STATE OF
NORTH CAROLINA

SANDHILLS COMMUNITY COLLEGE

PINEHURST, 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

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

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, Sandhills Community College

We have completed a financial statement audit of Sandhills 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 resulted in no audit findings.

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

Leslie W. Merritt, Jr.

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

August 6, 2007

TABLE OF CONTENTS

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
Sandhills Community College
Pinehurst, North Carolina

We have audited the accompanying basic financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Sandhills Community College Foundation, Inc., which represent 29 percent, 28 percent, and 9 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for of Sandhills Community College Foundation, Inc., is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Community College as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report June 28, 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

June 28, 2007

SANDHILLS COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The information in this section is intended to provide a general overview of Sandhills Community College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information.

Using This Annual Report

Sandhills Community College's discussion and analysis provides a summary of the College's financial statements and a comparison of prior year information. This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 College's basic financial statements are designed to emulate corporate presentation models whereby all College Activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets are indicators of the improvement or erosion of the College's financial health.

The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs, and the net costs of College activities which are supported by state, local, federal, and other revenues. This statement presents the revenues earned, and expenses incurred during the year. Activities are reported as either operating or nonoperating. A community college's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State and local appropriations, and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortized the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital financing, and related investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Statement of Cash Flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided.

Financial Highlights

The College continues to grow. The College's revenues (operating and nonoperating) increased by $1.5 million which was an increase of 5.7%. Operating expenses increased by 2.2%.

Construction of the new Dempsey Student Center building continued during this fiscal year. As of June 30, 2006, the construction in progress on this building totaled $7.4 million.

Construction of the new Little Hall Education and Technology Center building continued during this fiscal year. As of June 30, 2006, the construction in progress on this building totaled $5.9 million.

In addition to the funding we receive from the State based on a Full Time Equivalent formula, we receive funding from Moore County and Hoke County for the maintenance of buildings and infrastructure.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2006, the College's total assets were $49.6 million. This is an overall increase of 3.6% from last fiscal year. The College's largest asset is its net investment in capital assets of $31 million, representing 63.3% of total assets as of June 30, 2006. The College's current assets incurred a net decrease of 5.4% primarily associated with purchasing investments.

Noncurrent assets incurred a net increase of 4.6%. This is attributed to the continued construction of the new Dempsey Student Center and the Little Hall Education and Technology Center which contributed $2.2 million to construction in progress. Renovations to the Stone Hall Lecture building contributed an additional $500,000 to construction in progress. Receivables from county bond funds and from primary government decreased due to construction as the bond funds were reimbursed to cover the Student, Education, and Lecture buildings expenditures. The College's endowment funds increased by $2.8 million or 80.8%. Therefore, while the Total Net Assets have only increased by $1.6 million, the categories of Invested in Capital Assets and Restricted Assets have moved up and down respectively, by approximately the same amounts for construction and renovation.

Condensed Statement of Net Assets

	2006	2005	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 4,139,937.09	$ 4,377,512.06	$ (237,574.97)	(5.4) %
Noncurrent Assets:				
Capital	31,469,967.37	28,625,664.37	2,844,303.00	9.9 %
Other	14,083,498.67	14,946,630.72	(863,132.05)	(5.8) %
Total Assets	49,693,403.13	47,949,807.15	1,743,595.98	3.6 %
LIABILITIES				
Current Liabilities	2,328,110.08	2,458,801.86	(130,691.78)	(5.3) %
Noncurrent Liabilities	1,361,755.57	1,139,584.01	222,171.56	19.5 %
Total Liabilities	3,689,865.65	3,598,385.87	91,479.78	2.5 %
NET ASSETS				
Invested in Capital Assets	31,469,967.37	28,625,664.37	2,844,303.00	9.9 %
Restricted	11,974,815.83	13,718,673.11	(1,743,857.28)	(12.7) %
Unrestricted	2,558,754.28	2,007,083.80	551,670.48	27.5 %
Total Net Assets	$ 46,003,537.48	$ 44,351,421.28	$ 1,652,116.20	3.7 %

Analysis of Liabilities

The College had an overall increase in liabilities of 2.5% primarily due to increases in unearned revenue and long-term liabilities. The unearned revenue increase is associated with the increase in restricted noncapital gifts, and the long-term liabilities are due to newly acquired gift annuities.

