



# **STATE OF NORTH CAROLINA**

**SANDHILLS COMMUNITY COLLEGE**

**PINEHURST, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**SANDHILLS COMMUNITY COLLEGE**

**PINEHURST, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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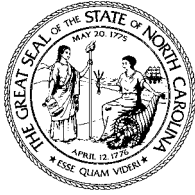
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Sandhills Community College for the year ended June 30, 2010, 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 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.

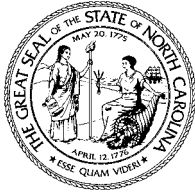
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**Beth A. Wood, CPA**  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Sandhills Community College  
Pinehurst, North Carolina

We have audited the accompanying basic financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Sandhills Community College Foundation, Inc., which represent 26.29 percent, 24.41 percent, and 7.79 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our 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 the Sandhills 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 financial position of Sandhills Community College as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

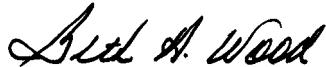
As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2011 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, CPA  
State Auditor

July 13, 2011

## **SANDHILLS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Introduction**

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

### **Using This Annual Report**

Sandhills Community College's discussion and analysis provides a summary of the College's financial statements and a comparison of prior year information. This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis for – Public Colleges and Universities*. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three statements are described below with brief explanations of the financial focus of each statement.

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

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

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

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

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

### **Financial Highlights**

The College's net assets increased by \$2.61 million. This was an increase of 5.11%. Operating revenues increased by \$602,308, or 19.97%. Nonoperating revenues increased by \$5.56 million or 19.95%. Operating expenses increased by \$4.15 million or 12.25%.

The College received funding from the State to cover operating expenses and for capital improvements. We also received funding from Moore County and Hoke County for College operations and the maintenance of buildings and infrastructure. County capital aid contains current year receipts of \$2.53 million.

### **Financial Analysis**

#### **Analysis of Current Assets and Net Assets**

As of June 30, 2010, the College's total net assets were \$53.79 million. This is an overall increase of \$2.61 million or 5.11% from last fiscal year. The College's largest asset is its investment in capital assets of \$39.25 million, representing 66.54% of total assets as of June 30, 2010. The College's current assets incurred a net increase of \$108,726 or 1.71% from last fiscal year.

Noncurrent assets had a net increase of \$2.97 million or 6.00%. This is mostly attributed to new buildings being put into operation. Restricted investments and other long-term investments increased by 25.21% due to Restricted Cash and Cash Equivalents being used to purchase investments, and due to an increase in returns on existing investments. There was a decrease in Restricted Due from Primary Government due to several construction projects being completed or nearing completion at year end. EMS Trades Phase I and the East Campus Utilities construction projects were closed out during fiscal year 2010. The Horticulture Complex and the Hoke Early College Building #3 were placed into service during fiscal year 2010, and are not requiring as large of a reimbursement from the primary government as they were in fiscal year 2009.

Current Liabilities showed an increase due to an increase in unearned revenue due to the summer session enrollment increasing. There was also an increase in liabilities for construction projects. At the end of fiscal year 2009, outstanding liabilities for construction projects was \$65,535 regarding the Hoke Early College Building #3 and the Physical Plant Facility. At the end of fiscal year 2010, outstanding liabilities for numerous construction projects totaled \$496,292. There were more construction projects ongoing during fiscal year 2010.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

| <b>Condensed Statement of Net Assets</b> |                         |                                    |                         |                   |
|--|-------------------------|------------------------------------|-------------------------|-------------------|
|  | 2010                    | Unaudited<br>2009<br>(as restated) | Increase/<br>(Decrease) | Percent<br>Change |
| <b>ASSETS</b>                            |                         |                                    |                         |                   |
| Current Assets                           | \$ 6,457,885.55         | \$ 6,349,159.33                    | \$ 108,726.22           | 1.71%             |
| Noncurrent Assets:                       |                         |                                    |                         |                   |
| Capital Assets, Net                      | 39,245,419.56           | 36,476,170.95                      | 2,769,248.61            | 7.59%             |
| Other                                    | 13,278,731.65           | 13,075,164.09                      | 203,567.56              | 1.56%             |
| <b>Total Assets</b>                      | <u>58,982,036.76</u>    | <u>55,900,494.37</u>               |                         |                   |
| <b>LIABILITIES</b>                       |                         |                                    |                         |                   |
| Current Liabilities                      | 2,849,866.25            | 2,181,207.67                       | 668,658.58              | 30.66%            |
| Noncurrent Liabilities                   | 2,342,291.79            | 2,542,600.62                       | (200,308.83)            | (7.88%)           |
| <b>Total Liabilities</b>                 | <u>5,192,158.04</u>     | <u>4,723,808.29</u>                |                         |                   |
| <b>NET ASSETS</b>                        |                         |                                    |                         |                   |
| Invested in Capital Assets               | 39,245,419.56           | 36,476,170.95                      | 2,769,248.61            | 7.59%             |
| Restricted                               | 12,353,759.34           | 13,638,919.51                      | (1,285,160.17)          | (9.42%)           |
| Unrestricted                             | 2,190,699.82            | 1,061,595.62                       | 1,129,104.20            | 106.36%           |
| <b>Total Net Assets</b>                  | <u>\$ 53,789,878.72</u> | <u>\$ 51,176,686.08</u>            |                         |                   |

### Analysis of Long-term Liabilities

Sandhills Community College does not have long-term debt per se. However, there are long-term liabilities for Annuities and Accrued Vacation and Bonus Leave. The Foundation has liabilities concerning annuities which are current and long-term liabilities. For the year ended June 30, 2010, those liabilities consisted of \$116,073 for current liabilities on annuities which are due within one year, and long-term liabilities for annuities were \$1,137,223. Annuities are based on the donor's life span and therefore do not have an exact maturity date. Accrued Vacation and Bonus Leave current liability was \$164,351 for the year ended, June 30, 2010, and long-term liability was \$1,205,068 for the same period.

