	1,451,751.95	1,052,739.43	399,012.52	38 %
Net Assets:				
Investment in Capital Assets	19,033,421.27	16,362,393.96	2,671,027.31	16 %
Restricted for :				
Nonexpendable - Other	64,293.07	51,557.98	12,735.09	25 %
Expendable:				
Scholarships and Fellowships	11,973.55	1,360.67	10,612.88	780 %
Loans	9,906.05	13,435.81	(3,529.76)	(26) %
Capital Projects	89,918.27	597,048.82	(507,130.55)	(85) %
Other	6,955.32	23,435.43	(16,480.11)	(70) %
Unrestricted	<u>(355,676.22)</u>	<u>(138,231.98)</u>	<u>(217,444.24)</u>	(157) %
Total Net Assets	<u>\$ 18,860,791.31</u>	<u>\$ 16,911,000.69</u>	<u>\$ 1,949,790.62</u>	12 %

Analysis of Liabilities

Long-term debt includes the value of accrued vacation leave of \$393,237.63 of which \$33,425.20 is shown as current. Total liabilities increased by \$399,012.52, largely due to an increase in construction contract and retainage payable at June 30.

	<u>FYE 2004</u>	<u>FYE 2003</u>	<u>Change</u>	<u>% Change</u>
Current Liabilities	\$ 1,058,514.32	\$ 796,356.36	\$ 262,157.96	33%
Long-Term Liabilities - Current Portion	<u>33,425.20</u>	<u>20,522.83</u>	<u>12,902.37</u>	63%
Total Current Liabilities	<u>1,091,939.52</u>	<u>816,879.19</u>	<u>275,060.33</u>	34%
Noncurrent, Long-Term Liabilities	<u>359,812.43</u>	<u>235,860.24</u>	<u>123,952.19</u>	53%
Total Liabilities	<u>\$ 1,451,751.95</u>	<u>\$ 1,052,739.43</u>	<u>\$ 399,012.52</u>	38%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Revenues

Total operating revenues, nonoperating revenues, and capital contributions combined for an increase in total revenues of \$2,255,192.26, or 55% from the previous year. This increase was largely due to the \$1,248,000.00 capital gift of land from Union County. There were increases in student tuition, federal grants and contracts, and county capital appropriations. There was also a change in classification for State capital aid funds recorded in the prior year as capital grants.

	<u>FYE 2004</u>	<u>FYE 2003</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues:				
Student Tuition and Fees, Net	\$ 1,121,860.25	\$ 708,069.21	\$ 413,791.04	58 %
Federal Grant and Contracts	2,287,261.80	2,003,392.77	283,869.03	14 %
State and Local Grants and Contracts	369,354.74	336,494.85	32,859.89	10 %
Sales and Services, Net	356,828.61	325,623.53	31,205.08	10 %
Other Revenues	<u>34,456.19</u>	<u>6,072.38</u>	<u>28,383.81</u>	467 %
Total Operating Revenues	<u>4,169,761.59</u>	<u>3,379,652.74</u>	<u>790,108.85</u>	23 %
Nonoperating Revenues:				
State Aid	7,426,276.87	7,179,334.60	246,942.27	3 %
County Appropriations	1,092,116.23	953,681.27	138,434.96	15 %
Noncapital Grants, Gifts, and Other	<u>893,499.66</u>	<u>896,928.78</u>	<u>(3,429.12)</u>	
	<u>9,411,892.76</u>	<u>9,029,944.65</u>	<u>381,948.11</u>	4 %
Capital Contributions	<u>3,066,904.29</u>	<u>1,983,768.99</u>	<u>1,083,135.30</u>	(55) %
Total Revenues	<u>\$ 16,648,558.64</u>	<u>\$ 14,393,366.38</u>	<u>\$ 2,255,192.26</u>	16 %

Analysis of Expenses

Total expenses increased by \$1,148,862.15, or 8% more spent than in the previous year. This was due to an increase in salaries and benefits of \$921,799.42 and the purchase of equipment and furnishings in the amount of \$572,095.81 for the recently completed and opened Library Resources Center and classroom building.