The College's current assets of $4 million covered the current liabilities of $2.3 million as the current ratio was $1.7 in current assets to every $1 in current liabilities. As a rule of thumb, an adequate ratio is 2:1. Although, not at an adequate ratio, nearly 80% of current assets are cash and investments that can readily be converted to cash to pay current liabilities.

Liabilities

	2006	2005	Increase/ (Decrease)	Percent Change
Current liabilities:				
Accounts Payable and Accrued Liabilities	$ 804,166.58	$ 1,008,028.61	$ (203,862.03)	(20.2) %
Due to Primary Government	-	3,010.09	(3,010.09)	(100.0) %
Unearned revenue	1,306,794.46	1,225,093.83	81,700.63	6.7 %
Funds Held for Others	75,625.01	83,325.90	(7,700.89)	(9.2) %
Long-Term Liabilities - Current Portion	141,524.03	139,343.43	2,180.60	1.6 %
Total Current Liabilities	2,328,110.08	2,458,801.86	(130,691.78)	(5.3) %
Noncurrent Liabilities:				
Long-Term Liabilities	1,361,755.57	1,139,584.01	222,171.56	19.5 %
Total Noncurrent Liabilities	1,361,755.57	1,139,584.01	222,171.56	19.5 %
Total Liabilities	$ 3,689,865.65	$ 3,598,385.87	$ 91,479.78	2.5 %

Analysis of Net Capital Assets

This schedule defines the categories of the College's capital assets. It is prepared from the College's Statement of Net Assets which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. As noted in the table below, total capital assets mainly increased due to the Construction in Progress of the Dempsey Student Center, Little Hall, and Stone Hall.

Net Capital Assets

	2006	2005	Increase/ (Decrease)	Percent Change
Capital Assets, Nondepreciable:				
Land	$ 429,736.45	$ 429,736.45	$ 0.00	0.0 %
Construction in Progress	14,537,782.22	11,679,823.71	2,857,958.51	24.5 %
Total Capital Assets, Nondepreciable	14,967,518.67	12,109,560.16	2,857,958.51	23.6 %
Capital Assets, Depreciable:				
Buildings	22,953,552.97	22,980,916.04	(27,363.07)	(0.1) %
Machinery and Equipment	2,608,359.03	2,451,154.77	157,204.26	6.4 %
General Infrastructure	2,187,953.45	1,799,509.18	388,444.27	21.6 %
Total Capital Assets, Depreciable	27,749,865.45	27,231,579.99	518,285.46	1.9 %
Less Accumulated Depreciation:				
Buildings	8,737,488.69	8,482,666.43	254,822.26	3.0 %
Machinery and Equipment	1,707,283.08	1,507,466.64	199,816.44	13.3 %
General Infrastructure	802,644.98	725,342.72	77,302.26	10.7 %
Total Accumulated Depreciation	11,247,416.75	10,715,475.79	531,940.96	5.0 %
Total Capital Assets, Depreciable, Net	16,502,448.70	16,516,104.20	(13,655.50)	(0.1) %
Capital Assets, Net	$ 31,469,967.37	$ 28,625,664.36	$ 2,844,303.01	9.9 %

Analysis of Revenues

As noted in the table below, the Condensed Summary of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets of $1.6 million at the end of the year. The College's operating revenues increased $166,000 during the fiscal year. The sources of operating revenue for the College are tuition and fees, grants, contracts, auxiliary services, and other educational activities. The increase this fiscal year was seen in tuition and fee revenues due to an increase in programs offered resulting from the increase in facilities available for expansion.