### Analysis of Net Capital Assets

Increases in construction in progress of \$3.71 million were due to continuing construction on the EMS Trades Phase II facility, Horticulture Complex, Hoke Early College Building #3, Transportation Services, Logan Hall, Main Campus Telephone System and Physical Plant projects. Decreases in construction in progress of \$5.96 million resulted from the EMS Trades Phase I, Meyer Hall Boiler Replacement, East Campus Utilities, and Meyer Hall Room 209 Chemistry Lab projects being closed out of construction in progress and placed in depreciable capital assets as an increase to Buildings. Due to using the Horticulture Complex and Hoke Early College Building #3, these buildings were placed into service during fiscal year 2010. Overall net capital assets increased by \$2.77 million or 7.59%.

### Analysis of Revenues and Expenses

As noted in the Statement of Revenues, Expenses, and Changes in Net Assets, net assets increased \$2.61 million from the prior year. The College's operating revenues increased by \$602,308 or 19.97% during the fiscal year due primarily to a 19.46% increase in student tuition and fees. The sources of operating revenue for the College are tuition and fees,

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

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auxiliary services, and other educational activities. An increase this fiscal year was seen in tuition and fee revenues, sales and services and other operating revenues.

The College is mainly supported by receipts of State and County funds. The College received \$16.83 million or 41.45% of its revenue from State aid and State capital aid. There was a decrease in State aid of \$489,334 in fiscal year 2010 due to a Management Flexibility Reduction as well as a 3% Reversion. The Counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received \$4.38 million in county appropriations.

The College experienced increases in income due to increased enrollment, increased student tuition fees and gains in long term investments in the financial markets.

The College experienced a 12.25% overall increase in operating expenses from the prior fiscal year. The largest operating expense is for salaries and benefits which represents \$22.91 million or 60.29% of the operating expenses. This represents an increase of 1.62% from the prior fiscal year. This increase is due to an increased number of employees. These were mostly additional faculty and staff needed to cover the rise in enrollment. The College expensed \$7.55 million or 19.86% of its operating expenses on scholarships and other financial aid. This represents an increase of \$2.38 million from fiscal year 2009 and can be attributed to our increased enrollment as well as new scholarships. Utilities increased by 15.65% due to new buildings opening and an increase in utility rates. Also, additional classes were held to accommodate the increase in enrollment.

Noncapital Grants - Federal Student Financial Aid such as PELL, SEOG and CWS increased due to an increase in student enrollment, the economy, increase in the number of students eligible for financial aid, and an increase in the PELL allotment amount per student.

Investment Income recovered in the market somewhat this fiscal year. Most of the losses in the market over the recent years were recovered. We are still not totally back to our original place before the down slide, but the market made a lot of progress this fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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

|   | 2010                    | Unaudited<br>2009<br>As Restated | Increase/<br>(Decrease) | Percent<br>Change |
|---|-------------------------|----------------------------------|-------------------------|-------------------|
| <b>OPERATING REVENUES</b>                         |                         |                                  |                         |                   |
| Student Tuition and Fees, Net                     | \$ 3,013,084.25         | \$ 2,522,221.96                  | \$ 490,862.29           | 19.46%            |
| Sales and Services                                | 437,170.72              | 383,155.36                       | 54,015.36               | 14.10%            |
| Other Operating Revenues                          | 167,404.44              | 109,974.02                       | 57,430.42               | 52.22%            |
| <b>Total Operating Revenues</b>                   | <b>3,617,659.41</b>     | <b>3,015,351.34</b>              |                         |                   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>           |                         |                                  |                         |                   |
| State Aid   | 16,171,008.08           | 16,660,342.07                    | (489,333.99)            | (2.94%)           |
| County Appropriations                             | 4,375,520.92            | 4,353,636.84                     | 21,884.08               | 0.50%             |
| Noncapital Grants - Federal Student Financial Aid | 8,494,237.55            | 5,365,272.82                     | 3,128,964.73            | 58.32%            |
| Noncapital grants                                 | 1,996,172.57            | 1,951,896.91                     | 44,275.66               | 2.27%             |
| Noncapital gifts                                  | 1,101,275.71            | 1,354,450.07                     | (253,174.36)            | (18.69%)          |
| Investment Income (Loss), Net                     | 1,113,732.10            | (2,121,709.83)                   | 3,235,441.93            | 152.49%           |
| Other Nonoperating Revenues                       | 155,321.84              | 9,678.29                         | 145,643.55              | 1504.85%          |
| <b>Net Nonoperating Revenues</b>                  | <b>33,407,268.77</b>    | <b>27,573,567.17</b>             |                         |                   |
| State Capital Aid                                 | 663,567.02              | 451,873.44                       | 211,693.58              | 46.85%            |
| County Capital Aid                                | 2,529,042.53            | 1,418,892.60                     | 1,110,149.93            | 78.24%            |
| Capital Gifts                                     | 8,615.65                | 7,047.08                         | 1,568.57                | 22.26%            |
| Additions to Endowments                           | 388,039.23              |                                  | 388,039.23              | 100.00%           |
| <b>Total Revenues</b>                             | <b>\$ 40,614,192.61</b> | <b>\$ 32,466,731.63</b>          |                         |                   |
| <b>OPERATING EXPENSES</b>                         |                         |                                  |                         |                   |
| Salaries and Benefits                             | 22,912,180.36           | 22,545,900.23                    | 366,280.13              | 1.62%             |
| Supplies and Materials                            | 2,104,845.69            | 1,645,228.18                     | 459,617.51              | 27.94%            |
| Services  | 3,161,803.95            | 2,470,123.45                     | 691,680.50              | 28.00%            |
| Scholarships and Fellowships                      | 7,546,318.23            | 5,166,052.89                     | 2,380,265.34            | 46.08%            |
| Utilities   | 1,122,579.24            | 970,627.56                       | 151,951.68              | 15.65%            |
| Depreciation                                      | 1,153,272.50            | 1,056,146.21                     | 97,126.29               | 9.20%             |
| <b>Total Operating Expenses</b>                   | <b>38,000,999.97</b>    | <b>33,854,078.52</b>             |                         |                   |
| <b>Increase (Decrease) in Net Assets</b>          | <b>2,613,192.64</b>     | <b>(1,387,346.89)</b>            |                         |                   |
| <b>NET ASSETS</b>                                 |                         |                                  |                         |                   |
| Beginning of Year, as Restated                    | 51,176,686.08           | 54,021,365.98                    |                         |                   |
| Restatements                                      |                         | (1,457,333.01)                   |                         |                   |
| <b>Net Assets, End of Year</b>                    | <b>\$ 53,789,878.72</b> | <b>\$ 51,176,686.08</b>          |                         |                   |