	<u>FYE 2004</u>	<u>FYE 2003</u>	<u>Change</u>	<u>% Change</u>
Salaries and Benefits	\$ 8,779,537.97	\$ 7,857,738.55	\$ 921,799.42	12 %
Supplies and Benefits	2,322,941.19	1,750,845.38	572,095.81	33 %
Services	1,574,978.03	1,222,576.76	352,401.27	29 %
Scholarships and Fellowships	1,237,143.37	1,298,941.39	(61,798.02)	(5) %
Utilities	297,891.91	327,363.61	(29,471.70)	(9) %
Depreciation	<u>486,275.55</u>	<u>1,092,440.18</u>	<u>(606,164.63)</u>	(55) %
	<u>\$ 14,698,768.02</u>	<u>\$ 13,549,905.87</u>	<u>\$ 1,148,862.15</u>	8 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

Capital Asset Activity

South Piedmont Community College's capital assets increased \$2,671,027.31 for the fiscal year ended June 30, 2004. Capital assets were \$19,033,421.27, with net accumulated depreciation of \$3,885,195.65. The College received a \$1,248,000.00 capital gift of land from Union County Public Schools during the year and there was also an increase in construction in progress in the amount of \$1,713,067.50.

	<u>FYE 2004</u>	<u>FYE 2003</u>	<u>Change</u>	<u>% Change</u>
Capital Assets:				
Land	\$ 2,413,160.17	\$ 1,165,160.17	\$ 1,248,000.00	107%
Buildings	14,071,921.81	14,071,921.81		
Machinery and Equipment	1,149,544.41	953,309.05	196,235.36	21%
General Infrastructure	87,700.00	87,700.00		
Construction in Progress	5,196,290.53	3,483,223.03	1,713,067.50	49%
Total	<u>22,918,616.92</u>	<u>19,761,314.06</u>	<u>3,157,302.86</u>	16%
Less: Accumulated Depreciation	<u>3,885,195.65</u>	<u>3,398,920.10</u>	<u>486,275.55</u>	14%
Net Capital Assets	<u>\$ 19,033,421.27</u>	<u>\$ 16,362,393.96</u>	<u>\$ 2,671,027.31</u>	16%

Economic Factors and Next Year's Budget

The State of North Carolina has experienced a revenue shortfall during the past three years and this may have a significant impact on future budgets. A continued revenue shortfall will continue to directly affect the potential funding of the counties that support South Piedmont Community College. There is a tuition surcharge required by the State for the North Carolina Community College System, which will remain in effect and equates to a 1% reversion for the College. The funding formula for colleges is based on the prior year's performance and lags a year behind current needs. All of these items present budget challenges for the College.

South Piedmont Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 18,385.51
Restricted Cash and Cash Equivalents	70,714.05
Receivables, Net (Note 4)	648,063.56
Inventories	125,198.39

Total Current Assets	862,361.51
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	43,278.99
Restricted Due from Primary Government	369,784.49
Endowment Investments	3,697.00
Capital Assets - Nondepreciable (Note 5)	7,609,450.70
Capital Assets - Depreciable, Net (Note 5)	11,423,970.57

Total Noncurrent Assets	19,450,181.75
-------------------------	---------------

Total Assets	20,312,543.26
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,046,426.49
Funds Held for Others	12,087.83
Long-Term Liabilities - Current Portion (Note 7)	33,425.20

Total Current Liabilities	1,091,939.52
---------------------------	--------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	359,812.43
--------------------------------	------------

Total Liabilities	1,451,751.95
-------------------	--------------

NET ASSETS

Invested in Capital Assets	19,033,421.27
----------------------------	---------------

Restricted for:

Nonexpendable:

Other	64,293.07
-------	-----------

Expendable:

Scholarships and Fellowships	11,973.55
Loans	9,906.05
Capital Projects	89,918.27
Other	6,955.32

Unrestricted	(355,676.22)
--------------	--------------

Total Net Assets	\$ 18,860,791.31
------------------	------------------

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, 2004***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,121,860.25
Federal Grants and Contracts	2,287,261.80
State and Local Grants and Contracts	369,354.74
Sales and Services, Net (Note 8)	356,828.61
Other Operating Revenues	34,456.19

Total Operating Revenues	<u>4,169,761.59</u>
--------------------------	---------------------

EXPENSES

Operating Expenses:

Salaries and Benefits	8,779,537.97
Supplies and Materials	2,322,941.19
Services	1,574,978.03
Scholarships and Fellowships	1,237,143.37
Utilities	297,891.91
Depreciation	486,275.55

Total Operating Expenses	<u>14,698,768.02</u>
--------------------------	----------------------

Operating Loss	<u>(10,529,006.43)</u>
----------------	------------------------

NONOPERATING REVENUES

State Aid	7,426,276.87
County Appropriations	1,092,116.23
Noncapital Grants	341,475.00
Noncapital Gifts	526,478.92
Investment Income, Net	3,263.74
Other Nonoperating Revenues	22,282.00