The College is mainly supported by receipts of State and county funds. The College received 51.1% or $15.3 million of its revenue from State aid and State capital aid. The counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received $3.8 million in county appropriations, and county capital appropriations, which made up 12.7% of the College's total revenue.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2006	2005	Increase/ (Decrease)	Percent Change
OPERATING REVENUES:				
Tuition and Fees	$ 2,099,020.53	$ 1,544,677.91	$ 554,342.62	35.9 %
Grants and Contracts	4,830,205.56	5,268,682.44	(438,476.88)	(8.3) %
Sales and Services	312,958.06	322,083.35	(9,125.29)	(2.8) %
Other Operating Revenues	102,616.50	43,170.86	59,445.64	137.7 %
Total Operating Revenues	7,344,800.65	7,178,614.56	166,186.09	2.3 %
OPERATING EXPENSES	28,371,916.28	27,748,496.78	623,419.50	2.2 %
Operating Loss	(21,027,115.63)	(20,569,882.22)	(457,233.41)	2.2 %
NONOPERATING REVENUES:				
State Aid	13,790,502.32	13,189,643.89	600,858.43	4.6 %
County Appropriations	3,620,438.83	3,115,505.47	504,933.36	16.2 %
Noncapital Grants and Gifts	1,920,976.38	1,945,370.77	(24,394.39)	(1.3) %
Investment Income	952,489.46	698,343.40	254,146.06	36.4 %
Other Nonoperating Revenues	25,183.55	13,283.79	11,899.76	89.6 %
Total Nonoperating Revenues	20,309,590.54	18,962,147.32	1,347,443.22	7.1 %
Loss Before Other Revenues	(717,525.09)	(1,607,734.90)	890,209.81	(55.4) %
CAPITAL CONTRIBUTIONS AND OTHER REVENUES:				
State Capital Aid	1,548,320.62	3,481,737.05	(1,933,416.43)	(55.5) %
County Capital Appropriations	213,819.21	118,018.59	95,800.62	81.2 %
Capital Grants	50,000.00	100,200.00	(50,200.00)	(50.1) %
Additions to Endowments	503,012.91	1,463,123.56	(960,110.65)	(65.6) %
Total Capital Contributions and Other Revenues	2,315,152.74	5,163,079.20	(2,847,926.46)	(55.2) %
Total Increase in Net Assets	1,597,627.65	3,555,344.30	(1,957,716.65)	(55.1) %
NET ASSETS				
Beginning of Year	44,351,421.28	40,794,783.45	3,556,637.83	8.7 %
Restatements	54,488.55	1,293.53	53,195.02	4,112.4 %
Ending of Year	$ 46,003,537.48	$ 44,351,421.28	$ 1,652,116.20	3.7 %

Analysis of Expenses

The College experienced a 2.2% overall increase in expenses from the prior fiscal year. The largest operating expense is for salaries and benefits which represents 66.2% or $18.7 million of the operating expenses. The College expensed 11.3% or $3.2 million on scholarships, and other financial aid. Utilities increased by 24% due to the construction of two new buildings and rising costs.

Operating Expenses

	2006	2005	Increase/ (Decrease)	Percent Change
Personal Services	$ 18,792,102.10	$ 18,169,452.43	$ 622,649.67	3.4 %
Supplies and Materials	2,632,084.51	2,171,475.31	460,609.20	21.2 %
Services	2,304,524.79	2,077,468.03	227,056.76	10.9 %
Scholarships & Fellowships	3,211,038.50	3,648,253.78	(437,215.28)	(12.0) %
Utilities	900,225.42	725,965.62	174,259.80	24.0 %
Depreciation	531,940.96	955,881.61	(423,940.65)	(44.4) %
Total Operating Expenses	$ 28,371,916.28	$ 27,748,496.78	$ 623,419.50	2.2 %

Economic Forecast

The economic future of Sandhills Community College looks very good. We have seen significant improvement in the State's economy during the 2005-2006 FY as evidenced by job growth, and decreased unemployment rated reported by the Employment Security Commission in recent months. We have been encouraged by the fact that legislative appropriations for the NC Community College System have continued to grow even in recent lean budget years. As we start the 2006-2007 FY we are working with State budgets that emphasize the need to increase community college salaries to a level that is competitive.

