



STATE OF NORTH CAROLINA

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

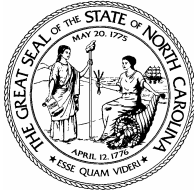
BOARD OF TRUSTEES

E. LYNN RAYE, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. JOHN E. MCKAY, PRESIDENT

JOHN C. DEVITTO, VICE PRESIDENT FOR FINANCE AND ADMINISTRATION



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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

We have completed a financial statement and compliance audit of South Piedmont Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

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

Leslie W. Merritt, Jr.

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

November 13, 2007

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position... ..	12
B-2 Statement of Activities.....	13
Notes to the Financial Statements	15
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 AUDITING STANDARDS</i>	29
AUDIT FINDINGS AND RECOMMENDATIONS.....	33
ORDERING INFORMATION	37



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the South Piedmont Community 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 represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

September 17, 2007

SOUTH PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of South Piedmont Community College provides this 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, 2006. 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. The Statement of Cash Flows is not included in this discussion.

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 College experienced a 21% increase in full time equivalent (FTE) students in the Spring 2006 semester when compared to the Spring 2005 semester. This trend is expected to continue at a lower positive rate; an increase of 5% to 10% is expected for the Fall 2006 semester when compared to the Fall 2005 semester. State appropriations funding for the College is based on FTE. The remaining items regarding construction of the LRC Tech Building on the Old Charlotte Highway campus are expected to be completed in the early part of the 2006-2007 fiscal year. The Continuing Education Center renovation is also expected to be closed out in the early part of the 2006-2007 fiscal year. Management concludes that the College's financial position has remained stable and consistent during the past fiscal year.

Analysis of Assets

For the year ended June 30, 2006, the College had a 1.00% decrease in total assets.

Current Assets

Current assets decreased by \$260,119.81, which was a result of spending a portion of the accumulated cash balances in various accounts within the institutional funds bank account. The College had numerous funds with deficit cash balances during 2006. The largest single deficit occurred when classrooms were repaired in the early summer of 2006. No county funds were available to fund the repairs until July 2006. Therefore the cash was effectively borrowed from other institutional funds. The overall cash balance of the College was reduced.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent Assets

Noncurrent Assets decreased by \$52,025.01. Capital assets increased \$179,702.98 with additions of \$827,553.37 and an increase in depreciation of \$647,850.39. In addition, the category "Other" decreased by \$127,677.97 because at June 30, 2006, there was no open receivable from Primary Government for outstanding construction projects as there had been in the prior year.

	2005-2006	As Restated 2004-2005	Difference	% Change
Current Assets	\$ 434,887.06	\$ 695,006.87	\$ (260,119.81)	(37) %
Noncurrent Assets:				
Capital Assets	20,652,377.75	20,472,674.77	179,702.98	1 %
Other	18,383.52	146,061.49	(127,677.97)	(87) %
Total Assets	<u>\$ 21,105,648.33</u>	<u>\$ 21,313,743.13</u>	<u>\$ (208,094.80)</u>	(1) %

Analysis of Liabilities

Compared with the year ended June 30, 2005, the current fiscal year had a 35% increase in total liabilities.

Current Liabilities

Current Liabilities increased \$309,810.25 due primarily to an \$180,591.00 increase in Accounts Payable and Accrued Liabilities contracts retainage payable for the West Campus Classroom and Learning Resource Center project. In addition there was a \$41,952.48 increase in the current portion of the compensated absences total due to the College using a more accurate calculation over the past year and the addition of 40 hours of bonus leave granted by the general assembly.

Noncurrent Liabilities

The increase of \$80,914.56 in noncurrent liabilities is the increase in compensated absences – long term portion due to the College using a more accurate calculation over the past year and the addition of 40 hours of bonus leave granted by the general assembly.

	2005-2006	2004-2005	Difference	% Change
Current Liabilities	\$ 1,017,891.24	\$ 708,080.99	\$ 309,810.25	44 %
Noncurrent Liabilities	486,009.76	405,095.20	80,914.56	20 %
Total Liabilities	<u>\$ 1,503,901.00</u>	<u>\$ 1,113,176.19</u>	<u>\$ 390,724.81</u>	35 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Assets

Total net assets decreased 3% compared with the year ended June 30, 2005. Funds previously presented by the College as nonexpendable other were restated as of June 30, 2005, and presented by the South Piedmont Community College Foundation, Inc., and disclosed in Note 13 to the Financial Statements. Capital projects decreased and had no corresponding receivable. Unrestricted net assets decreased as a result of spending a portion of the accumulated cash balances in various accounts within the institutional funds bank account as previously discussed.