Net Nonoperating Revenues	<u>9,411,892.76</u>
---------------------------	---------------------

Income Before Other Revenues	(1,117,113.67)
------------------------------	----------------

State Capital Aid	362,106.49
County Capital Appropriations	1,340,809.77
Capital Grants	113,385.11
Capital Gifts	1,250,602.92

Increase in Net Assets	1,949,790.62
------------------------	--------------

NET ASSETS

Net Assets, July 1, 2003	<u>16,911,000.69</u>
--------------------------	----------------------

Net Assets, June 30, 2004	<u><u>\$ 18,860,791.31</u></u>
---------------------------	--------------------------------

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, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,715,350.40
Payments to Employees and Fringe Benefits	(8,576,486.62)
Payments to Vendors and Suppliers	(4,061,170.68)
Payments for Scholarships and Fellowships	(1,237,143.37)
Other Receipts	21,137.28

Net Cash Used by Operating Activities	<u>(10,138,312.99)</u>
---------------------------------------	------------------------

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,426,276.87
County Appropriations	1,092,116.23
Noncapital Grants Received	337,193.39
Noncapital Gifts and Endowments Received	526,478.92

Net Cash Provided by Noncapital Financing Activities	<u>9,382,065.41</u>
--	---------------------

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,113,402.00
County Capital Appropriations	1,340,809.77
Capital Grants Received	113,385.11
Capital Gifts Received	2,602.92
Acquisition and Construction of Capital Assets	(1,909,302.86)

Net Cash Provided by Capital and Related Financing Activities	<u>660,896.94</u>
---	-------------------

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	3,263.74
Purchase of Investments and Related Fees	19,946.38

Net Cash Provided by Investing Activities	<u>23,210.12</u>
---	------------------

Net Decrease in Cash and Cash Equivalents	(72,140.52)
Cash and Cash Equivalents, July 1, 2003	<u>204,519.07</u>

Cash and Cash Equivalents, June 30, 2004	<u><u>\$ 132,378.55</u></u>
--	-----------------------------

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

Operating Loss	\$ (10,529,006.43)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	486,275.55
Miscellaneous Nonoperating Income	22,282.00
Changes in Assets and Liabilities:	
Receivables, Net	(494,405.82)
Inventories	(22,470.81)
Accounts Payable and Accrued Liabilities	263,302.68
Funds Held for Others	(1,144.72)
Compensated Absences	136,854.56

Net Cash Used by Operating Activities	<u><u>\$ (10,138,312.99)</u></u>
---------------------------------------	----------------------------------

***South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	18,385.51
Restricted Cash and Cash Equivalents		70,714.05

Noncurrent Assets:

Restricted Cash and Cash Equivalents		43,278.99
--------------------------------------	--	-----------

Total Cash and Cash Equivalents - June 30, 2004

\$ 132,378.55

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$	1,248,000.00
Increase in Receivables Related to Nonoperating Income		4,281.61

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

South Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	29,761.00
Investments		181,162.00
Assets Held in Charitable Trusts and Annuities		<u>91,086.00</u>
Total Assets		<u>302,009.00</u>

LIABILITIES

Notes Payable		<u>93,969.00</u>
---------------	--	------------------

NET ASSETS

Unrestricted		(77,599.00)
Temporarily Restricted		194,553.00
Permanently Restricted		<u>91,086.00</u>

Total Net Assets	\$	<u><u>208,040.00</u></u>
------------------	----	--------------------------

See Note 1 in the Notes to the Financial Statements

South Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:

Contributions	\$ 58,455.00
Income on Long-Term Investments	497.00

Total Unrestricted Revenues and Gains	58,952.00
---------------------------------------	-----------

Net Assets Released from Restrictions:

Satisfaction of Program Restrictions	27,389.00
--------------------------------------	-----------

Total Unrestricted Revenues, Gains, and Other Support	86,341.00
---	-----------

Expenses and Losses:

Management and General	87,053.00
Fund Raising	47,250.00

Total Expenses	134,303.00
----------------	------------

Decrease in Unrestricted Net Assets	(47,962.00)
-------------------------------------	-------------

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	103,935.00
Income on Long-Term Investments	1,851.00

Net Assets Released from Restrictions:

Satisfaction of Program Restrictions	(26,113.00)
--------------------------------------	-------------

Increase in Temporarily Restricted Net Assets	79,673.00
---	-----------

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	57,025.00
Income on Long-Term Investments	1,886.00
Net Unrealized and Realized Loss on Long-Term Investments	(1,276.00)