### Economic Factors and Next Year's Budget

The economic future of Sandhills Community College looks good. We continue to see a growth in enrollment and are encouraged by this. As we start the 2011 fiscal year, we are working with State budgets that show possibilities for increased funding with the enrollment growth being fully funded and an increase in tuition rates. We are optimistic as we start the 2011 fiscal year.

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

***Sandhills Community College***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

|   |                     |
|---|---------------------|
| Cash and Cash Equivalents (Note 2)            | \$ 2,687,781.99     |
| Restricted Cash and Cash Equivalents (Note 2) | 2,923,454.48        |
| Receivables, Net (Note 4)                     | 755,456.18          |
| Inventories                                   | 83,192.90           |
| Notes Receivable (Note 4)                     | 8,000.00            |
| Total Current Assets                          | <u>6,457,885.55</u> |

Noncurrent Assets:

|   |                      |
|---|----------------------|
| Restricted Cash and Cash Equivalents (Note 2) | 246,746.80           |
| Receivables (Note 4)                          | 140,823.91           |
| Restricted Due from Primary Government        | 959,871.82           |
| Restricted Investments                        | 7,603,032.27         |
| Other Investments                             | 4,328,256.85         |
| Capital Assets - Nondepreciable (Note 5)      | 1,414,473.79         |
| Capital Assets - Depreciable, Net (Note 5)    | 37,830,945.77        |
| Total Noncurrent Assets                       | <u>52,524,151.21</u> |
| Total Assets                                  | <u>58,982,036.76</u> |

**LIABILITIES**

Current Liabilities:

|   |                     |
|---|---------------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 1,074,043.01        |
| Unearned Revenue                                  | 1,381,813.36        |
| Funds Held for Others                             | 113,585.14          |
| Long-Term Liabilities - Current Portion (Note 7)  | 280,424.74          |
| Total Current Liabilities                         | <u>2,849,866.25</u> |

Noncurrent Liabilities:

|                                |                     |
|--------------------------------|---------------------|
| Long-Term Liabilities (Note 7) | <u>2,342,291.79</u> |
| Total Liabilities              | <u>5,192,158.04</u> |

**NET ASSETS**

|                                  |                         |
|----------------------------------|-------------------------|
| Invested in Capital Assets       | 39,245,419.56           |
| Restricted for:                  |                         |
| Nonexpendable:                   |                         |
| Scholarships and Fellowships     | 3,909,719.86            |
| Restricted for Specific Programs | 2,634,926.02            |
| Expendable:                      |                         |
| Loans                            | 149,024.96              |
| Capital Projects                 | 456,087.17              |
| Restricted for Specific Programs | 5,204,001.33            |
| Unrestricted                     | <u>2,190,699.82</u>     |
| Total Net Assets                 | <u>\$ 53,789,878.72</u> |

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

***Sandhills Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

|  |                 |
|--|-----------------|
| Student Tuition and Fees, Net (Note 9) | \$ 3,013,084.25 |
| Sales and Services                     | 437,170.72      |
| Other Operating Revenues               | 167,404.44      |

|                          |                     |
|--------------------------|---------------------|
| Total Operating Revenues | <u>3,617,659.41</u> |
|--------------------------|---------------------|

**EXPENSES**

Operating Expenses:

|                              |               |
|------------------------------|---------------|
| Salaries and Benefits        | 22,912,180.36 |
| Supplies and Materials       | 2,104,845.69  |
| Services                     | 3,161,803.95  |
| Scholarships and Fellowships | 7,546,318.23  |
| Utilities                    | 1,122,579.24  |
| Depreciation                 | 1,153,272.50  |

|                          |                      |
|--------------------------|----------------------|
| Total Operating Expenses | <u>38,000,999.97</u> |
|--------------------------|----------------------|

|                |                        |
|----------------|------------------------|
| Operating Loss | <u>(34,383,340.56)</u> |
|----------------|------------------------|

