STATE OF NORTH CAROLINA

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, South Piedmont Community College

We have completed a financial statement audit of South Piedmont Community College for the year ended June 30, 2009, 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 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

We have audited the accompanying financial statements of South Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of South Piedmont Community College Foundation, Inc., 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, 2009, 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.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

November 23, 2010

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, 2009. 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 College experienced an increase of 14.3% in FTE for the fiscal year 2008-2009. This trend is expected to continue for fiscal year 2009-2010 due to the deep recession that North Carolina and the country are experiencing. The impact on space utilization at the College is severe, especially in the Health Science programs. The 2008-2009 budget was reduced by a 7% reversion and the state imposed a severe cash management plan. The impact was significant, especially in equipment purchases. Planning for a Multi-Purpose building continued in spite of the hard economic times. While the timeline for bids has been delayed by six months, the project is moving forward. There is minimal state funding for the project and Union county is still providing funding to move the project along. Capital funding from Anson and Union county did not increase due to the economic downturn. The impact of this stagnation is more pronounced in Anson County due to the significant unemployment rate in the county for 2008-2009.

The College continued to strive to reduce outstanding purchase orders as of June 30, 2009. In the Business Office, duties were once again reviewed to ensure cash handling, credit card and check procedures, which resulted in minimum write-offs, and ensured that policies and procedures were in compliance with State and federal regulations. Cash flow was positive and management concluded that the financial position of the College remained stable.

Analysis of Assets

For the year ended June 30, 2009, the College's Total Assets increased by 5%, which was due to an increase in Current Assets.

Current Assets

Current assets increased $1,105,080.64. This was a due to a $447,054.11 increase in current cash. Union and Anson County Appropriations increased $159,151.15, Student Fees, namely science fees, online class fees, technology/lab fees, career assessment fees, and tutoring fees increased $122,454.44. Bookstore and Vending sales increased $85,802.82. The receivable Due from State of NC Component Units increased by the amount of the Golden Leaf Grant from the State of North Carolina of $556,380.

Noncurrent Assets

Noncurrent Assets remained stable with a .5% decrease because of depreciation.

	2008-2009	2007-2008	Difference	% Change
Assets				
Current Assets	$ 2,318,662.11	$ 1,213,581.47	$ 1,105,080.64	91%
Noncurrent Assets:				
Restricted Cash	14,794.03			
Capital Assets	20,665,206.77	20,767,103.12	(101,896.35)	-0.5%
Total Assets	$ 22,998,662.91	$ 21,980,684.59	$ 1,017,978.32	5%

Analysis of Liabilities

Compared with the year ended June 30, 2008, the current fiscal year showed an 11% increase in total liabilities.

Current Liabilities

Current Liabilities increased $112,219.50, due to a $129,730.56 increase in accounts payable and other accrued liabilities and a decrease in long-term liabilities of $19,998.07. An increase of $183,973.11 in accounts payable occurred in direct relation to construction in progress expenses incurred. Accrued payroll decreased $47,828.28 due to a decrease in part-time Continuing Education contracts and the elimination of the Advising Center's part-time contracts.

Noncurrent Liabilities

Noncurrent liabilities increased $52,688.62, which was a net result of a decrease in the principal balance owed on the Energy Conservation Improvement Project and an increase in compensated absences.

	2008-2009	2007-2008	Difference	% Change
Current Liabilities	$ 793,342.26	$ 681,122.76	$ 112,219.50	16%
Noncurrent Liabilities	871,762.53	819,073.91	52,688.62	6%
Total Liabilities	$ 1,665,104.79	$ 1,500,196.67	$ 164,908.12	11%

Analysis of Net Assets

Total Net Assets increased 4% compared with the year ended June 30, 2008. The improvement in Restricted for Specific Programs and Unrestricted Net Assets was due to a better cash flow situation and the receivable of the Golden Leaf Grant from the State of North Carolina in the amount of $556,380. The decrease in Investment in Capital Assets was the result of depreciation expense and corrections to the valuation of capital assets.