Increase in Permanently Restricted Net Assets	57,635.00
---	-----------

Increase in Net Assets	89,346.00
------------------------	-----------

Net Assets at Beginning of Year	118,694.00
---------------------------------	------------

Net Assets at End of Year	\$ 208,040.00
---------------------------	---------------

See Note 1 in the Notes to the Financial Statements

SOUTH PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the 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 – South Piedmont 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 South Piedmont Community College Foundation, Inc., is a legally separate, tax-exempt component unit of 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 21 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2004, the Foundation distributed \$60,876.31 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Hayne White, Executive Director, South Piedmont Community College Foundation, Inc., PO Box 126, Polkton, NC 28135, (704) 272-7220.

- 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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - This classification includes equity investments. 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.
- 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 provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 25 years for equipment.
- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

Invested in Capital Assets – This represents the College’s total investment in capital assets.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. **Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with General Statute 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$1,250.00. The carrying amount of cash on deposit was \$131,128.55 and the bank balance was \$215,117.31.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 109,903.24	\$ 109,903.24
Cash on Deposit with Private Financial Institutions	21,225.31	105,214.07
	<u>\$ 131,128.55</u>	<u>\$ 215,117.31</u>

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

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2004, \$100,000.00 of the bank balance was covered by federal depository insurance, and \$5,214.07 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

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

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

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the South Piedmont Community College Foundation are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

A summary of the College's investments at June 30, 2004, is presented below:

	Fair Value Total
Categorized Investments:	
Corporate Common Stock	\$ 3,697.00

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents, noncurrent on the accompanying financial statements. 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 assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2004, net appreciation of \$2,280.74 was available to be spent, of which \$2,280.74 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 601,949.80	\$ 132,428.95	\$ 469,520.85
Accounts	131,877.91		131,877.91
Miscellaneous Advances	39,994.63		39,994.63
Returned Checks	4,160.71		4,160.71
Other	2,509.46		2,509.46
Total Current Receivables	<u>\$ 780,492.51</u>	<u>\$ 132,428.95</u>	<u>\$ 648,063.56</u>

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2003	Increases	Balance June 30, 2004
Capital Assets, Nondepreciable:			
Land	\$ 1,165,160.17	\$ 1,248,000.00	\$ 2,413,160.17
Construction in Progress	3,483,223.03	1,713,067.50	5,196,290.53
Total Capital Assets, Nondepreciable	<u>4,648,383.20</u>	<u>2,961,067.50</u>	<u>7,609,450.70</u>
Capital Assets, Depreciable:			
Buildings	14,071,921.81		14,071,921.81
Machinery and Equipment	953,309.05	196,235.36	1,149,544.41
General Infrastructure	87,700.00		87,700.00
Total Capital Assets, Depreciable	<u>15,112,930.86</u>	<u>196,235.36</u>	<u>15,309,166.22</u>
Less Accumulated Depreciation:			
Buildings	2,736,209.56	388,606.80	3,124,816.36
Machinery and Equipment	636,831.85	96,448.71	733,280.56
General Infrastructure	25,878.69	1,220.04	27,098.73
Total Accumulated Depreciation	<u>3,398,920.10</u>	<u>486,275.55</u>	<u>3,885,195.65</u>
Total Capital Assets, Depreciable, Net	<u>11,714,010.76</u>	<u>(290,040.19)</u>	<u>11,423,970.57</u>
Capital Assets, Net	<u>\$ 16,362,393.96</u>	<u>\$ 2,671,027.31</u>	<u>\$ 19,033,421.27</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 620,791.05
Accrued Payroll	243,490.34
Contract Retainage	163,358.90
Other	18,786.20
Total Accounts Payable and Accrued Liabilities	\$ 1,046,426.49

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 256,383.07	\$ 136,854.56	\$ 393,237.63	\$ 33,425.20

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 2,814,777.50	\$ 1,692,917.25	\$ 1,121,860.25
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 615,560.24	\$ 258,731.63	\$ 356,828.61

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,500,630.02	\$ 564,717.05	\$ 1,129,776.12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,195,123.19
Academic Support	996,379.08	93,308.38					1,089,687.46
Student Services	685,646.95	89,817.25					775,464.20
Institutional Support	1,372,887.38	781,704.44	360.00				2,154,951.82
Operations and Maintenance of Plant	174,702.79	287,091.78	444,841.91		297,891.91		1,204,528.39
Student Financial Aid				1,237,143.37			1,237,143.37
Auxiliary Enterprises	49,291.75	506,302.29					555,594.04
Depreciation						486,275.55	486,275.55
Total Operating Expenses	<u>\$ 8,779,537.97</u>	<u>\$ 2,322,941.19</u>	<u>\$ 1,574,978.03</u>	<u>\$ 1,237,143.37</u>	<u>\$ 297,891.91</u>	<u>\$ 486,275.55</u>	<u>\$ 14,698,768.02</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$7,278,411.78, of which \$6,013,571.72 was covered under the and employer contributions for pension benefits for the year were \$360,814.35 and \$13,229.86, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$205,664.59, \$0.00 and \$111,829.17, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,502.88 for the year ended June 30, 2004.