**NONOPERATING REVENUES**

|   |               |
|---|---------------|
| State Aid   | 16,171,008.08 |
| County Appropriations                             | 4,375,520.92  |
| Noncapital Grants - Federal Student Financial Aid | 8,494,237.55  |
| Noncapital Grants                                 | 1,996,172.57  |
| Noncapital Gifts                                  | 1,101,275.71  |
| Investment Income, Net                            | 1,113,732.10  |
| Other Nonoperating Revenues                       | 155,321.84    |

|                             |                      |
|-----------------------------|----------------------|
| Total Nonoperating Revenues | <u>33,407,268.77</u> |
|-----------------------------|----------------------|

|                            |              |
|----------------------------|--------------|
| Loss Before Other Revenues | (976,071.79) |
|----------------------------|--------------|

|                         |              |
|-------------------------|--------------|
| State Capital Aid       | 663,567.02   |
| County Capital Aid      | 2,529,042.53 |
| Capital Gifts           | 8,615.65     |
| Additions to Endowments | 388,039.23   |

|                        |              |
|------------------------|--------------|
| Increase in Net Assets | 2,613,192.64 |
|------------------------|--------------|

**NET ASSETS**

|  |                      |
|--|----------------------|
| Net Assets, July 1, 2009 as Restated (Note 17) | <u>51,176,686.08</u> |
|--|----------------------|

|                           |                                |
|---------------------------|--------------------------------|
| Net Assets, June 30, 2010 | <u><u>\$ 53,789,878.72</u></u> |
|---------------------------|--------------------------------|

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

***Sandhills Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2010***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |                 |
|---|-----------------|
| Received from Customers                   | \$ 4,027,647.67 |
| Payments to Employees and Fringe Benefits | (23,089,550.05) |
| Payments to Vendors and Suppliers         | (6,249,135.70)  |
| Payments for Scholarships and Fellowships | (7,546,318.23)  |
| Loans Issued to Students                  | (8,000.00)      |
| Collection of Loans                       | 1,333.00        |
| Other Payments                            | (4,516.32)      |
|   | <hr/>           |
| Net Cash Used by Operating Activities     | (32,868,539.63) |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|   |               |
|---|---------------|
| State Aid Received                                | 16,171,008.08 |
| County Appropriations                             | 4,375,520.92  |
| Noncapital Grants - Federal Student Financial Aid | 8,386,929.24  |
| Noncapital Grants Received                        | 1,863,380.98  |
| Noncapital Gifts and Endowments Received          | 1,131,980.50  |
| Other Receipts                                    | 251,442.72    |
|   | <hr/>         |
| Cash Provided by Noncapital Financing Activities  | 32,180,262.44 |

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

|   |                |
|---|----------------|
| State Capital Aid Received                                    | 1,831,852.73   |
| County Capital Aid  | 2,593,343.56   |
| Capital Gifts Received  | 8,615.65       |
| Proceeds from Sale of Capital Assets                          | 17,005.86      |
| Acquisition and Construction of Capital Assets                | (3,665,966.79) |
|   | <hr/>          |
| Net Cash Provided by Capital and Related Financing Activities | 784,851.01     |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|   |                |
|---|----------------|
| Proceeds from Sales and Maturities of Investments | 358,479.51     |
| Investment Income                                 | 302,503.88     |
| Purchase of Investments and Related Fees          | (1,689,371.85) |
|   | <hr/>          |
| Net Cash Used by Investing Activities             | (1,028,388.46) |

|   |                 |
|---|-----------------|
| Net Decrease in Cash and Cash Equivalents | (931,814.64)    |
| Cash and Cash Equivalents, July 1, 2009   | 6,789,797.91    |
|   | <hr/>           |
| Cash and Cash Equivalents, June 30, 2010  | \$ 5,857,983.27 |

***Sandhills Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2010***

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

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

|   |                                  |
|---|----------------------------------|
| Operating Loss  | \$ (34,383,340.56)               |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: |                                  |
| Depreciation Expense  | 1,153,272.50                     |
| Changes in Assets and Liabilities:  |                                  |
| Receivables, Net  | 217,827.48                       |
| Inventories   | (51,509.39)                      |
| Notes Receivable, Net   | (6,667.00)                       |
| Accounts Payable and Accrued Liabilities  | 65,538.60                        |
| Unearned Revenue  | 194,091.37                       |
| Funds Held for Others   | (3,363.05)                       |
| Compensated Absences  | (54,389.58)                      |
| Net Cash Used by Operating Activities   | <u><u>\$ (32,868,539.63)</u></u> |

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

|   |                               |
|---|-------------------------------|
| Current Assets:                                 |                               |
| Cash and Cash Equivalents                       | \$ 2,687,781.99               |
| Restricted Cash and Cash Equivalents            | 2,923,454.48                  |
| Noncurrent Assets:                              |                               |
| Restricted Cash and Cash Equivalents            | <u>246,746.80</u>             |
| Total Cash and Cash Equivalents - June 30, 2010 | <u><u>\$ 5,857,983.27</u></u> |

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

|   |               |
|---|---------------|
| Assets Acquired through Assumption of a Liability | \$ 496,292.19 |
| Assets Acquired through a Gift                    | 77,537.02     |
| Change in Fair Value of Investments               | 819,755.25    |
| Change in Fair Value of Annuities                 | 182,416.22    |
| Loss on Disposal of Capital Assets                | (141,003.39)  |

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

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**SANDHILLS COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Real estate not held by a governmental external investment pool is reported at cost, if purchased or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 of \$5,000 or greater 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 50 years for general infrastructure, 25 to 50 years for buildings, and 10 to 40 years for equipment.

- I. 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.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences, and annuities payable that will not be paid within the next fiscal year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 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.

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 June 30 is retained by employees and transferred into the next fiscal 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.

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

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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funding is transactional based within the departmental management system in place at the College.