	2008-2009	2007-2008	Difference	% Change
Net Assets				
Investment in Capital Assets	$ 20,427,859.89	$ 20,497,018.80	$ (69,158.91)	-0.3%
Restricted for:				
Expendable				
Scholarships & Fellowships	36,291.26	8,284.44	28,006.82	338%
Loans	17,791.89	12,787.28	5,004.61	39%
Restricted for Specific Programs	564,966.71	4,940.59	560,026.12	11335%
Unrestricted	286,648.37	(42,543.19)	329,191.56	-774%
Total Net Assets	$ 21,333,558.12	$ 20,480,487.92	$ 853,070.20	4%

Analysis of Revenues

The College is reporting federal student aid as nonoperating revenue instead of operating revenue beginning with the year ended June 30, 2009. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*. Due to the change for the current year, prior year amounts were restated in order to provide a more accurate comparison.

Total operating revenues decreased $908,616.46, in fiscal year 2009, primarily due to decreased student enrollment in the self-supporting truck driving program of $1,579,038.24 and an increase in state and local contracts and grants of $649,472.36. The trucking program was an employer supported tuition reimbursement program that declined after the employer withdrew support. State and local contracts and grants increased due to the Golden Leaf Grant of $556,380. Net nonoperating revenues increased $134,758.05.

	2008-2009	2007-2008 As Restated	Difference	% Change
Operating Revenues:				
Student Tuition & Fees	$ 1,734,534.30	$ 3,313,572.54	$ (1,579,038.24)	-48%
Federal Grants & Contracts	36,278.27	26,476.63	9,801.64	37%
State & Local Grants & Contracts	1,155,683.11	506,210.75	649,472.36	128%
Sales & Services, Net	668,032.24	656,688.55	11,343.69	2%
Other Revenues	96.00	291.91	(195.91)	-67%
Total Operating Revenues	3,594,623.92	4,503,240.38	(908,616.46)	-20%
Nonoperating Revenues:				
State Aid	11,039,661.31	10,927,662.99	111,998.32	1%
County Appropriations	1,739,737.52	1,624,780.00	114,957.52	7%
Noncapital Grants - Federal Student Financial Aid	2,537,427.89	2,139,917.90	397,509.99	19%
Noncapital Grants	378,537.45	429,076.00	(50,538.55)	-12%
Noncapital Gifts, Net	523,365.44	394,446.28	128,919.16	33%
Investment Income, Net	5,064.78	17,157.40	(12,092.62)	-70%
State Capital Aid	550,858.26	803,395.08	(252,536.82)	-31%
County Capital Appropriations	293,390.00	638,773.04	(345,383.04)	-54%
Capital Grants	2,021.29	12,657.34	(10,636.05)	-84%
Interest and Fees on Debt	(10,687.33)	(22,746.87)	12,059.54	-53%
Other Nonoperating Revenues	71,586.60	31,086.00	40,500.60	130%
Total Nonoperating Revenues	17,130,963.21	16,996,205.16	134,758.05	1%
Total Revenues	$ 20,725,587.13	$ 21,499,445.54	$ (773,858.41)	-4%

Analysis of Expenditures

Total Operating Expenditures for fiscal year 2009 decreased 4%. Personal Services increased to reflect a 3% salary increase for full-time employees and a 2.75% for all other employees. The decrease in services was directly related to the decline in enrollment in the truck driving program. Contracted Instruction for the program decreased $1,473,492.43. Due to greater efficiencies in operations, Supplies and Material's Instructional supplies decreased $216,944.57 and Office Equipment, Furniture, Supplies and Other Equipment decreased $367,769.72.

	2008-2009	2007-2008	Difference	% Change
Personal Services	$ 12,869,413.85	$ 12,160,317.34	$ 709,096.51	6%
Supplies & Materials	1,873,404.90	2,412,464.92	(539,060.02)	-22%
Services	2,410,173.04	4,048,978.70	(1,638,805.66)	-40%
Scholarships & Fellowships	1,797,845.46	1,333,457.02	464,388.44	35%
Utilities	420,680.46	406,278.05	14,402.41	4%
Depreciation	772,755.26	702,439.43	70,315.83	10%
Total Operating Expenditures	$ 20,144,272.97	$ 21,063,935.46	$ (919,662.49)	-4%

Capital Asset Activity

South Piedmont Community College's capital assets as of June 30, 2009 totaled $27,825,024.02 with net accumulated depreciation of $7,159,817.25, which is a .5% decrease in Net Capital Assets compared to June 30, 2008.