	2005-2006	As Restated 2004-2005	Difference	% Change
Investment in Capital Assets	\$ 20,652,377.75	\$ 20,472,674.77	\$ 179,702.98	1 %
Restricted for:				
Expendable				
Scholarships & Fellowships	18,169.38	14,080.83	4,088.55	29 %
Loans	12,430.07	12,551.90	(121.83)	(1) %
Capital Projects		56,100.98	(56,100.98)	100 %
Other		1,617.26	(1,617.26)	100 %
Unrestricted	(1,081,229.87)	(356,458.80)	(724,771.07)	203 %
Total Net Assets	<u>\$ 19,601,747.33</u>	<u>\$ 20,200,566.94</u>	<u>\$ (598,819.61)</u>	(3) %

Analysis of Revenues

Operating

Total Operating Revenues increased by 20% over the year ended June 30, 2005. Student Tuition and Fees increased by \$561,759.01. This was due to an error in the prior year Student Tuition and Fees account, a large enrollment increase in the Spring 2006 semester, and the College hosting the Disney Institute on the Old Charlotte Highway campus in March 2006.

Nonoperating

Nonoperating revenues decreased 8%. This is primarily due to the \$1,056,193.21 decrease in County Capital Appropriations received in 2005-2006. Two capital projects were substantially completed and most of the construction expenditures reimbursed before the start of the 2005-2006 fiscal year.

	2005-2006	2004-2005	Difference	% Change
Operating Revenues:				
Student Tuition & Fees, Net	\$ 1,108,616.17	\$ 546,857.16	\$ 561,759.01	103 %
Federal Grants & Contracts	2,218,520.20	2,091,828.79	126,691.41	6 %
State and Local Grants and Contracts	476,004.17	442,425.66	33,578.51	8 %
Sales & Services, Net	392,527.72	385,164.31	7,363.41	2 %
Other Revenues	8,068.25	34,965.00	(26,896.75)	(77) %
Total Operating Revenues	4,203,736.51	3,501,240.92	702,495.59	20 %
Nonoperating Revenues:				
State Aid	8,893,362.17	8,428,271.08	465,091.09	6 %
County Appropriations	1,368,400.00	1,219,652.00	148,748.00	12 %
Noncapital Grants and Gifts	708,751.14	1,228,775.16	(520,024.02)	(42) %
Investment Income, Net	9,814.49	10,369.00	(554.51)	(5) %
Capital Contributions	704,571.77	1,956,851.67	(1,252,279.90)	(64) %
Other Nonoperating Revenues	102,481.04	102,481.04	102,481.04	100 %
Total Nonoperating Revenues	11,787,380.61	12,843,918.91	(1,056,538.30)	(8) %
Total Revenues	<u>\$ 15,991,117.12</u>	<u>\$ 16,345,159.83</u>	<u>\$ (354,042.71)</u>	(2) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Expenses

Total operating expenses increased by 9%. Personal Services increased only slightly although the College filled many open full-time positions. The College has been diligently improving the effectiveness of both full and part time employees through faculty efficiency analysis, utilization of technology in the classroom, and improvement of work processes in support and administrative areas of the College. Supplies and materials expenses were low in the 2004-2005 fiscal year, which resulted in the appearance of higher expenses for the year ended June 30, 2006. There were fewer capital expenses decreasing supplies and materials. The increase in depreciation occurred when \$7,350,126.20 recorded as construction in progress was reclassified to buildings and depreciation was recorded.

	2005-2006	2004-2005	Difference	% Change
Personal Services	\$ 10,549,911.35	\$ 9,744,043.57	\$ 805,867.78	8 %
Supplies and Materials	1,714,559.19	1,321,152.59	393,406.60	30 %
Services	1,931,337.12	1,946,025.60	(14,688.48)	(1) %
Scholarships and Fellowships	1,342,198.47	1,328,885.67	13,312.80	1 %
Utilities	404,080.22	377,394.62	26,685.60	7 %
Depreciation	647,850.39	506,780.73	141,069.66	28 %
Total Operating Expenses	<u>\$ 16,589,936.74</u>	<u>\$ 15,224,282.78</u>	<u>\$ 1,365,653.96</u>	9 %

Capital Asset Activity

South Piedmont Community College's capital assets as of June 30, 2006, total \$20,652,377.75 with net accumulated depreciation of \$5,209,461.09. The increase in buildings is the result of the recording construction in progress for final work and payments on the LRC Tech Building and the Continuing Education Center. These buildings were substantially complete and occupied in prior years thus the 2004-2005 buildings classification was restated. Moore Chapel was also recorded as a prior year adjustment.