- M. Scholarship Discounts** - Student tuition and fees revenues 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 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, and fees, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees and (2) sales and services of auxiliary enterprises. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

- O. Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was \$1,000,000. Funds established under revocable trusts or where the trustees have discretionary power over distributions are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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recorded as revenue when distributions are received and resource provider conditions are satisfied.

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$11,965.00, and deposits in private financial institutions with a carrying value of \$4,329,445.87, and a bank balance of \$4,427,441.16.

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, 2010, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,516,572.40, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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.

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

All investments are held by the College's blended component unit, the Sandhills Community College Foundation, Inc. Investments of the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Foundation are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the Foundation’s investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not have a formal investment policy that addresses interest rate risk.

| Investments                |                         |   |
|----------------------------|-------------------------|---|
| Investment Type            | Fair<br>Value           | Investment<br>Maturity<br>(in Years)<br>More<br>than 10 |
| Debt Securities            |                         |   |
| Annuity Contracts          | \$ 1,240,642.90         | <u>\$ 1,240,642.90</u>                                  |
| Other Securities           |                         |   |
| Mutual Funds               | 10,681,396.22           |   |
| Investments in Real Estate | <u>9,250.00</u>         |   |
| Total Investments          | <u>\$ 11,931,289.12</u> |   |

Alternative investments at June 30, 2010 represent the Foundation’s investment in life income annuities. Management relies on various factors to estimate the fair value of these investments. Management believes its processes and procedures for valuing investments are effective, and, that its estimate of value is reasonable. However, the factors used by management are subject to change in the near term, and, accordingly, investment values and performance can be affected. The effect of these changes could be material to the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation does not have a formal policy that addresses credit risk. As of June 30, 2010, the Foundation's investments were rated as follows:

|                   | Fair<br>Value   | AA<br>Aa        |
|-------------------|-----------------|-----------------|
| Annuity Contracts | \$ 1,240,642.90 | \$ 1,240,642.90 |

Rating Agency: Hartford, Moody's, S&P, A.M. Best, and Fitch

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Foundation places no limit on the amount that may be invested in any one issuer. More than 5% of the Foundation's investments are in a mutual fund. These investments are 80% of the Foundation's total investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

|   |                         |
|---|-------------------------|
| Cash on Hand  | \$ 11,965.00            |
| Carrying Amount of Deposits with Private Financial Institutions | 4,329,445.87            |
| Investments in the Short-Term Investment Fund                   | 1,516,572.40            |
| Other Investments   | <u>11,931,289.12</u>    |
| Total Deposits and Investments                                  | <u>\$ 17,789,272.39</u> |
| Current:  |                         |
| Cash and Cash Equivalents                                       | \$ 2,687,781.99         |
| Restricted Cash and Cash Equivalents                            | 2,923,454.48            |
| Noncurrent:   |                         |
| Restricted Cash and Cash Equivalents                            | 246,746.80              |
| Restricted Investments  | 7,603,032.27            |
| Other Investments   | <u>4,328,256.85</u>     |
| Total   | <u>\$ 17,789,272.39</u> |

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the Foundation's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the Foundation's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the Foundation's endowment funds are based on an adopted spending policy which limits spending up to 5% of the endowment principal's market value. To the extent that the income for the current year exceeds the payout, the excess is added to the expendable net asset endowment balance. If current year earnings do not meet the payout requirements, the Foundation uses accumulated income from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2010, net appreciation of \$1,813,347 was available to be spent, of which \$299,934 was restricted to specific purposes.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

|                                     | Gross<br>Receivables   | Less<br>Allowance<br>for Doubtful<br>Accounts | Net<br>Receivables   |
|-------------------------------------|------------------------|---|----------------------|
| <b>Current Receivables:</b>         |                        |   |                      |
| Students                            | \$ 1,073,383.35        | \$ 485,765.52                                 | \$ 587,617.83        |
| Intergovernmental                   | 133,271.39             |   | 133,271.39           |
| Pledges                             | 34,566.96              |   | 34,566.96            |
| <b>Total Current Receivables</b>    | <b>\$ 1,241,221.70</b> | <b>\$ 485,765.52</b>                          | <b>\$ 755,456.18</b> |
| <b>Noncurrent Receivables:</b>      |                        |   |                      |
| Intergovernmental                   | \$ 3,361.23            | \$ 0.00                                       | \$ 3,361.23          |
| Pledges                             | 137,462.68             |   | 137,462.68           |
| <b>Total Noncurrent Receivables</b> | <b>\$ 140,823.91</b>   | <b>\$ 0.00</b>                                | <b>\$ 140,823.91</b> |
| <b>Notes Receivable:</b>            |                        |   |                      |
| <b>Notes Receivable - Current:</b>  |                        |   |                      |
| Institutional Student Loan Programs | \$ 8,000.00            | \$ 0.00                                       | \$ 8,000.00          |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