	2008-2009	2007-2008	Difference	% Change
Capital Assets:				
Land	$ 2,413,160.17	$ 2,413,160.17	$ 0.00	0%
Buildings	22,961,068.36	22,961,068.36		0%
Machinery & Equipment	1,583,655.27	1,671,603.25	(87,947.98)	-5%
General Infrastructure	464,181.00	169,050.26	295,130.74	175%
Construction in Progress	402,959.22	64,069.22	338,890.00	529%
Total	27,825,024.02	27,278,951.26	546,072.76	2%
Less: Accumulated Depreciation	7,159,817.25	6,511,848.14	647,969.11	10%
Net Capital Assets	$ 20,665,206.77	$ 20,767,103.12	$ (101,896.35)	-0.5%

Economic Factors and Next Year's Budget

The economy of the State of North Carolina will be flat and may even be below expectations. Therefore, the state may have difficulty in maintaining current funding for the College. Reversions have already been announced to maintain the state's budget in a balanced position. The added increase in FTE will continue to place a larger burden on the College to train those students who have been displaced and require retraining. County funding will remain flat in both counties of the service area. The population growth is expected to continue at 5% - 10% for Union County and remain static in Anson County. With continued growth in the high cost Allied Health programs and the lack of teaching labs and clinical sites the strain on the College's ability to reduce the waiting list of students in these programs will remain. Grant funding continues to be critical for continued advancement in these areas. During the upcoming year the College continues to expect significant increases in its grant funds.

South Piedmont Community College
Statement of Net Assets
June 30, 2009 *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	758,513.22
Restricted Cash and Cash Equivalents		55,374.12
Receivables, Net (Note 3)		653,145.24
Due from State of North Carolina Component Units		556,380.00
Inventories		295,249.53
Total Current Assets		2,318,662.11
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		14,794.03
Capital Assets - Nondepreciable (Note 4)		2,816,119.39
Capital Assets - Depreciable, Net (Note 4)		17,849,087.38
Total Noncurrent Assets		20,680,000.80
Total Assets		22,998,662.91
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		572,398.91
Due to Primary Government		1,920.80
Unearned Revenue		105,291.14
Funds Held for Others		22,925.19
Long-Term Liabilities - Current Portion (Note 6)		90,806.22
Total Current Liabilities		793,342.26
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		871,762.53
Total Liabilities		1,665,104.79
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		20,427,859.89
Restricted for:		
Expendable:		
Scholarships and Fellowships		36,291.26
Loans		17,791.89
Restricted for Specific Programs		564,966.71
Unrestricted		286,648.37
Total Net Assets	$	21,333,558.12

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, 2009 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	$	1,734,534.30
Federal Grants and Contracts		36,278.27
State and Local Grants and Contracts		1,155,683.11
Sales and Services, Net (Note 7)		668,031.94
Other Operating Revenues		96.00
Total Operating Revenues		3,594,623.62
EXPENSES		
Operating Expenses:		
Personal Services		12,869,413.85
Supplies and Materials		1,873,404.90
Services		2,410,173.04
Scholarships and Fellowships		1,797,845.46
Utilities		420,680.46
Depreciation		772,755.26
Total Operating Expenses		20,144,272.97
Operating Loss		(16,549,649.35)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,039,661.31
County Appropriations		1,739,737.52
Noncapital Grants - Student Financial Aid		2,537,427.89
Noncapital Grants		378,537.45
Noncapital Gifts		523,365.44
Investment Income		5,064.78
Interest and Fees on Debt		(10,687.33)
Other Nonoperating Revenues		71,588.90
Net Nonoperating Revenues		16,284,695.96
Income Before Other Revenues, Expenses, Gains, and Losses		(264,953.39)
State Capital Aid		550,858.26
County Capital Aid		293,390.00
Capital Grants		2,021.29
Increase in Net Assets		581,316.16
NET ASSETS		
Net Assets, July 1, 2008 as Restated (Note 14)		20,752,241.96
Net Assets, June 30, 2009	$	21,333,558.12