	2005-2006	As Restated 2004-2005	Difference	% Change
Capital Assets:				
Land	\$ 2,413,160.17	\$ 2,413,160.17	\$ 0.00	0 %
Buildings	22,298,384.20	21,539,017.57	759,366.63	4 %
Machinery and Equipment	1,062,594.47	1,043,582.72	19,011.75	2 %
General Infrastructure	87,700.00	87,700.00		0 %
Total	<u>25,861,838.84</u>	<u>25,083,460.46</u>	<u>778,378.38</u>	3 %
Less: Accumulated Depreciation	<u>5,209,461.09</u>	<u>4,610,785.69</u>	<u>598,675.40</u>	13 %
Net Capital Assets	<u>\$ 20,652,377.75</u>	<u>\$ 20,472,674.77</u>	<u>\$ 179,702.98</u>	1 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

The State of North Carolina should be able to fund the College's budget at a slightly higher level for the 2006-2007 year. There is the likelihood of a 1% hold back for tuition shortfall. This should amount to approximately \$120,000 increase in funding. County funding should increase in both counties that the College serves. The College expects a 3% increase in operational funding in one county and a 5% increase in operational funding the other county.

South Piedmont Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Receivables, Net (Note 3)	\$ 265,481.49
Inventories	169,405.57

Total Current Assets	434,887.06
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	18,383.52
Capital Assets - Nondepreciable (Note 4)	2,413,160.17
Capital Assets - Depreciable, Net (Note 4)	18,239,217.58

Total Noncurrent Assets	20,670,761.27
-------------------------	---------------

Total Assets	21,105,648.33
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	859,125.38
Due to Primary Government	4,026.28
Unearned Revenue	69,582.07
Funds Held for Others	15,967.76
Long-Term Liabilities - Current Portion (Note 6)	69,189.75

Total Current Liabilities	1,017,891.24
---------------------------	--------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	486,009.76
--------------------------------	------------

Total Liabilities	1,503,901.00
-------------------	--------------

NET ASSETS

Invested in Capital Assets	20,652,377.75
----------------------------	---------------

Restricted for:

Expendable:

Scholarships and Fellowships	18,169.38
Loans	12,430.07

Unrestricted	(1,081,229.87)
--------------	----------------

Total Net Assets	\$ 19,601,747.33
------------------	------------------

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, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 1,108,616.17
Federal Grants and Contracts	2,218,520.20
State and Local Grants and Contracts	476,004.18
Sales and Services, Net (Note 7)	392,527.72
Other Operating Revenues	8,068.25

Total Operating Revenues	4,203,736.52
--------------------------	--------------

EXPENSES

Operating Expenses:

Personal Services	10,549,911.35
Supplies and Materials	1,714,559.19
Services	1,931,337.12
Scholarships and Fellowships	1,342,198.47
Utilities	404,080.22
Depreciation	647,850.39

Total Operating Expenses	16,589,936.74
--------------------------	---------------

Operating Loss	(12,386,200.22)
----------------	-----------------

NONOPERATING REVENUES

State Aid	8,893,362.17
County Appropriations	1,368,400.00
Noncapital Grants	612,280.51
Noncapital Gifts	96,470.63
Investment Income, Net	9,814.49
Other Nonoperating Revenues	102,481.04

Net Nonoperating Revenues	11,082,808.84
---------------------------	---------------

Income Before Other Revenues	(1,303,391.38)
------------------------------	----------------

State Capital Aid	393,867.01
County Capital Appropriations	263,370.36
Capital Gifts	47,334.40

Increase in Net Assets	(598,819.61)
------------------------	--------------

NET ASSETS

Net Assets, July 1, 2005, as Restated (Note 13)	20,200,566.94
---	---------------

Net Assets, June 30, 2006	\$ 19,601,747.33
---------------------------	------------------