|   | Balance<br>July 1, 2009<br>(as restated) | Increases              | Decreases              | Balance<br>June 30, 2010 |
|---|--|------------------------|------------------------|--------------------------|
| Capital Assets, Nondepreciable:               |  |                        |                        |                          |
| Land  | \$ 429,736.45                            | \$ 0.00                | \$ 0.00                | \$ 429,736.45            |
| Construction in Progress                      | 3,236,669.47                             | 3,705,136.47           | 5,957,068.60           | 984,737.34               |
| <b>Total Capital Assets, Nondepreciable</b>   | <b>3,666,405.92</b>                      | <b>3,705,136.47</b>    | <b>5,957,068.60</b>    | <b>1,414,473.79</b>      |
| Capital Assets, Depreciable:                  |  |                        |                        |                          |
| Buildings                                     | 39,988,456.71                            | 5,834,274.11           |                        | 45,822,730.82            |
| Machinery and Equipment                       | 2,445,935.90                             | 375,975.89             | 283,653.38             | 2,538,258.41             |
| General Infrastructure                        | 1,635,949.54                             | 122,212.49             |                        | 1,758,162.03             |
| <b>Total Capital Assets, Depreciable</b>      | <b>44,070,342.15</b>                     | <b>6,332,462.49</b>    | <b>283,653.38</b>      | <b>50,119,151.26</b>     |
| Less Accumulated Depreciation for:            |  |                        |                        |                          |
| Buildings                                     | 9,846,749.45                             | 980,142.42             |                        | 10,826,891.87            |
| Machinery and Equipment                       | 926,537.61                               | 135,522.62             | 125,644.13             | 936,416.10               |
| General Infrastructure                        | 487,290.06                               | 37,607.46              |                        | 524,897.52               |
| <b>Total Accumulated Depreciation</b>         | <b>11,260,577.12</b>                     | <b>1,153,272.50</b>    | <b>125,644.13</b>      | <b>12,288,205.49</b>     |
| <b>Total Capital Assets, Depreciable, Net</b> | <b>32,809,765.03</b>                     | <b>5,179,189.99</b>    | <b>158,009.25</b>      | <b>37,830,945.77</b>     |
| <b>Capital Assets, Net</b>                    | <b>\$ 36,476,170.95</b>                  | <b>\$ 8,884,326.46</b> | <b>\$ 6,115,077.85</b> | <b>\$ 39,245,419.56</b>  |

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

|   | Amount                 |
|---|------------------------|
| Accounts Payable                                      | \$ 519,042.78          |
| Accrued Payroll                                       | 6,205.05               |
| Contracts Payable                                     | 496,292.19             |
| Intergovernmental Payables                            | 52,502.99              |
| <b>Total Accounts Payable and Accrued Liabilities</b> | <b>\$ 1,074,043.01</b> |

### NOTE 7 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

|                                    | Balance<br>July 1, 2009 | Additions            | Reductions           | Balance<br>June 30, 2010 | Current<br>Portion   |
|------------------------------------|-------------------------|----------------------|----------------------|--------------------------|----------------------|
| Compensated Absences               | \$ 1,423,809.29         | \$ 741,832.67        | \$ 796,222.25        | \$ 1,369,419.71          | \$ 164,351.33        |
| Annuities Payable                  | 1,315,185.19            | 24,781.77            | 86,670.14            | 1,253,296.82             | 116,073.41           |
| <b>Total Long-Term Liabilities</b> | <b>\$ 2,738,994.48</b>  | <b>\$ 766,614.44</b> | <b>\$ 882,892.39</b> | <b>\$ 2,622,716.53</b>   | <b>\$ 280,424.74</b> |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**B. Annuities Payable** - The College participates in split-interest agreements with donors that require benefits payments for a specified period to a designated beneficiary out of assets held in an annuity for this purpose. At the end of the predetermined period (e.g., the lifetime of the beneficiary specified by the donor), the remaining assets of the annuity revert to the Foundation for its use or for a purpose specified by the donor. At the end of each fiscal year, annuities and life income payable to the beneficiaries is calculated using the IRS tables, taking into consideration the beneficiary's age and the amount of the gift, and using IRS-issued Life Tables. Annuities Payable obligations relating to 18 annuities at June 30, 2010 are recorded as current long-term liabilities for the annuity payments that are due within the next year, and as long-term liabilities for the amount payable more than a year later. The investment carrying value of the annuities as of June 30, 2010 was \$1,240,642.90. Gift annuities are normally based on one or two life expectancies. An agreed upon quarterly percentage is calculated and paid over these life expectancies.

### NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for the president's car and a bus. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

| <u>Fiscal Year</u>           | <u>Amount</u>       |
|------------------------------|---------------------|
| 2011                         | \$ 30,010.92        |
| 2012                         | 22,959.35           |
| 2013                         | 7,132.56            |
| Total Minimum Lease Payments | <u>\$ 60,102.83</u> |

Rental expense for all operating leases during the year was \$22,878.36.

### NOTE 9 - REVENUES

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

|                                 | <u>Gross<br/>Revenues</u> | <u>Less<br/>Scholarship<br/>Discounts</u> | <u>Less<br/>Allowance for<br/>Uncollectibles</u> | <u>Net<br/>Revenues</u> |
|---------------------------------|---------------------------|---|--|-------------------------|
| <b>Operating Revenues:</b>      |                           |   |  |                         |
| <b>Student Tuition and Fees</b> | <u>\$ 5,359,864.41</u>    | <u>\$ 2,226,842.78</u>                    | <u>\$ 119,937.38</u>                             | <u>\$ 3,013,084.25</u>  |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

