



# STATE OF NORTH CAROLINA

**SOUTH PIEDMONT COMMUNITY COLLEGE**

**POLKTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**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, 2007**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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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, 2007, 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 Responses 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

May 20, 2008

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Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT**

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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, 2007, 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., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, 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 provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Piedmont Community College and its discretely presented component unit as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2008, on our consideration of the College's internal control over financial reporting

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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

April 23, 2008

## **SOUTH PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Management of South Piedmont Community College provides this Management's Discussion and Analysis for readers of the college's financial statements. This narrative overview and analysis of the financial activities of South Piedmont Community College is for the fiscal year ended June 30, 2007. 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.

### **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 financial position of the College improved for the fiscal year ended June 30, 2007, due to several factors. A new self supporting truck driving class provided \$144,168.15 in cash, \$154,945.44 in net revenues and \$188,592.29 in net receivables. The College also did a significantly better end of year cleanup of outstanding purchase orders, thus there were fewer accounts payable. Changes in duties were made to insure cash handling, credit card and check procedures resulted in minimum write offs. Improvements were made to insure a positive cash flow.

The College experienced a 21% increase in FTE in the Spring 2006 semester when compared to the Spring 2005 semester. This trend, as expected, dropped to a lower positive rate, 2.5%, for the Fall 2006 semester when compared to the Fall 2005 semester. The system wide average was flat. The remaining construction issues with regard to the LRC Tech Building on the Old Charlotte Highway Campus were resolved and the building was completed in the early part of the 2006-2007 fiscal year. The Continuing Education Center renovation was also closed out during this same time period.

It is important to note that the South Piedmont Community College Foundation, Inc., was authorized to open a Short Term Investment Fund (STIF) account and the College transferred the funds it had been holding in a College STIF account back to the foundation. This was reported as a restatement in the June 30, 2006, audit report. Additional transactions were completed before June 30, 2007, the end of the fiscal year.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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### **Analysis of Assets**

For the year ended June 30, 2007, the College's Total Assets remained stable.

#### Current Assets

Current assets increased by \$492,357.78, primarily due to increases in cash and accounts receivable related to the new self supporting truck driving classes. This is an improvement over the prior year when current cash was used to cover deficits in restricted funds.

#### Noncurrent Assets

Noncurrent Assets increased by \$29,502.90, due to additions in General Infrastructure.

	<u>2006-2007</u>	<u>2005-2006</u>	<u>Difference</u>	<u>% Change</u>
Assets				
Current Assets	\$ 927,244.84	\$ 434,887.06	\$ 492,357.78	113%
Noncurrent Assets:				
Restricted Cash	0.00	18,383.52	(18,383.52)	-100%
Capital Assets	<u>20,700,264.28</u>	<u>20,652,377.75</u>	<u>47,886.53</u>	0%
Total Assets	<u>\$ 21,627,509.12</u>	<u>\$ 21,105,648.33</u>	<u>\$ 521,860.79</u>	2%

### **Analysis of Liabilities**

Compared with the year ended June 30, 2006, the current fiscal year had a 5% increase in total liabilities.

#### Current Liabilities

Current Liabilities decreased by \$267,868.68, due to a \$435,094.02 decrease in accounts payable and other accrued liabilities and an increase in unearned revenue of \$142,247.80. A \$350,639.28 decrease in accounts payable occurred as a result of an improved cash flow and the College's effort to pay accounts as incurred. Other accrued liabilities had a decrease of \$180,591.00 when the retainage payable for the West Campus and Learning Resources Center was paid. Accrued payroll increased \$96,136.26 due to a 6% increase in salaries and the addition of new employees. Unearned revenue also increased \$142,247.80 with the recognition of a liability for cash received for classes beginning after June 30th. Most of this cash (87%) was received for self supporting classes and 62% was for the new truck driving classes.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### Noncurrent Liabilities

The increase of \$346,499.13 in Noncurrent Liabilities occurred because of the addition of a long term note payable associated with an Energy Conservation Improvement.