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, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,318,715.82
Payments to Employees and Fringe Benefits	(10,239,118.16)
Payments to Vendors and Suppliers	(4,135,141.41)
Payments for Scholarships and Fellowships	(1,344,507.03)
Other Receipts	101,782.38
	<hr/>
Net Cash Used by Operating Activities	(11,298,268.40)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,893,362.17
County Appropriations	1,406,400.00
Noncapital Grants Received	612,280.51
Noncapital Gifts and Endowments Received	96,470.63
	<hr/>
Cash Provided by Noncapital Financing Activities	11,008,513.31

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	520,423.85
County Capital Appropriations	263,370.36
Capital Gifts Received	47,334.40
Proceeds from Insurance on Capital Assets	429.09
Acquisition and Construction of Capital Assets	(646,962.37)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	184,595.33

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	9,814.49
	<hr/>
Net Decrease in Cash and Cash Equivalents	(95,345.27)
Cash and Cash Equivalents, July 1, 2005	113,728.79
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 18,383.52

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

Operating Loss	\$ (12,386,200.22)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	647,850.39
Miscellaneous Nonoperating Income	102,051.95
Changes in Assets and Liabilities:	
Receivables, Net	167,346.62
Inventories	(1,450.95)
Accounts Payable and Accrued Liabilities	44,158.02
Due to Primary Government	4,026.28
Deferred Revenue	14.36
Funds Held for Others	1,068.11
Compensated Absences	122,867.04
	<hr/>
Net Cash Used by Operating Activities	\$ (11,298,268.40)

***South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006***

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

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$	180,591.00
Capital Asset Write-Offs		49,174.99

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, 2006

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	236,300
Investments		250,997

Total Current Assets		<u>487,297</u>
----------------------	--	----------------

Noncurrent Assets:

Endowment Cash and Cash Equivalents		<u>242,187</u>
-------------------------------------	--	----------------

Total Assets		<u>729,484</u>
--------------	--	----------------

NET ASSETS

Unrestricted		57,711
Temporarily Restricted		429,586
Permanently Restricted		<u>242,187</u>

Total Net Assets	\$	<u><u>729,484</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, 2006

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND GAINS:				
Contributions	\$ 182,137	\$ 204,586	\$ 52,988	\$ 439,711
Investment Earnings	8,149	7,665		15,814
Net Assets Released from Restrictions	109,908	(107,180)	(2,728)	
Total Unrestricted Revenues and Gains	<u>300,194</u>	<u>105,071</u>	<u>50,260</u>	<u>455,525</u>
EXPENSES				
Supporting Services				
Donations-Other	25			25
Fund-raising	5,267			5,267
Insurance	1,070			1,070
Interest Expense	3,456			3,456
Management Fee	3,834			3,834
Meals and Entertainment	1,207			1,207
Miscellaneous	222			222
Presidential Supplement	37,788			37,788
Professional Fees	1,250			1,250
SPCC Transfer	44,163			44,163
Telephone	613			613
Total Supporting Services	98,895			98,895
Scholarship Awards	10,400			10,400
Loan Payments	73,969			73,969
OHC Lobby	28,923			28,923
Total Expenses	<u>212,187</u>			<u>212,187</u>
Change in Net Assets	88,007	105,071	50,260	243,338
Net Assets Beginning - from College	4,808		96,657	101,465
Net Assets at Beginning of Year	<u>(35,104)</u>	<u>324,515</u>	<u>95,270</u>	<u>384,681</u>
Net Assets at End of Year	<u>\$ 57,711</u>	<u>\$ 429,586</u>	<u>\$ 242,187</u>	<u>\$ 729,484</u>

See Note 1 in the Notes to the Financial Statements

[This Page Left Blank Intentionally]

SOUTH PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 Units – South Piedmont Community College Foundation Inc., (Foundation) is a not-for-profit corporation.

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.

The Foundation 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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2006, the Foundation distributed \$217,911 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.

- B. Basis of Presentation** – The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash and cash on deposit with private bank accounts.
- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the retail inventory method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- H. 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.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

leave carried forward described above and is not subject to conversion to sick leave

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

K. 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 – 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.

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. Revenue and Expense Recognition – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. **Internal Sales Activities** – At June 30, 2006, the College participated in no internal sales activities.
- O. **County Appropriations** – County appropriations are provided by both Anson and Union Counties 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,225.00, and deposits in private financial institutions with a carrying value of \$17,158.52 and a bank balance of \$197,113.11.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** –The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed. The College held no investments at June 30, 2006.