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, 2009 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,721,602.80
Payments to Employees and Fringe Benefits	(12,862,806.19)
Payments to Vendors and Suppliers	(4,776,845.96)
Payments for Scholarships and Fellowships	(1,782,922.78)
Other Receipts	73,036.52
Net Cash Used by Operating Activities	(15,627,935.61)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,039,661.31
County Appropriations	1,739,737.52
Noncapital Grants - Federal Student Financial Aid	2,357,547.02
Noncapital Gifts	523,365.44
Cash Provided by Noncapital Financing Activities	15,660,311.29
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	550,858.26
County Capital Aid	44,500.00
Capital Grants Received	2,021.29
Acquisition and Construction of Capital Assets	(146,027.61)
Principal Paid on Capital Debt	(32,737.44)
Interest Paid on Capital Debt	(10,687.33)
Net Cash Provided by Capital and Related Financing Activities	407,927.17
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	5,064.78
Net Increase in Cash and Cash Equivalents	445,367.63
Cash and Cash Equivalents, July 1, 2008	383,313.74
Cash and Cash Equivalents, June 30, 2009	$ 828,681.37
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (16,549,649.35)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	772,755.26
Miscellaneous Nonoperating Income	78,393.39
Changes in Assets and Liabilities:	
Receivables, Net	155,086.65
Inventories	(24,323.69)
Accounts Payable and Accrued Liabilities	(112,745.17)
Due to Primary Government	1,876.37
Unearned Revenue	1,591.86
Funds Held for Others	(5,357.17)
Compensated Absences	54,435.94
Net Cash Used by Operating Activities	$ (15,627,935.91)

South Piedmont Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2009 — *Page 2*

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	758,513.22
Restricted Cash and Cash Equivalents		55,374.12
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		14,794.03
Total Cash and Cash Equivalents - June 30, 2009	$	828,681.37

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	248,890.00
Increase in Receivables Related to Nonoperating Income		805,270.00
Capital Asset Write-Offs		49,662.81

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, 2009 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	684,171
Investments		205,474
Total Current Assets		889,645
Endowment Investments:		
Cash and Cash Equivalents		669,179
Total Endowment Investments		669,179
Total Assets	$	1,558,824
NET ASSETS		
Unrestricted	$	355,548
Temporarily Restricted		534,097
Permanently Restricted		669,179
Total Net Assets	$	1,558,824

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

South Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and Other Income	$ 139,364	$ 127,041	$ 108,875	$ 375,280
Investment Earnings (Loss)	(6,865)	(57,217)	18,398	(45,684)
Net Assets Released from Restrictions	342,917	(319,017)	(23,900)	
Total Revenues, Gains, and Other Support	475,416	(249,193)	103,373	329,596
EXPENSES				
Supporting Services				
Insurance	1,070			1,070
Management Fee	4,284			4,284
Meals and Entertainment	4,197			4,197
Office Expenses	35			35
Professional Fees	2,000			2,000
Miscellaneous	377			377
Total Supporting Services	11,963			11,963
Scholarship Awards	50,290			50,290
Support for South Piedmont Community College Expenses and Programs	382,388			382,388
Total Expenses	444,641			444,641
Change in Net Assets	30,775	(249,193)	103,373	(115,045)
Transfer	254,476	(254,476)		
Net Assets at Beginning of Year	70,297	1,037,766	565,806	1,673,869
Net Assets at End of Year	$ 355,548	$ 534,097	$ 669,179	$ 1,558,824

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), 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 its component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. Discretely presented component unit's financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - South Piedmont Community College Foundation Inc. (Foundation) is a not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of their relationship to the College.

The Foundation is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 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 Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the 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, 2009, the Foundation distributed $432,678 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. **Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private bank accounts.

E. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from state and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated 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 75 years for buildings, and 2 to 25 years for equipment.

H. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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 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 $1,393.90, and deposits in private financial institutions with a carrying value of $827,287.47, and a bank balance of $944,765.95.