In summary, this report is designed to provide our community, students, legislative representatives, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the money it receives through grants, donations, and tuition revenues.

Sandhills Community College
Statement of Net Assets
June 30, 2006 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,716,016.82
Restricted Cash and Cash Equivalents		1,590,296.23
Receivables (Note 4)		757,568.25
Inventories		76,055.79
Total Current Assets		4,139,937.09
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		32,060.80
Receivables (Note 4)		635,457.51
Restricted Due from Primary Government		972,563.96
Endowment Investments		6,274,055.27
Other Investments		6,169,361.13
Capital Assets - Nondepreciable (Note 5)		14,967,518.67
Capital Assets - Depreciable, Net (Note 5)		16,502,448.70
Total Noncurrent Assets		45,553,466.04
Total Assets		49,693,403.13
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		804,166.58
Unearned Revenue		1,306,794.46
Funds Held for Others		75,625.01
Long-Term Liabilities - Current Portion (Note 7)		141,524.03
Total Current Liabilities		2,328,110.08
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		1,361,755.57
Total Noncurrent Liabilities		1,361,755.57
Total Liabilities		3,689,865.65
NET ASSETS		
Invested in Capital Assets		31,469,967.37
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		2,371,061.61
Foundation		1,037,827.99
Specific Programs		2,641,727.75
Expendable:		
Loans		7,000.00
Capital Projects		1,040,274.26
Foundation		224,334.92
Specific Programs		4,652,589.30
Unrestricted		2,558,754.28
Total Net Assets	$	46,003,537.48

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

Sandhills 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 9)	$	2,099,020.53
Federal Grants and Contracts		4,322,867.69
State and Local Grants and Contracts		507,337.87
Sales and Services, Net (Note 9)		312,958.06
Other Operating Revenues		102,616.50
Total Operating Revenues		7,344,800.65
EXPENSES		
Operating Expenses:		
Personal Services		18,792,102.10
Supplies and Materials		2,632,084.51
Services		2,304,524.79
Scholarships and Fellowships		3,211,038.50
Utilities		900,225.42
Depreciation		531,940.96
Total Operating Expenses		28,371,916.28
Operating Loss		(21,027,115.63)
NONOPERATING REVENUES		
State Aid		13,790,502.32
County Appropriations		3,620,438.83
Noncapital Grants		453,338.04
Noncapital Gifts		1,467,638.34
Investment Income, Net		952,489.46
Other Nonoperating Revenues		25,183.55
Total Nonoperating Revenues		20,309,590.54
Loss Before Other Revenues		(717,525.09)
State Capital Aid		1,548,320.62
County Capital Appropriations		213,819.21
Capital Gifts		50,000.00
Additions to Endowments		503,012.91
Increase in Net Assets		1,597,627.65
NET ASSETS		
Net Assets, July 1, 2005 as Restated (Note 15)		44,405,909.83
Net Assets, June 30, 2006	$	46,003,537.48