Component Unit – Investments of the College's component unit are presented on the financial statements of South Piedmont Community College Foundation, Inc., (Foundation) and are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. The funds belonging to the Foundation are invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2006, the amount shown on the Foundation's Statement of Investments includes \$250,997, which represents the Foundation's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 184,045.70	\$ 44,503.29	\$ 139,542.41
Intergovernmental	78,690.25		78,690.25
Other	47,248.83		47,248.83
Total Current Receivables	\$ 309,984.78	\$ 44,503.29	\$ 265,481.49

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 2,413,160.17	\$ 0.00	\$ 0.00	\$ 2,413,160.17
Construction in Progress		759,366.63	759,366.63	
Total Capital Assets, Nondepreciable	2,413,160.17	759,366.63	759,366.63	2,413,160.17
Capital Assets, Depreciable:				
Buildings	21,539,017.57	759,366.63		22,298,384.20
Machinery and Equipment	1,043,582.72	68,186.74	49,174.99	1,062,594.47
General Infrastructure	87,700.00			87,700.00
Total Capital Assets, Depreciable	22,670,300.29	827,553.37	49,174.99	23,448,678.67
Less Accumulated Depreciation:				
Buildings	3,748,735.36	566,041.86		4,314,777.22
Machinery and Equipment	823,664.76	75,555.09	49,174.99	850,044.86
General Infrastructure	38,385.57	6,253.44		44,639.01
Total Accumulated Depreciation	4,610,785.69	647,850.39	49,174.99	5,209,461.09
Total Capital Assets, Depreciable, Net	18,059,514.60	179,702.98		18,239,217.58
Capital Assets, Net	\$ 20,472,674.77	\$ 939,069.61	\$ 759,366.63	\$ 20,652,377.75

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 490,608.23
Accrued Payroll	187,926.15
Contract Retainage	180,591.00
Total Accounts Payable and Accrued Liabilities	\$ 859,125.38

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 432,332.47	\$ 490,459.75	\$ 367,592.71	\$ 555,199.51	\$ 69,189.75

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,700,761.05	\$ 592,144.88	\$ 1,108,616.17
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 734,270.29	\$ 369,131.80	\$ 365,138.49
Vending	14,401.23		14,401.23
Other	12,988.00		12,988.00
Total Sales and Services	\$ 761,659.52	\$ 369,131.80	\$ 392,527.72

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,851,929.31	\$ 338,339.88	\$ 438,141.34	\$ (24,844.22)	\$ 0.00	\$ 0.00	\$ 7,603,566.31
Academic Support	835,681.87	19,930.35	44,673.02	(139.85)			900,145.39
Student Services	820,146.87	31,238.24	42,062.80	27,596.00			921,043.91
Institutional Support	1,789,950.83	60,236.19	568,788.36	(29,751.58)			2,389,223.80
Operations and Maintenance of Plant	170,372.03	474,271.72	787,377.46		404,080.22		1,836,101.43
Student Financial Aid				1,748,907.95			1,748,907.95
Auxiliary Enterprises	81,830.44	790,542.81	50,294.14	(379,569.83)			543,097.56
Depreciation						647,850.39	647,850.39
Total Operating Expenses	<u>\$ 10,549,911.35</u>	<u>\$ 1,714,559.19</u>	<u>\$ 1,931,337.12</u>	<u>\$ 1,342,198.47</u>	<u>\$ 404,080.22</u>	<u>\$ 647,850.39</u>	<u>\$ 16,589,936.74</u>

NOTE 9 - 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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$8,568,119.06, of which \$7,103,208.34 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$426,192.50 and \$484,727.00, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$484,727.00, \$387,521.73, and \$205,664.59, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$834.88 for the year ended June 30, 2006.

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 \$92,546.00 for the year ended June 30, 2006.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$8,330.00 for the year ended June 30, 2006.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$269,921.92. 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 to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$36,936.68. 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 11 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES

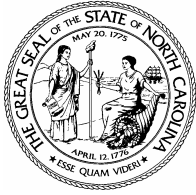
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$80,219.63.