	2006-2007	2005-2006	Difference	% Change
Current Liabilities	\$ 750,022.56	\$ 1,017,891.24	\$ (267,868.68)	-26%
Noncurrent Liabilities	832,508.89	486,009.76	346,499.13	71%
Total Liabilities	\$ 1,582,531.45	\$ 1,503,901.00	\$ 78,630.45	5%

### **Analysis of Net Assets**

Total Net Assets increased 2% compared with the year ended June 30, 2006. The significant decrease in Investment in Capital Assets is related to debt remaining on the energy conservation note payable. Unrestricted Net Assets increased due to a decrease in interfund borrowing and overspending on various accounts.

	2006-2007	2005-2006	Difference	% Change
Net Assets				
Investment in Capital Assets, Net	\$ 20,397,442.69	\$ 20,652,377.75	\$ (254,935.06)	-1%
Restricted for:				
Expendable				
Scholarships & Fellowships	11,926.92	18,169.38	(6,242.46)	-34%
Loans	12,613.04	12,430.07	182.97	1%
Unrestricted	(377,004.81)	(1,081,229.87)	704,225.06	65%
Total Net Assets	\$ 20,044,977.84	\$ 19,601,747.33	\$ 443,230.51	2%

### **Analysis of Revenues**

#### Operating

Total Operating Revenues increased by 20% over the year ended June 30, 2006. Student Tuition and Fees increased significantly over 2005-2006. The College has begun offering a self-supporting truck driving class that generates a high volume of tuition. Revenue generated related to the classes exceeded \$1,000,000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenues increased by 9% primarily due to an increase in state aid funding.

	2006-2007	2005-2006	Difference	% Difference	% Change
Operating Revenues:					
Student Tuition and Fees, Net	\$ 2,206,896.56	\$ 1,108,616.17	\$ 1,098,280.39	99%	50%
Federal Grants and Contracts	1,947,724.98	2,218,520.20	(270,795.22)	-12%	-14%
State and Local Grants and Contracts	502,763.07	476,004.17	26,758.90	6%	5%
Sales and Services, Net	586,923.41	392,527.72	194,395.69	50%	33%
Other Operating Revenues	2,574.67	8,068.25	(5,493.58)	-68%	-213%
<b>Total Operating Revenues</b>	<b>5,246,882.69</b>	<b>4,203,736.51</b>	<b>1,043,146.18</b>	<b>25%</b>	<b>20%</b>
Nonoperating Revenues:					
State Aid	10,055,805.04	8,893,362.17	1,162,442.87	13%	12%
County Appropriations	1,300,767.34	1,368,400.00	(67,632.66)	-5%	-5%
Noncapital Grants	580,305.08	612,280.51	(31,975.43)	-5%	-6%
Noncapital Gifts	166,271.52	96,470.63	69,800.89	72%	42%
Investment Income	10,057.15	9,814.49	242.66	2%	2%
State Capital Aid	680,812.82	393,867.01	286,945.81	73%	42%
County Capital Appropriations	97,570.66	263,370.36	(165,799.70)	-63%	-170%
Capital Grants	19,114.58	0.00	19,114.58	100%	100%
Capital Gifts	13,050.00	47,334.40	(34,284.40)	-72%	-263%
Interest and Fees on Debt	(25,490.78)	0.00	(25,490.78)	-100%	100%
Other Nonoperating Revenues	36,559.00	102,481.04	(65,922.04)	-64%	-180%
<b>Total Nonoperating Revenues</b>	<b>12,934,822.41</b>	<b>11,787,380.61</b>	<b>1,147,441.80</b>	<b>10%</b>	<b>9%</b>
<b>Total Revenues</b>	<b>\$ 18,181,705.10</b>	<b>\$ 15,991,117.12</b>	<b>\$ 2,190,587.98</b>	<b>14%</b>	<b>12%</b>

### Analysis of Expenses

Total Operating Expenses increased by 8% over 2005-2006. Revenues increased due to an increase in student enrollment and programs offered. Expenses increased to accommodate these changes. Personal Services also increased to reflect a 6% salary increase for full-time employees.