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

Sandhills 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	$ 7,131,458.07
Payments to Employees and Fringe Benefits	(18,544,988.63)
Payments to Vendors and Suppliers	(6,419,932.23)
Payments for Scholarships and Fellowships	(3,237,468.29)
Other Receipts	17,482.66
Net Cash Used by Operating Activities	(21,053,448.42)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	13,790,502.32
County Appropriations	3,620,438.83
Noncapital Grants Received	311,434.21
Noncapital Gifts and Endowments Received	2,025,047.25
Cash Provided by Noncapital Financing Activities	19,747,422.61
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	2,113,069.87
County Capital Appropriations	213,819.21
Capital Grants Received	1,709,690.46
Capital Gifts Received	50,000.00
Acquisition and Construction of Capital Assets	(3,098,380.28)
Principal Paid on Capital Leases	(8,989.88)
Net Cash Provided by Capital and Related Financing Activities	979,209.38
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,697,894.05
Investment Income	500,730.53
Purchase of Investments and Related Fees	(4,847,281.50)
Net Cash Used by Investing Activities	(2,648,656.92)
Net Decrease in Cash and Cash Equivalents	(2,975,473.35)
Cash and Cash Equivalents, July 1, 2005	6,313,847.20
Cash and Cash Equivalents, June 30, 2006	$ 3,338,373.85

Sandhills Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2006 — *Page 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(21,027,115.63)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		531,940.96
Miscellaneous Nonoperating Income		25,183.55
Changes in Assets and Liabilities:		
Receivables, Net		(213,554.88)
Inventories		30,824.29
Accounts Payable and Accrued Liabilities		(511,265.84)
Due to Primary Government		(3,010.09)
Unearned Revenue		(27,013.75)
Funds Held for Others		(7,700.89)
Compensated Absences		148,263.86
Net Cash Used by Operating Activities	$	(21,053,448.42)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,716,016.82
Restricted Cash and Cash Equivalents		1,590,296.23
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		32,060.80
Total Cash and Cash Equivalents - June 30, 2006	$	3,338,373.85

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	291,607.90
Change in Fair Value of Investments		346,370.18
Increase in Receivables Related to Nonoperating Income		287,866.36

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

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. Sandhills Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit – Although legally separate, Sandhills Community College Foundation, Inc. is reported as if it were part of the College. The Foundation is governed by a 27-member board consisting of three ex officio directors and 24 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are elected solely by the members of the Sandhills Community College Board of Trustees and the Foundation's sole purpose is to benefit Sandhills Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Director of Finance's Office, 3395 Airport Road, Pinehurst, North Carolina 28374, or by calling (910) 695-3718.

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

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

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

C. **Basis of Accounting –** The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. **Cash and Cash Equivalents –** This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments –** This classification includes long-term fixed income investments, mutual funds, real estate, and life income annuities. Except for real estate, 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.

Real estate is reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

F. **Receivables –** Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. No provision for doubtful accounts is considered necessary.

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 method over the estimated useful lives of the assets, generally 10 to 40 years for general infrastructure, 15 to 50 years for buildings, and 5 to 15 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 and annuities that will not be paid within the next fiscal year.

K. **Compensated Absences –** The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

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 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.

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

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

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and 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. Funds Held in Trust by Others – Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was $1,000,000.00. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.

P. County Appropriations – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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 $3,540.00, and deposits in private financial institutions with a carrying value of $1,304,295.92 and a bank balance of $1,449,935.89.

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

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

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (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 Statement of Net Assets as cash and cash equivalents includes $2,030,537.93 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 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 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 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 blended component unit, the Foundation, 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 following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2006, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Fair Value		Less Than 1		1 to 5		6 to 10		More than 10
Investment Type										
Debt Securities										
Annuity Contracts	$	418,756.29	$	0.00	$	0.00	$	0.00	$	418,756.29
Mutual Bond Funds - Fixed Income		4,147,008.42		4,951.89						4,142,056.53
		4,565,764.71	$	4,951.89	$	0.00	$	0.00	$	4,560,812.82
Other Securities										
Investments in Real Estate		9,250.00								
Mutual Funds		7,868,401.69								
Total Investments	$	12,443,416.40								

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2006, the College's investments were rated as follows:

		Fair Value		AAA Aaa		AA Aa
Annuity Contracts	$	418,756.29	$	0.00	$	418,756.29
Mutual Bond Funds		4,142,056.53		4,951.89		3,324,881.75

Rating Agency: SEI and Hartford

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were not exposed to custodial credit risk.