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, 2009, the College's bank balance in excess of federal depository insurance coverage was covered under pooling method.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 498,227.24	$ 108,189.47	$ 390,037.77
Intergovernmental	248,890.00		248,890.00
Other	14,217.47		14,217.47
Total Current Receivables	$ 761,334.71	$ 108,189.47	$ 653,145.24

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	$ 2,413,160.17	$ 0.00	$ 0.00	$ 2,413,160.17
Construction in Progress	64,069.22	338,890.00		402,959.22
Total Capital Assets, Nondepreciable	2,477,229.39	338,890.00		2,816,119.39
Capital Assets, Depreciable:				
Buildings	22,961,068.36			22,961,068.36
Machinery and Equipment	1,517,451.87	115,866.21	49,662.81	1,583,655.27
General Infrastructure	464,181.00			464,181.00
Total Capital Assets, Depreciable	24,942,701.23	115,866.21	49,662.81	25,008,904.63
Less Accumulated Depreciation/Amortization for:				
Buildings	5,478,079.40	585,834.60		6,063,914.00
Machinery and Equipment	798,482.96	155,568.50	42,858.02	911,193.44
General Infrastructure	153,357.65	31,352.16		184,709.81
Total Accumulated Depreciation	6,429,920.01	772,755.26	42,858.02	7,159,817.25
Total Capital Assets, Depreciable, Net	18,512,781.22	(656,889.05)	6,804.79	17,849,087.38
Capital Assets, Net	$ 20,990,010.61	$ (317,999.05)	$ 6,804.79	$ 20,665,206.77

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	$ 281,907.34
Accrued Payroll	286,115.62
Intergovernmental Payables	4,375.95
Total Accounts Payable and Accrued Liabilities	$ 572,398.91

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Notes Payable	$ 270,084.32	$ 0.00	$ 32,737.44	$ 237,346.88	$ 32,737.44
Compensated Absences	670,785.95	506,300.25	451,864.33	725,221.87	58,068.78
Total Long-Term Liabilities	$ 940,870.27	$ 506,300.25	$ 484,601.77	$ 962,568.75	$ 90,806.22

B. Notes Payable - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2009	Principal Outstanding June 30, 2009
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	$ 376,481.00	$ 139,134.12	$ 237,346.88

The annual requirements to pay principal and interest on notes payable at June 30, 2009, are as follows:

	Annual Requirements Notes Payable	
Fiscal Year	Principal	Interest
2010	$ 32,737.44	$ 9,316.14
2011	32,737.44	7,944.45
2012	32,737.44	6,572.74
2013	32,737.44	5,201.04
2014	32,737.44	3,829.34
2015-2019	73,659.68	3,600.32
Total Requirements	$ 237,346.88	$ 36,464.03

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,564,082.25	$ 860,543.99	$ 30,996.04	$ 1,734,534.30
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,155,249.86	$ 495,534.09	$ 6,370.54	$ 653,345.23
SGA	2,272.17		843.17	1,429.00
Vending	11,470.31		34.98	11,435.33
Other	1,822.38			1,822.38
Total Sales and Services	$ 1,170,814.72	$ 495,534.09	$ 7,248.69	$ 668,031.94

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	$ 7,427,409.89	$ 537,253.66	$ 1,004,140.55	$ 0.00	$ 0.00	$ 0.00	$ 8,968,804.10
Academic Support	1,380,621.69	48,918.79	11,108.07				1,440,648.55
Student Services	1,116,521.50	87,693.90	50,466.05		13.82		1,254,695.27
Institutional Support	2,659,504.91	37,735.52	641,735.42				3,338,975.85
Operations and Maintenance of Plant	248,565.11	203,125.84	648,723.74		420,666.64		1,521,081.33
Student Financial Aid			2,049.70	1,797,845.46			1,799,895.16
Auxiliary Enterprises	36,790.75	958,677.19	51,949.51				1,047,417.45
Depreciation						772,755.26	772,755.26
Total Operating Expenses	$ 12,869,413.85	$ 1,873,404.90	$ 2,410,173.04	$ 1,797,845.46	$ 420,680.46	$ 772,755.26	$ 20,144,272.97

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $10,713,758.14, of which $9,215,029.01 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $309,624.97 and $552,901.74 , respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $309,624.97, $263,329.40, and $217,997.21, 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.ncosc.net/ and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

College. The voluntary contributions by employees amounted to $19,554.88 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $121,046.00 for the year ended June 30, 2009.