	2006-2007	2005-2006	Difference	% Change
Personal Services	\$ 11,574,781.52	\$ 10,549,911.35	\$ 1,024,870.17	10%
Supplies & Materials	1,641,765.95	1,714,559.19	(72,793.24)	-4%
Services	2,506,815.30	1,931,337.12	575,478.18	30%
Scholarships & Fellowship	1,118,348.52	1,342,198.47	(223,849.95)	-17%
Utilities	364,137.69	404,080.22	(39,942.53)	-10%
Depreciation	720,140.89	647,850.39	72,290.50	11%
<b>Total Operating Expenses</b>	<b>\$ 17,925,989.87</b>	<b>\$ 16,589,936.74</b>	<b>\$ 1,336,053.13</b>	<b>8%</b>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Capital Asset Activity**

South Piedmont Community College's capital assets as of June 30, 2007, total \$20,700,264.45 with net accumulated depreciation of \$5,693,317.15. The increase in General Infrastructure is due to energy conservation improvements.

	<u>2006-2007</u>	<u>2005-2006</u>	<u>Difference</u>	<u>% Change</u>
Capital Assets:				
Land	\$ 2,413,160.17	\$ 2,413,160.17	\$ 0.00	0%
Buildings	22,298,384.20	22,298,384.20		0%
Machinery & Equipment	1,182,318.23	1,062,594.47	119,723.76	11%
General Infrastructure	464,181.00	87,700.00	376,481.00	429%
Construction in Progress	<u>35,538.00</u>		<u>35,538.00</u>	100%
Total	<u>26,393,581.60</u>	<u>25,861,838.84</u>	<u>531,742.76</u>	2%
Less: Accumulated Depreciation	<u>5,693,317.15</u>	<u>5,209,461.09</u>	<u>483,856.06</u>	9%
Net Capital Assets	<u>\$ 20,700,264.45</u>	<u>\$ 20,652,377.75</u>	<u>\$ 47,886.70</u>	0%

### **Economic Factors and Next Year's Budget**

The State of North Carolina should be able to fund the College's 2007-2008 budget at a level comparable to the 2006-2007 year. There is the likelihood of a 0.75% reversion for tuition shortfall. This should amount to approximately \$84,000 of the College's budget. County funding should increase in both counties of the College service area. The College expects a 4.5% increase in operational funding from Anson County and a 15% increase in operational funding from Union County. The population growth is expected to continue at 10% in Union County and remain level in Anson County. Unemployment has continued its downward trend and the move of two major manufacturing entities into the service area bodes well for business and industry training opportunities. Continued growth in the high cost of Allied Health programs offered by the College will put a strain on the College's ability to reduce the waiting list of students in these programs. Grant funding is crucial for continued advancement in these areas.

***South Piedmont Community College***  
***Statement of Net Assets***  
***June 30, 2007***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 81,086.10
Restricted Cash and Cash Equivalents	122,178.59
Receivables, Net (Note 3)	450,337.78
Inventories	273,642.37

Total Current Assets	927,244.84
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Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	2,448,698.17
Capital Assets - Depreciable, Net (Note 4)	18,251,566.28

Total Noncurrent Assets	20,700,264.45
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Total Assets	21,627,509.29
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	424,031.36
Funds Held for Others	22,197.74
Unearned Revenue	211,829.87
Interest Payable	12,059.54
Long-Term Liabilities - Current Portion (Note 6)	79,904.05

Total Current Liabilities	750,022.56
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	832,508.89
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Total Liabilities	1,582,531.45
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	20,397,442.69
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Restricted for:

Expendable:

Scholarships and Fellowships	11,926.92
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Loans	12,613.04
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Unrestricted	(377,004.81)
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Total Net Assets	\$ 20,044,977.84
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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, 2007***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 2,206,896.56
Federal Grants and Contracts	1,947,724.98
State and Local Grants and Contracts	502,763.07
Sales and Services, Net (Note 7)	586,923.41
Other Operating Revenues	2,574.67

Total Operating Revenues	5,246,882.69
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	11,574,781.52
Supplies and Materials	1,641,765.95
Services	2,506,815.30
Scholarships and Fellowships	1,118,348.52
Utilities	364,137.69
Depreciation	720,140.89

Total Operating Expenses	17,925,989.87
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Operating Loss	(12,679,107.18)
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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	10,055,805.04
County Appropriations	1,300,767.34
Noncapital Grants	580,305.08
Noncapital Gifts	166,271.52
Interest Income	10,057.15
Interest and Fees on Debt	(25,490.78)
Other Nonoperating Revenues	36,559.00