Concentration of Credit Risk: The College does not have a formal policy for custodial credit risk however the College places no limit on the amount that may be invested in any one issuer. The College does not hold any investments which are more than 5% of the College's total investments.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College does not have a formal policy for foreign currency risk. The College does not hold any foreign currency as investments, and therefore, does not have an exposure to foreign currency risk for their investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	$ 3,540.00
Carrying Amount of Deposits with Private Financial Institutions	1,304,295.92
Investments in the Short Term Investment Fund	2,030,537.93
Investments	12,443,416.40
Total Deposits and Investments	$ 15,781,790.25
Current:	
Cash and Cash Equivalents	$ 1,716,016.82
Restricted Cash and Cash Equivalents	1,590,296.23
Noncurrent:	
Restricted Cash and Cash Equivalents	32,060.80
Endowment Investments	6,274,055.27
Other Investments	6,169,361.13
Total	$ 15,781,790.25

NOTE 3 - ENDOWMENT INVESTMENTS

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

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are based on an adopted spending policy which limits spending up to 5% of the endowment principal's market value. To the extent that the income for the current year exceeds the payout, the excess is added to the expendable net asset endowment balance. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2006, net appreciation of $2,543,343.13 was available to be spent, of which $706,712.19 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Receivables
Current Receivables:	
Students	$ 322,583.85
Accounts	8,588.50
Intergovernmental	123,997.98
Pledges	274,529.00
Investment Earnings	20,318.22
Other	7,550.70
Total Current Receivables	$ 757,568.25
Noncurrent Receivables:	
Intergovernmental	$ 630,222.51
Pledges	5,235.00
Total Noncurrent Receivables	$ 635,457.51

NOTE 5 - 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	$ 429,736.45	$ 0.00	$ 0.00	$ 429,736.45
Construction in Progress	11,679,823.71	3,219,039.70	361,081.19	14,537,782.22
Total Capital Assets, Nondepreciable	12,109,560.16	3,219,039.70	361,081.19	14,967,518.67
Capital Assets, Depreciable:				
Buildings	22,909,614.97	43,938.00		22,953,552.97
Machinery and Equipment	2,451,154.77	157,204.26		2,608,359.03
General Infrastructure	1,870,810.25	317,143.20		2,187,953.45
Total Capital Assets, Depreciable	27,231,579.99	518,285.46		27,749,865.45
Less Accumulated Depreciation:				
Buildings	8,482,666.43	254,822.26		8,737,488.69
Machinery and Equipment	1,507,466.64	199,816.44		1,707,283.08
General Infrastructure	725,342.72	77,302.26		802,644.98
Total Accumulated Depreciation	10,715,475.79	531,940.96		11,247,416.75
Total Capital Assets, Depreciable, Net	$ 16,516,104.20	$ (13,655.50)	$ 0.00	$ 16,502,448.70

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 327,545.58
Accrued Payroll	98,849.61
Contract Retainage	291,607.90
Intergovernmental Payables	51,844.79
Other	34,318.70
Total Accounts Payable and Accrued Liabilities	$ 804,166.58

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in 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
Capital Leases Payable	$ 4,577.16	$ 0.00	$ 4,577.16	$ 0.00	$ 0.00
Compensated Absences	1,099,517.02	1,285,173.91	1,136,910.05	1,247,780.88	113,298.55
Annuities Payable	174,833.26	102,966.42	22,300.96	255,498.72	28,225.48
Total Long-Term Liabilities	$ 1,278,927.44	$ 1,388,140.33	$ 1,163,788.17	$ 1,503,279.60	$ 141,524.03

Additional information regarding capital lease obligation is included in Note 8.