|                                     | Salaries<br>and<br>Benefits | Supplies<br>and<br>Materials | Services               | Scholarships<br>and<br>Fellowships | Utilities              | Depreciation           | Total                   |
|-------------------------------------|-----------------------------|------------------------------|------------------------|------------------------------------|------------------------|------------------------|-------------------------|
| Instruction                         | \$ 13,373,034.41            | \$ 1,342,691.62              | \$ 488,746.57          | \$ 0.00                            | \$ 0.00                | \$ 0.00                | \$ 15,204,472.60        |
| Academic Support                    | 2,226,350.93                | 109,064.65                   | 48,397.83              |                                    |                        |                        | 2,383,813.41            |
| Student Services                    | 1,622,960.08                | 94,336.63                    | 209,771.69             |                                    |                        |                        | 1,927,068.40            |
| Institutional Support               | 3,177,440.29                | 371,666.32                   | 1,105,191.94           |                                    |                        |                        | 4,654,298.55            |
| Operations and Maintenance of Plant | 1,860,790.02                | 164,013.20                   | 1,222,676.03           |                                    | 1,122,579.24           |                        | 4,370,058.49            |
| Student Financial Aid               | 350,972.13                  | 4,901.29                     |                        | 7,546,318.23                       |                        |                        | 7,902,191.65            |
| Auxiliary Enterprises               | 300,632.50                  | 18,171.98                    | 87,019.89              |                                    |                        |                        | 405,824.37              |
| Depreciation                        |                             |                              |                        |                                    |                        | 1,153,272.50           | 1,153,272.50            |
| Total Operating Expenses            | <u>\$ 22,912,180.36</u>     | <u>\$ 2,104,845.69</u>       | <u>\$ 3,161,803.95</u> | <u>\$ 7,546,318.23</u>             | <u>\$ 1,122,579.24</u> | <u>\$ 1,153,272.50</u> | <u>\$ 38,000,999.97</u> |

### NOTE 11 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$18,701,318.55, of which \$15,684,374.59 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$559,932.17 and \$941,062.48, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$559,932.17, \$528,257.32, and \$457,906.83, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.nc.gov/> 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 \$31,990.40 for the year ended June 30, 2010.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). Total employer contributions on behalf of College law enforcement officers for the year ended June 30, 2010, were \$4,439.48. The voluntary contributions by employees amounted to \$243,617.00 for the year ended June 30, 2010.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$191,756.32 for the year ended June 30, 2010.

### NOTE 12 - 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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$705,796.86, \$644,599.70, and \$615,546.89, respectively. 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*. 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.nc.gov/> 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 by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$81,558.75, \$81,754.11, and \$78,069.36, 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 13 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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



## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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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. The College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds by a policy purchased from a private insurance company. The policy covers for losses up to \$25,000. The College is protected for errors and omissions by a policy with a private insurance company for \$1,000,000 with a \$25,000 deductible.

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

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$14,284,449.07 at June 30, 2010.
- B. Other Contingent Receivables** - The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

| Purpose            | Amount        |
|--------------------|---------------|
| Restricted Pledges | \$ 123,225.80 |

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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Of the pledges above, the majority is due from employees of the College and Sandhills Community College Foundation, Inc.

### NOTE 15 - RELATED PARTIES

In the normal course of business, the Sandhills Community College Foundation, Inc. receives contributions from Board members and employees of the College. Included in the annuities payable is \$965,765 due in future years to Board members of the Foundation.

### NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

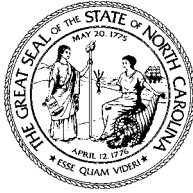
GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

### NOTE 17 - NET ASSET RESTATEMENTS

As of July 1, 2009, net assets as previously reported was restated as follows:

|   | <u>Amount</u>                  |
|---|--------------------------------|
| July 1, 2009 Net Assets as Previously Reported                                  | \$ 52,634,019.09               |
| Restatements:   |                                |
| Correction to Post Prior Year Investment Income                                 | 9,344.11                       |
| Correction of Prior Year Expense for Repairs                                    | (362,138.63)                   |
| Correct Capital Assets General Ledger Balance to<br>Reflect Actual Assets Owned | (968,886.21)                   |
| Other Prior Year Capital Asset Corrections                                      | (135,100.67)                   |
| Other Prior Year Corrections  | <u>(551.61)</u>                |
| July 1, 2009 Net Assets as Restated   | <u><u>\$ 51,176,686.08</u></u> |

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**Beth A. Wood, CPA**  
State Auditor

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**Office of the 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  
Sandhills Community College  
Pinehurst, North Carolina

We have audited the financial statements of Sandhills Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, and have issued our report thereon dated July 13, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 16 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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 Sandhills Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of Sandhills Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we

**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)**

---

identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and one deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 1, 3, and 4 in the Audit Findings and Responses section of this report to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in finding 2 in the Audit Findings and Responses section of this report to be significant deficiencies.

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*.

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, CPA  
State Auditor

July 13, 2011

## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Financial Reporting**

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control.

#### **1. DEFICIENCIES IN FINANCIAL REPORTING**

The financial statements prepared by Sandhills Community College contained misstatements that were corrected as a result of the 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:

- a. The College incorrectly recorded revenue and related receivables for student charges applicable to fiscal year 2011. As a result, student accounts receivable and unearned revenue were overstated by \$1,644,809. These charges should be recognized in the fiscal year that the instructional services are delivered.
- b. The College incorrectly recorded receivables for Pell Grant authorizations applicable to fiscal year 2011. As a result, receivables and payables were overstated by \$3,848,501.
- c. Noncapital gifts were misclassified as noncapital grants in the amount of \$1,101,276.
- d. The College incorrectly classified state and local grants and other noncapital grants as federal student financial aid grants. As a result, state and local grants was understated in the amount of \$1,168,871 and other noncapital grants was understated in the amount of \$827,301, which overstated federal student financial aid grants by \$1,996,172.
- e. The College misclassified cash and cash equivalents due to not properly considering the effect of interfund borrowing on the financial statements. Restricted cash and cash equivalents was understated by \$546,941 and unrestricted cash and cash equivalents was overstated by the same amount.
- f. The College incorrectly classified proprietary balances as restricted net assets. As a result, restricted net asset accounts were overstated by \$1,003,107 and unrestricted net assets was understated by the same amount.
- g. The College erroneously recorded \$155,322 as interest and fees on debt. This amount was reclassified as miscellaneous nonoperating revenues.
- h. Several misstatements were noted in the capital assets disclosure, including:
  - (1) The College did not properly capitalize two buildings that were completed during the fiscal year. This resulted in an overstatement of construction in progress (CIP) and an understatement of buildings in the amount of

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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\$4,617,117, along with an understatement of the related accumulated depreciation in the amount of \$61,908.