Net Nonoperating Revenues	12,124,274.35
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Income Before Other Revenues, Expenses, Gains, and Losses	(554,832.83)
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Capital Appropriations	680,812.82
County Capital Appropriations	97,570.66
Capital Grants	19,114.58
Capital Gifts	13,050.00

Increase in Net Assets	255,715.23
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**NET ASSETS**

Net Assets, July 1, 2006, as Restated (Note 13)	19,789,262.61
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Net Assets, June 30, 2007	\$ 20,044,977.84
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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, 2007***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,220,901.80
Payments to Employees and Fringe Benefits	(11,424,253.59)
Payments to Vendors and Suppliers	(4,929,753.68)
Payments for Scholarships and Fellowships	(1,116,039.96)
Other Payments	(22,629.74)
	<hr/>
Net Cash Used by Operating Activities	(12,271,775.17)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	10,055,805.04
County Appropriations	1,262,767.34
Noncapital Grants Received	623,145.08
Noncapital Gifts	166,271.52
	<hr/>
Cash Provided by Noncapital Financing Activities	12,107,988.98

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	680,812.82
County Capital Received	97,570.66
Capital Grants Received	19,114.58
Capital Gifts	13,050.00
Acquisition and Construction of Capital Assets	(425,769.17)
Principal Paid on Capital Debt	(32,737.44)
Interest Paid on Capital Debt	(13,431.24)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	338,610.21

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	10,057.15
	<hr/>
Net Decrease in Cash and Cash Equivalents	184,881.17
Cash and Cash Equivalents, July 1, 2006	18,383.52
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 203,264.69

***South Piedmont Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2007***

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

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

Operating Loss	\$ (12,679,107.18)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	720,140.89
Miscellaneous Nonoperating Income	36,559.00
Changes in Assets and Liabilities:	
Receivables, Net	(184,856.29)
Inventories	(104,236.80)
Accounts Payable and Accrued Liabilities	(254,277.96)
Due to Primary Government	(4,026.28)
Unearned Revenue	137,407.80
Funds Held for Others	6,229.98
Compensated Absences	54,391.67
	<u>54,391.67</u>
Net Cash Used by Operating Activities	<u>\$ (12,271,775.17)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 81,086.10
Restricted Cash and Cash Equivalents	122,178.59
	<u>122,178.59</u>
Total Cash and Cash Equivalents - June 30, 2007	<u>\$ 203,264.69</u>

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, 2007***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	393,531
Investments		<u>350,536</u>

Total Current Assets		<u>744,067</u>
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Endowment Investments

Cash and Cash Equivalents		<u>399,521</u>
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Total Endowment Investments		<u>399,521</u>
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Total Assets	\$	<u><u>1,143,588</u></u>
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**NET ASSETS**

Unrestricted		232,016
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Temporarily Restricted		512,050
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Permanently Restricted		<u>399,522</u>
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Total Net Assets	\$	<u><u>1,143,588</u></u>
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See accompanying Notes to the Financial Statements



**South Piedmont Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2007**

**Exhibit B-2**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND GAINS</b>				
Contributions	\$ 182,925	\$ 346,902	\$ 103,008	\$ 632,835
Investment Earnings	10,673	49,348	4,327	64,348
Net Assets Released from Restrictions	<u>263,786</u>	<u>(263,786)</u>		
Total Unrestricted Revenues and Gains	<u>457,384</u>	<u>132,464</u>	<u>107,335</u>	<u>697,183</u>
<b>EXPENSES</b>				
Supporting Services				
Insurance	1,070			1,070
Management Fee	4,519			4,519
Meals and Entertainment	1,434			1,434
Office Expense	163			163
Presidential Supplement	19,691			19,691
Professional Fees	1,250			1,250
Telephone	<u>307</u>			<u>307</u>
Total Supporting Services	28,434			28,434
Scholarship Awards	64,150			64,150
Donation to South Piedmont Community College	<u>190,495</u>			<u>190,495</u>
Total Expenses	<u>283,079</u>			<u>283,079</u>
Change in Net Assets Transfers	174,305	132,464 (50,000)	107,335 50,000	414,104
Net Assets at Beginning of Year	<u>57,711</u>	<u>429,586</u>	<u>242,187</u>	<u>729,484</u>
Net Assets at End of Year	<u>\$ 232,016</u>	<u>\$ 512,050</u>	<u>\$ 399,522</u>	<u>\$ 1,143,588</u>