B. Annuities Payable – The Foundation participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in an annuity for this purpose. At the end of the predetermined period (e.g., the lifetime of he beneficiary specified by the donor), the remaining assets of the annuity revert to the Foundation for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries is calculated using IRS tables, taking into consideration beneficiary's age and the amount of the gift, and using IRS issued Life Table. Annuities Payable obligations relating to nine annuities are recorded as current long term liabilities for the annuity payments that are due within the next year, and as long-term liabilities for the amounts payable more than a year later. The investment carrying value of the annuities as of June 30, 2006, was $418,756.29. Gift annuities are normally based on one or two life expectancies. An agreed upon quarterly percentage is calculated and paid over these life expectancies.

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to a motor vehicle ended with the final payments during the fiscal year totaling $4,577.16.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	$ 6,619.08
2008	6,619.08
2009	2,206.36
Total Minimum Lease Payments	$ 15,444.52

Rental expense for all operating leases during the year was $4,412.72.

NOTE 9 - 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	$ 3,713,073.30	$ 1,614,052.77	$ 2,099,020.53
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	$ 126,346.96	$ 0.00	$ 126,346.96
Other	42,383.11		42,383.11
Sales and Services of Education and Related Activities	144,227.99		144,227.99
Total Sales and Services	$ 312,958.06	$ 0.00	$ 312,958.06

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 11,563,105.27	$ 1,009,216.53	$ 390,146.83	$ 0.00	$ 0.00	$ 0.00	$ 12,962,468.63
Public Service	186,854.94	18,671.42	91,428.50				296,954.86
Academic Support	1,660,822.45	64,325.34	64,547.52				1,789,695.31
Student Services	1,638,911.55	45,679.48	68,054.06				1,752,645.09
Institutional Support	1,911,248.71	570,627.03	974,213.98				3,456,089.72
Operations and Maintenance of Plant	1,782,037.33	854,205.79	580,653.96		900,225.42		4,117,122.50
Student Financial Aid			26,823.31	3,211,038.50			3,237,861.81
Auxiliary Enterprises	49,121.85	69,358.92	108,656.63				227,137.40
Depreciation						531,940.96	531,940.96
Total Operating Expenses	$ 18,792,102.10	$ 2,632,084.51	$ 2,304,524.79	$ 3,211,038.50	$ 900,225.42	$ 531,940.96	$ 28,371,916.28

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *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 $15,440,219.97, of which $13,194,214.95 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $791,652.90 and $308,744.63, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were $308,744.63, $261,489.47, and $26,472.41, respectively.

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

B. **Supplemental Retirement Income Plans** - 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 G.S. 143-166.30(e). The voluntary contributions by employees amounted to $170,484.00 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 $246,520.84 for the year ended June 30, 2006.

NOTE 12 - OTHER POST EMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide post employment 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 $501,380.17. 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 $68,609.92. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

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

Fire and other property losses are covered by 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. The College purchased property insurance with a private insurance company for the Westmoore Center, a leased facility.

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds by a policy purchased from a private insurance company. The policy covers the College for losses up to $25,000. The College is protected for errors and omissions by a policy with a private insurance company for $1,000,000 with a $25,000 deductible.

The College purchased other authorized coverage from private insurance companies for professional liability coverage of allied health students and faculty. The College purchased general liability coverage to cover bodily injury and property damage as well as excess liability coverage as needed.

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.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. Commitments – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $975,411.89 at June 30, 2006.

B. Other Contingent Receivables – The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year end is as follows:

Purpose	Amount
Restricted Pledges	$ 196,059.00

NOTE 15 - NET ASSET RESTATEMENTS

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

	Amount
July 1, 2005 Net Assets as Previously Reported	$ 44,351,421.28
Restatements:	
PY Correction of Software Conversion Error	3,600.00
PY Restatement to Construction in Progress	38,388.55
PY Restatement to Payables - Student Center	12,500.00
July 1, 2005 Net Assets as Restated	$ 44,405,909.83

[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
Sandhills Community College
Pinehurst, North Carolina

We have audited the financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated June 28, 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 Sandhills Community College Foundation, Inc., as described in our report on the College's financial statements.

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(s) on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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)

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, 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., CPA, CFP
State Auditor

June 28, 2007

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