- (2) Total accumulated depreciation increases did not agree to depreciation expense on the Statement of Revenues, Expenses, and Changes in Net Assets in the amount of \$296,889.
- (3) The College recorded a net asset restatement related to machinery and equipment in the amount of \$152,153. Although the restatement was posted to their general ledger, it was not reflected in the note disclosure.
- (4) There were decreases in accumulated depreciation in the amount of \$9,923 with no corresponding decreases in the related assets.
- (5) The College decreased construction-in-progress in the amount of \$362,139 for items that should have been expensed in the prior year.
- (6) A project in the amount of \$429,684 was capitalized as general infrastructure instead of buildings.
- (7) The College did not properly remove a demolished building from the general ledger, resulting in an overstatement of buildings in the amount of \$149,212, accumulated depreciation related to buildings in the amount of \$129,007 and depreciation expense in the amount of \$3,730.
- (8) The College had reported \$1,938,194 as construction-in-progress related to a building that was placed into service in a prior year.
- i. The College failed to reconcile the capital assets subsidiary ledger to the general ledger. As a result, total capital assets were overstated by \$968,886. In addition, there were numerous misclassifications between the capital asset categories.
- j. Various other errors were noted in the financial statements, notes to the financial statements, and management's discussion and analysis. Several versions of both the Statement of Cash Flows and Management's Discussion and Analysis were presented before they were auditable.

These misstatements occurred, in part, because management's review of the financial statements was ineffective. This review was not adequate to identify obvious misstatements on the financial statements and notes. Significant aspects of this finding were reported in the prior audit, specifically items (a), (e), and (i) above.

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and strengthen internal control procedures to ensure the completeness and accuracy of the financial statements. Further, the College should consider whether outside assistance is needed to assist with preparing the financial statements.

*College Response:* The College accepts this finding and the associated sub-findings. In the future the College will recognize receivables and revenues as they are incurred. Additionally, greater attention will be given to proper classification of capital assets, cash,



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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cash, grants and gifts.

### 2. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College did not assign employee access rights to ensure adequate segregation of duties. As a result, there is an increased risk of unauthorized or inappropriate transactions. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

The director of business services, accountant, accounts receivable specialist, and cash receipts specialist had inappropriate access to both cash receipting and accounts receivable functions. When employees have more access to system functions and information than is needed for their jobs duties, there is a greater risk of invalid or erroneous transactions occurring without detection.

A similar finding was reported in the prior audit.

*Recommendation:* The College should evaluate and reassign system access rights as necessary to better segregate duties and enhance internal control. If there are situations where segregation of duties is not feasible, the College should implement effective monitoring of activity as a compensating control.

*College Response:* The College accepts this finding. The College has taken action to better segregate duties and enhance internal control. The College has removed cash receipting access of the Accountant and the Accounts Receivable Specialist. Additionally, the Director of Business Services no longer has access to adjust student's accounts.

### 3. INADEQUATE BANK RECONCILIATIONS

Bank reconciliations were not adequately performed or reviewed. As a result, there was an increased risk of error or fraud occurring without timely detection.

During our audit, we noted an overstatement of cash and cash equivalents by \$78,121 that should have been detected by the bank reconciliations.

The College did not properly perform bank reconciliations to the general ledger cash balance for any month during our audit period. As a result, an overstatement of cash in the amount of \$78,121 occurred and was not corrected. In addition, the College could not explain a reconciling item in the amount of \$5,584 and posted an adjustment to reduce cash for this amount. An adequate bank reconciliation and review of the reconciliation should have prompted the College to identify and resolve the reconciling items or errors.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Recommendation:* The College should implement proper policies and procedures to ensure that the bank reconciliations are adequately performed and reviewed for accuracy.

*College Response:* The College accepts this finding and the associated sub-findings. Greater emphasis has been placed on timely and accurate bank reconciliations. The College performs bank reconciliations on a monthly basis.

### 4. INTERNAL CONTROL DEFICIENCIES OVER SAFEGUARDING OF CASH AND RECEIPTS

We noted a number of internal control deficiencies related to cash receipts and safeguarding of cash. These deficiencies increase the risk of lost or misappropriated cash. Specifically, we noted the following:

- The horticulture department does not keep receipts for plant sales and society dues to document their sales transactions, and thus, does not reconcile such documentation to amounts deposited to ensure the completeness of the deposits.
- Cashiers in the business office place their cash deposits in unlocked deposit bags in a locked file cabinet in the vault. The key to the file cabinet is stored in a lockbox. All business office employees have access to the vault and the combination to the lock box. This means that all employees have access to the cash.

Significant aspects of this finding were reported in the prior audit.

*Recommendation:* The College should strengthen internal control over cash receipts and safeguarding of cash to correct the deficiencies noted above.

*College Response:* The College accepts this finding and the associated two sub-findings. The Horticulture Department is required to use a receipt book which is reconciled when funds are brought to the business office for deposit. The combination for the lock box, which is contained within the vault, has been changed, and will be changed periodically. Only the cashiers, the Accounts Receivable Accountant, the Accounts Receivable Specialist, and the Director of Business Services will know the combination.

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