See accompanying Notes to the Financial Statements

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**SOUTH PIEDMONT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. South Piedmont Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds 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 are reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

**Discretely Presented Component Units** – South Piedmont Community College Foundation Inc., is a not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The South Piedmont Community College Foundation, Inc., is a tax-exempt component unit of the College and 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 twenty-one 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 South Piedmont Community College Foundation is a private not-for-profit organization that reports its financial results under Financial

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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, 2007, the Foundation distributed \$274,336 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Hayne White, Executive Director, South Piedmont Community College Foundation, Inc., PO Box 126, Polkton, NC 28135, 704 272-7220.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost. Merchandise for resale is valued at the lower of cost or market using the retail inventory method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 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 notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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)

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

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

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

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

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- N. 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

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 \$1,450.00, and deposits in private financial institutions with a carrying value of \$201,814.69 and a bank balance of \$279,634.08.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 472,704.08	\$ 103,869.70	\$ 368,834.38
Other	81,503.40		81,503.40
<b>Total Current Receivables</b>	<b>\$ 554,207.48</b>	<b>\$ 103,869.70</b>	<b>\$ 450,337.78</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 2,413,160.17	\$ 0.00	\$ 0.00	\$ 2,413,160.17
Construction in Progress		35,538.00		35,538.00
<b>Total Capital Assets, Nondepreciable</b>	2,413,160.17	35,538.00		2,448,698.17
Capital Assets, Depreciable:				
Buildings	22,298,384.20			22,298,384.20
Machinery and Equipment	1,066,662.39	209,640.17	93,984.33	1,182,318.23
General Infrastructure	464,181.00			464,181.00
<b>Total Capital Assets, Depreciable</b>	23,829,227.59	209,640.17	93,984.33	23,944,883.43
Less Accumulated Depreciation:				
Buildings	4,314,777.22	572,580.88		4,887,358.10
Machinery and Equipment	661,730.05	116,207.84	93,984.33	881,922.56
General Infrastructure	90,653.32	31,352.17		122,005.49
<b>Total Accumulated Depreciation</b>	5,067,160.59	720,140.89	93,984.33	5,693,317.15
<b>Total Capital Assets, Depreciable, Net</b>	18,762,067.00	(510,500.72)		18,251,566.28
<b>Capital Assets, Net</b>	<b>\$ 21,175,227.17</b>	<b>\$ (474,962.72)</b>	<b>\$ 0.00</b>	<b>\$ 20,700,264.45</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 139,968.95
Accrued Payroll	284,062.41
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 424,031.36</b>

### NOTE 6 - 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, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 335,559.20	\$ 0.00	\$ 0.00	\$ 302,821.76	\$ 32,737.44
Compensated Absences	555,200.00	412,440.23	358,049.05	609,591.18	47,166.61
<b>Total Long-Term Liabilities</b>	<b>\$ 890,759.20</b>	<b>\$ 412,440.23</b>	<b>\$ 358,049.05</b>	<b>\$ 912,412.94</b>	<b>\$ 79,904.05</b>

**B. Notes Payable** – The College was indebted for notes payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2007	Principal Outstanding 06/30/2007
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	\$ 376,481.00	\$ 73,659.24	\$ 302,821.76

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2008	\$ 32,737.44	\$ 12,059.54
2009	32,737.44	10,687.83
2010	32,737.44	9,316.14
2011	32,737.44	7,944.45
2012	32,737.44	6,572.74
2013-2017	139,134.56	12,630.70
Total Requirements	\$ 302,821.76	\$ 59,211.40

### NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 2,920,183.05	\$ 623,829.84	\$ 89,456.65	\$ 2,206,896.56
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 879,760.82	\$ 378,035.57	\$ 14,413.05	\$ 487,312.20
Vending	31,618.87			31,618.87
Other	67,992.34			67,992.34
<b>Total Sales and Services</b>	\$ 979,372.03	\$ 378,035.57	\$ 14,413.05	\$ 586,923.41