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 except for a 5% employer contribution for the College’s law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2004 were \$0.00. The voluntary contributions by employees amounted to \$83,420 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions by employees amounted to \$32,020.00 for the year ended June 30, 2004.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$192,434.73. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability -

The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - 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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

NOTE 13 - 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 \$528,779.53 at June 30, 2004.
- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

statements. The College's remaining authorization of \$252,241.00 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 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

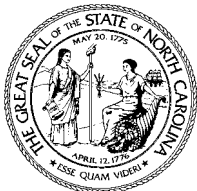
***South Piedmont Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Renovations to Con Ed Center Union/OCH Campus #1166	Mar 2004	Mar 2004	\$ 300,000.00	\$ 2,756,430.00	\$ 3,056,430.00	\$ 1,337,501.76	43.76%	Sep 2005	Sep 2005
Union/OCH/Renovations	Jan 2002	Jan 2002	79,723.00		79,723.00	34,298.00	43.02%	Sep 2005	Sep 2005
Total All Projects			\$ 379,723.00	\$ 2,756,430.00	\$ 3,136,153.00	\$ 1,371,799.76			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

[This Page Left Blank Intentionally]



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

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the South Piedmont Community College's basic financial statements, and have issued our report thereon dated June 16, 2005. We did not audit the financial statements of South Piedmont Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. The financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of the discretely presented component units was not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to College nor the component units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

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

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report.

Finding

Financial Reporting Process Needs Improvement

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

Compliance and Other Matters

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

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



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

June 16, 2005

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

1. FINANCIAL REPORTING PROCESS NEEDS IMPROVEMENT

The condition of the June 30, 2004, financial statements and related notes indicated a weakness in the College's financial reporting process. The financial statements contained material misstatements of capital assets, receivables, supplies and materials, and the related net assets accounts.

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 by employees performing their normal assigned duties.

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 to the Office of the State Controller and the Office of the State Auditor. Guidance promulgated by the Office of the State Controller and the North Carolina Community College System Office should be followed when preparing financial information.

College's Response: South Piedmont Community College has examined the draft findings and concurs that there were weaknesses associated with the reporting of some items in our financial statements.

These mistakes were a result of personnel turnover resulting in the loss of institutional memory regarding our past real estate transactions and lack of training. This, coupled with incomplete files and the lack of coordinated detailed and accurate information from the recently installed financial reporting system, had a dramatic effect on our year-end reports. This was further exacerbated by the lack of an in-depth understanding regarding the interface of this system with other administrative management systems.

South Piedmont, through its conversations with the audit team and before issuance of this finding, recognized the need to systematically and thoroughly evaluate and modify our internal financial controls. The College has begun an intense training program with a financial consultant to examine our procedures, the interface of our DATATEL

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

information system, and our other fixed asset management systems to establish where and to what end our financial information systems need to be adjusted. This will ensure proper coding and accountability of assets.

South Piedmont Community College, as part of this review process, will develop a detailed end-of-year standard operating procedure and guide in order to ensure an efficient and comprehensive step-by-step process for our financial reporting. In addition, South Piedmont Community College will perform quarterly reconciliations of assets over \$5,000 to ensure correct recording of these assets. Internal controls will be assessed annually to determine whether any changes are required for the process. South Piedmont has already redesigned its filing system and documentation handling in order to better maintain its records and have them readily available when needed.

South Piedmont Community College appreciates the understanding and the support of the entire audit team throughout this process. Their professionalism is of the highest order.

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
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Mr. H. Martin Lancaster
Dr. John R. McKay
Mr. John C. De Vitto

Mr. E. Lynn Raye

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
President, North Carolina Community College System
President, South Piedmont Community College
Vice President for Finance and Administrative Services
South Piedmont Community College
Chairman, Board of Trustees
South Piedmont Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

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

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

Other Legislative Officials

Mr. James D. Johnson

Director, Fiscal Research Division

August 11, 2005

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647