NOTE 13 - NET ASSET RESTATEMENT(S)

As of July 1, 2005, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2005 Net Assets as Previously Reported	\$ 20,560,942.29
Restatements:	
Building Depreciation	(207,101.94)
Construction in Progress	20,975.99
Remove SPCC Foundation Funds	(200,250.40)
Morris Chapel Building	<u>26,001.00</u>
July 1, 2005 Net Assets as Restated	<u><u>\$ 20,200,566.94</u></u>

[This Page Left Blank Intentionally]



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated September 17, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of South Piedmont Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of South Piedmont Community College, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 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. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

**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 (CONTINUED)**

Finding

- 1. Deficiencies in Financial Reporting*
- 2. Restricted Funds Borrowed to Cover Cash Deficits*
- 3. Improper Use of Bookstore Revenues*
- 4. Deficiency in Internal Controls Over Student Financial Aid Funds*
- 5. Inappropriate Information Systems Access Rights*

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 believe all of the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, which are reported in the Audit Findings and Recommendations section of this report, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Finding

- 2. Restricted Funds Borrowed to Cover Cash Deficits*
- 3. Improper Use of Bookstore Revenues*
- 4. Deficiency in Internal Controls Over Student Financial Aid Funds*

**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)**

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

Leslie W. Merritt, Jr.

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

September 17, 2007

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by South Piedmont Community College had numerous misstatements and could be misleading to readers:

- a. Current unrestricted cash was overstated by \$49,705.81. The balance in the individual current unrestricted accounts was negative \$5,051.32 after adjustments; however, for financial reporting purposes, the account should have been reported as zero with the net overdrawn amount used to reduce the restricted cash balance.
- b. The College reported \$225,391.58 in restricted short-term investments that should have been reported on the Statement of Net Assets of the South Piedmont Community College Foundation (Foundation). This amount represented endowment funds that the College had invested in the State Treasurer's Short-Term Investment Fund (STIF) on behalf of the Foundation.
- c. The College reported deficit restricted expendable net assets of \$291,212.85. Restricted net assets should not have been reduced below zero, with the difference used to reduce unrestricted net assets.
- d. The College did not properly report construction in progress or buildings in the capital assets note. Two construction projects totaling \$7,350,126.20 had been substantially complete for more than a year, and thus, should have been reported as buildings instead of construction in progress. Also, depreciation on the buildings of \$384,171.63 should have been reported.
- e. The College did not capitalize \$315,864.74 of accounts payable associated with construction in progress.
- f. The College recorded cash transfers of \$53,191.88 from one account to another as revenues and expenses. This overstated both revenues and expenses.
- g. Various other misstatements were made in the financial statements, notes to the financial statements, and management's discussion and analysis.

Recommendation: The College should place greater emphasis on the year end financial reporting process and implement effective internal controls to ensure the completeness and accuracy of the financial statements. College personnel should review and adhere to the North Carolina Community College System chart of accounts to ensure proper recording of revenue, expense, and transfer transactions during the year.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

College's Response:

- a. Prior to June 30, 2006, the FSP Cross Reference Reports in the Colleague CIS system had been manually modified, changing the way the Cross Reference Reports grouped cash in restricted or unrestricted funds. Prior to June 30, 2007, we obtained the System Office's generic cross reference report and used that Excel spreadsheet to mirror our FSP Cross Reference Reports with the System Office's so that at June 30, 2007 and going forward, unrestricted and restricted cash would be reported correctly.
- b. When the College opened the STIF account in 2003, we were under the impression that the Foundation could not open a STIF account in its own name. Therefore, the College opened the STIF account in the name of the college and deposited funds from the Foundation. During the fiscal year 2006-2007, we discovered that the Foundation could in fact have a STIF account in its name. The College's STIF account was closed and the funds were transferred back to the Foundation. The Foundation subsequently deposited the money in a certificate of deposit account.
- c. For the year ended June 30, 2007, a deficit in restricted expendable net assets was used to reduce unrestricted net assets. The State's CAFR form has also been changed to reflect an "Error" message if restricted expendable net assets is negative, further calling attention to the correct classification.
- d. The two construction projects were not transferred from construction in progress to buildings because the College had not received a formal certificate of occupancy on either building. During the fiscal year 2006-2007, both buildings were transferred from construction in progress to buildings. For the year ended June 30, 2007, the balance in the Construction in Progress account represents the total of three payments to an architectural firm for Pre-Design Planning and Programming for two proposed buildings on the Old Charlotte Highway campus.
- e. This error was due to lack of knowledge and limited experience of construction in progress reporting.
- f. This error was also due to lack of knowledge. For the year ended June 30, 2007, journal entries were analyzed and cash transfers were corrected to reflect as transfers instead of revenues and expenses. Beginning with the fiscal year 2007-2008, the Director of Financial Services has begun reviewing all journal entries entered on a monthly basis in an effort to reduce errors.
- g. Misstatements made in any of the documents prepared were the result of lack of knowledge and limited experience. The Vice President of Finance and Administrative Services, the Director of Financial Services, and the Business Office staff are committed to providing accurate information. In 2007-2008, it is their goal to seek out training from reliable sources regarding the correct presentation of the College's financial statements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. RESTRICTED FUNDS BORROWED TO COVER CASH DEFICITS