### 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	\$ 7,385,776.82	\$ 323,778.35	\$ 1,370,977.96	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,080,533.13
Academic Support	823,243.50	11,094.62	16,077.03				850,415.15
Student Services	963,636.19	31,079.67	37,901.32				1,032,617.18
Institutional Support	2,132,493.71	179,535.39	485,772.18		53,969.46		2,851,770.74
Operations and Maintenance of Plant	200,775.54	430,884.21	511,496.12		302,756.14		1,445,912.01
Student Financial Aid			2,466.00	1,118,348.52			1,120,814.52
Auxiliary Enterprises	68,855.76	665,393.71	82,124.69		7,412.09		823,786.25
Depreciation						720,140.89	720,140.89
Total Operating Expenses	\$ 11,574,781.52	\$ 1,641,765.95	\$ 2,506,815.30	\$ 1,118,348.52	\$ 364,137.69	\$ 720,140.89	\$ 17,925,989.87

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$9,479,327.47, of which \$8,195,383.90 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$491,723.03 and \$217,997.21, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$217,997.21, \$166,215.08, and \$144,219.38, respectively.

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

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*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 \$554.88 for the year ended June 30, 2007.

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. The voluntary contributions by employees amounted to \$107,286.00 for the year ended June 30, 2007.

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 \$4,800.00 for the year ended June 30, 2007.

### **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, 2007, the College's total contribution to the Plan was \$311,424.59. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Disability Income** – 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, 2007, the College's total contribution to the DIPNC was \$42,616.00. 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 \$75,000 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.

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 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 19,601,747.33
Restatements:	
Corrections to capital asset balances	146,593.48
Corrections to the Energy Conservation Note Payable	<u>40,921.80</u>
July 1, 2006, Net Assets as Restated	<u>\$ 19,789,262.61</u>



STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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

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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, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 23, 2008. 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 the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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)**

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the finding in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above are considered to be 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 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 management of the College the Board of Trustees, the State Board of Community Colleges, 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

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## AUDIT FINDINGS AND RESPONSES

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following finding was identified during the current audit and describes conditions that represent a significant deficiency in internal control. The finding was also reported in the prior year.

#### DEFICIENCIES IN FINANCIAL REPORTING

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

- a. Current unrestricted cash was overstated and restricted cash was understated by \$62,144.15. The College did not record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds.
- b. The College did not record all of the beginning of the year amounts correctly. The July 1 net asset balance presented in the Statement of Revenues, Expenses, and Changes in Net Assets did not match the prior year audit report by \$543,611.76.
- c. Depreciable capital assets were understated by \$154,151.38 because the useful lives of equipment were not reasonably estimated.
- d. The College did not properly report the notes payable obtained to finance the September 2004 Energy Conservation Improvement. The College overstated services expense by \$362,033.16 instead of recording a restatement to beginning net assets. Long term liabilities current and noncurrent were overstated by the amount of related of interest and fees expense, \$12,059.54 and \$59,211.40, respectively. Invested in capital assets was overstated \$302,033.16 when the College did not reduce the invested in capital assets by the amount of debt outstanding.
- e. The College posted a balancing entry of \$56,823.46 which understated invested in capital assets, net of related debt and services expense.
- f. 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.

#### *Responses:*

- a. The Director of Financial Services did not realize this was supposed to be done. She was under the impression that if overall restricted cash was positive, then no adjusting entries needed to be made. The College's instructions have been updated to reflect this information.

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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- b. The college recorded the prior year restatements during the 2006-2007 year instead of as of July 1, 2006. To prevent this from being an issue again, the Director of Financial Services has already made the auditor's adjustments to the 2006-2007 year in Datatel and the college's June 30, 2007 net asset balance does agree with the auditor's June 30, 2007 net asset balance.
- c. A process is now in place to periodically review capitalized assets and their estimated useful lives to ensure that if assets will be used longer than their anticipated expiration date, the useful life will be extended and depreciation will be recalculated.
- d. These entries have been corrected.
- e. This entry was related to the Energy Conservation Improvement Project and has been reversed.
- f. The college staff does try very hard to correctly present the financial statements and their accompanying documents.

## ORDERING INFORMATION

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