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 $2,400.00 for the year ended June 30, 2009.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries.

By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $377,816.19, $353,983.78, and $311,424.59, respectively. 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*. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2008 and 2007 was .52%. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $47,918.15, $44,895.50, and $42,616.00, respectively. 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the $10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is

$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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 - 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 $1,149,960.00 at June 30, 2009.

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 14 - NET ASSET RESTATEMENTS

As of July 1, 2008, net assets as previously reported were restated as follows:

	Amount
July 1, 2008 Net Assets as Previously Reported	$ 20,480,487.92
Restatements:	
Corrections from Prior Audit that Were Not Recorded Properly and Other Various Recording Errors	271,754.04
July 1, 2008 Net Assets as Restated	$ 20,752,241.96

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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*

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, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated November 23, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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*.

<u>Internal Control Over Financial Reporting</u>

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 opinion 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.

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

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.

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 both deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies 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*.

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)**

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

November 23, 2010

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Matters Related to Financial Reporting

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

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

   The College did not maintain adequate internal control over access to its computer systems and data. As a result, there is an increased risk that error or fraud could occur without detection.

   Access rights granted were inconsistent with appropriate segregation of duties. Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees.

   The director and assistant director of financial services had access to perform most functions within the business office from initiation to completion. Six additional employees that work within the payroll and human resource areas had access to perform functions from initiation to completion that included adding and terminating employees, entering pay rates, processing payroll, and printing checks. Five additional business office employees and one bookstore employee had access to perform accounts payable functions from initiation to completion that included adding vendor records, processing and disbursing payments, and posting journal entries.

   Recommendation: Management should evaluate and reassign system access rights to better segregate duties and enhance internal control.

   College Response: SPCC did have some inconsistencies with access rights granted and segregation of duties. When told of this issue, immediate action was taken to rectify the inconsistencies and better segregate duties to enhance internal control. The Human Resources Department segregated the payroll area from the human resources area. New job descriptions and assignment of duties have been completed.

   With regard to the business office and budget office, the effort to provide cross checks was more difficult due to the limited size of the department and the number of personnel involved. The responsible supervisor is required to sign off on journal entries and financial reports. Job descriptions and duties were carefully examined to ensure that any perceptions of inapropriate action or perceived risks are mitigated. We are moving quickly to implement EAGLE which will provide us an additional series of checks and balances.

   Additionally, the Vice President of Finance, in conjunction with the Information Services Department, will semi-annualy examine the access rights for all individuals working in any area with access to financial transactions within SPCC. The College has outsourced/leased the bookstore operations. No bookstore employee has access to any accounts payable function. Again, these actions were taken and implemented prior to the team completing its audit.

We believe the actions we have taken will enhance internal controls to ensure the accuracy of the financial statements and related notes.

2. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included the following:

- The College reported federal student financial aid awards applicable to the subsequent fiscal year as current receivables and current liabilities. As a result, net current receivables and current accounts payable and accrued liabilities were overstated by $1,865,553.
- County appropriations were overstated by $50,000 and county capital aid was understated by the same amount due to a classification error.
- Noncurrent restricted cash was understated by $14,794 and current restricted cash was overstated by the same amount due to a classification error.

Adequate internal control should be in place to provide reasonable assurance that the financial statements are not significantly misstated. Such internal control practices may include establishing formal policies and procedures over financial reporting, reviewing and approving year-end journal entries (with documentation of the approval), and reviewing and approving the completed financial statements (with documentation of the approval).

Recommendation: The College should implement effective internal control to ensure the accuracy of the financial statements and related notes.

College Response: The inappropriate statements on the financial reports were in part caused by the Department of Education next fiscal year's funds being deposited into SPCC's account prior to the end of the current fiscal year. The College should have done nothing with respect to the current year. There was no intent to mislead anyone.

The appropriation in county funds was recorded as current funds rather than as capital funds. The amount that the capital funds were understated was the same amount that the county funds were overstated. This was a classification error as was the noncurrent restricted funds being overstated by $14,794 and the current restricted funds being understated by the same amount.

SPCC will continue to build and refine our efforts for continuous improvement in our financial reporting as we move forward.

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