The College may have violated restrictions on the use of certain cash balances by using those balances to cover deficits in other funds. Although separate cash balances for different programs and purposes are maintained in the accounting records, the cash is pooled for deposit with the bank. When one fund has a deficit cash balance in the accounting records, that fund has in essence borrowed from one of the other funds.

The College overexpended \$255,900.50 from 11 unrestricted funds and \$139,636.61 from eight restricted funds. Because the amount in the remaining unrestricted funds was not enough to cover these deficits, \$5,051.32 was, in substance, borrowed from restricted funds to cover the deficits. Therefore, at least temporarily, restricted money may have been used for unallowable purposes.

Recommendation: The College should monitor the cash balances in the individual funds and ensure that sufficient unrestricted money is available to cover temporary deficit balances. Transfers of unrestricted money should be made to avoid permanent deficit balances. The College should also take measures to address its cash flow problems.

College's Response: The College's cash flow was tight at the end of 2005-2006. During 2006-2007, great emphasis was placed on creating healthier accounts by scrutinizing expenditures and generating revenue to offset the negatives. At the end of 2006-2007, all but two accounts (with the exception of grant accounts) were positive. Funds were utilized in September 2007 to offset both of those negative accounts. In addition, beginning in 2006-2007, the Director of Financial Services began examining the cash balance of each institutional account on a monthly basis. There is also now a periodic reconciliation between the grant accounts and the outstanding grant receivables.

3. IMPROPER USE OF BOOKSTORE REVENUES

The College used \$11,948.16 from the bookstore account to pay the salary supplement for the College President. *North Carolina General Statute 115D-5* prohibits the use of bookstore moneys for salary supplements.

The supplement should have been paid from county funds. Instead, the cash was moved from the bookstore account to the supplement account by recording a services expense and a gift.

Recommendation: Bookstore funds should not be used in the future to support salary supplements. Also, the College should reimburse the bookstore account for the supplement paid in 2006.

College's Response: This is strictly a journal entry error; the College in no way tried to violate statute 115D-5. In September 2007, a journal entry was done to transfer \$11,948.16 from Union county funds back to the bookstore.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

4. DEFICIENCY IN INTERNAL CONTROLS OVER STUDENT FINANCIAL AID FUNDS

The College did not reconcile Federal Pell Grant funds awarded to students according to Student Financial Aid Office records with the disbursements recorded in the general ledger. This increased the risk that an error was made in recording the payments.

For the fiscal year ended June 30, 2006, there was an unreconciled difference of \$116,833.60 between the two sets of records. The reason for the difference was not readily determinable because separate accounts for each federal award year were not maintained in the general ledger. Also, the disbursement amount reported on the Fiscal Operations Report and Application to Participate (FISAP) was the amount of the authorization for the 2005-2006 award year rather than actual awards.

This finding affects award year July 1, 2005 – September 30, 2007, and award number P063P053029.

Recommendation: Federal awards should be reconciled to the actual disbursements per the general ledger periodically. The disbursements reported on the FISAP should include all disbursements for the federal award year.

College's Response: Beginning in fiscal year 2007-2008, a separate general ledger account will be used for each financial aid award year. This should assist in reconciliation procedures. In addition, a monthly reconciliation is now being performed between Financial Aid Funds Management reports, the General Ledger, and the Department of Education website.

5. INAPPROPRIATE INFORMATION SYSTEMS ACCESS RIGHTS

The College granted information systems access rights to employees that were inconsistent with the employee's job function. This increases the risk that an error or fraud could occur and not be detected.

Recommendation: All access rights to financial statements screens should be reviewed and assigned based on job function. Duties and access rights should be segregated among employees in a manner that deters errors or fraud.

College's Response: Immediately after this weakness was reported to the Information Systems division, steps were taken to review and restrict access rights to employees based on their job functions.

ORDERING INFORMATION

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647