



# STATE OF NORTH CAROLINA

**SOUTH PIEDMONT COMMUNITY COLLEGE**

**POLKTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**SOUTH PIEDMONT COMMUNITY COLLEGE**

**POLKTON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

**BOARD OF TRUSTEES**

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**JOHN DE VITTO, VICE PRESIDENT FOR FINANCE AND ADMINISTRATIVE SERVICES**



**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, South Piedmont Community College

We have completed a financial statement audit of South Piedmont Community College for the year ended June 30, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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

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

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
South Piedmont Community College  
Polkton, North Carolina

We have audited the accompanying financial statements of South Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

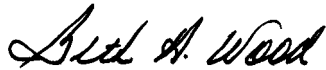
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Piedmont Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2012 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

February 23, 2012

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

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The Management of South Piedmont Community College provides this Management's Discussion and Analysis for readers of the college's financial statements. This narrative overview and analysis of the financial activities of South Piedmont Community College is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the additional information that is furnished in the College's financial statements.

### **Overview of the Financial Statements**

The College's financial statements include three components: 1) Statement of Net Assets; 2) Statement of Revenues, Expenses, and Changes in Net Assets; and 3) Statement of Cash Flows.

### **Comparative Data**

A comparative analysis of key elements of the financial statements relative to the previous fiscal year is presented in this analysis.

### **Financial Highlights**

The College's FTE increased 13.06% in 2010-2011 when compared to 2009-2010 (2,735 FTE in 2010-2011 compared to 2,419 FTE in 2009-2010). FTE is expected to remain fairly flat as the area's unemployment rate decreases.

As compared to the final 2009-2010 state budget, the final 2010-2011 state budget increased by 12.16%, or \$1,789,555. During 2010-2011, the College was allocated and spent an additional 10% (\$582,277) on college support services, 9.5% on instruction (\$801,107), and almost 58% (\$406,171) on equipment.

Both county budgets, Anson and Union, remained stable from 2009-2010 to 2010-2011.

Cash flow was positive and management concluded that the financial position of the College remained stable.

### **Analysis of Assets**

For the year, ended June 30, 2011, the College's Total Assets increased slightly, .58%.

#### Current Assets

Current assets increased by \$359,484.66. Cash and Cash Equivalents went up by \$529,065.14 and Inventories had a slight increase. Cash and Cash Equivalents increased primarily due to increases in student fees, self-supporting curriculum and continuing education, and bookstore commission. Receivables, Net and Due from State of North Carolina Component Units

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

decreased. Due from State of North Carolina Component Units decreased by \$127,929.20 because of funds were received from two Golden LEAF grants during 2010-2011, thus reducing the receivable.

### Noncurrent Assets

Noncurrent Assets decreased slightly, 1.01%.

	<u>2010-2011</u>	<u>2009-2010 (as restated)</u>	<u>Difference</u>	<u>% Change</u>
Current Assets	\$ 2,914,756.70	\$ 2,555,272.04	\$ 359,484.66	14.07%
Noncurrent Assets:				
Restricted Cash	18,762.36		18,762.36	100.00%
and Cash Equivalents				
Capital Assets	<u>21,443,702.46</u>	<u>21,680,693.93</u>	<u>(236,991.47)</u>	-1.09%
Total Noncurrent Assets	<u>21,462,464.82</u>	<u>21,680,693.93</u>	<u>(218,229.11)</u>	-1.01%
Total Assets	<u>\$ 24,377,221.52</u>	<u>\$ 24,235,965.97</u>	<u>\$ 141,255.55</u>	0.58%

### **Analysis of Liabilities**

Compared with the year ended June 30, 2010, the current fiscal year showed a 4.17% decrease in total liabilities.

### Current Liabilities

Current Liabilities decreased by \$36,438.16. The largest decrease in this category was in Accounts Payable primarily because the Multi-Purpose building at the Old Charlotte Highway planning had been delayed due to a lack of county funding.

### Noncurrent Liabilities

Noncurrent liabilities decreased by \$25,479.48 primarily due to payments totaling \$35,465.56 towards the principal balance owed on the Energy Conservation Improvement Project and an increase of \$13,060.34 in long-term liabilities related to compensated absences.

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Difference</u>	<u>% Change</u>
Current Liabilities	\$ 648,673.11	\$ 685,111.27	\$ (36,438.16)	-5.32%
Noncurrent Liabilities	<u>774,802.66</u>	<u>800,282.14</u>	<u>(25,479.48)</u>	-3.18%
Total Liabilities	<u>\$ 1,423,475.77</u>	<u>\$ 1,485,393.41</u>	<u>\$ (61,917.64)</u>	-4.17%



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Analysis of Net Assets

There were no significant changes in Invested in Capital Assets, Net of Related Debt, Scholarships and Fellowships, Loans, or Restricted for Specific Programs. Total Net Assets increased .53% compared with the year ended June 30, 2010. Unrestricted Net Assets increased by 43.34%, or \$402,605.94, due to continued improvement of cash flow.

	<u>2010-2011</u>	<u>2009-2010</u> <u>(as restated)</u>	<u>Difference</u>	<u>% Change</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$ 21,274,558.58	\$ 21,557,857.20	\$ (283,298.62)	-1.31%
Restricted for:				
Expendable				
Scholarships & Fellowships	128,691.52	29,752.55	98,938.97	332.54%
Loans	12,151.69	14,211.95	(2,060.26)	-14.50%
Restricted for Specific Programs	206,786.54	301,572.09	(94,785.55)	-31.43%
Unrestricted	<u>1,331,557.42</u>	<u>928,951.48</u>	<u>402,605.94</u>	<u>43.34%</u>
Total Net Assets	<u>\$ 22,953,745.75</u>	<u>\$ 22,832,345.27</u>	<u>\$ 121,400.48</u>	<u>0.53%</u>

### Analysis of Revenues

Compared with the year ended June 30, 2010, the current fiscal year showed a 1.72% increase in total revenues.

#### Operating

Total Operating Revenues decreased 33.8% (\$1,231,474.51) when compared to the year ending June 30, 2010. Sales and Services decreased \$430,954.64 primarily because the College Bookstore was leased out in April 2010. The bookstore inventory that was purchased during 2009-2010 inflated Sales and Services, Net for that fiscal year. State and Local Grants & Contracts decreased \$687,487.22 mainly because the College had a significant grant with the Golden LEAF during 2009-2010, which was reduced for 2010-2011 due to payments from the Golden LEAF for that grant during 2009-2010.

#### Nonoperating

Nonoperating revenues increased by 8.3%, or \$1,633,415.95. State Aid (current and capital) increased by \$1,530,237.16, while Noncapital Grants (student financial aid) increased by \$1,109,564.15 due to the increase in the amount awarded to students. County Capital Appropriations decreased by \$658,011.15 because there was no funding for the planning of the Multi-Purpose building at the Old Charlotte Highway campus as there was during 2009-2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Difference</u>	<u>% Change</u>
Operating Revenues:				
Student Tuition & Fees, Net	\$ 1,779,732.55	\$ 1,903,412.56	\$ (123,680.01)	-6.50%
Federal Grants & Contracts	16,993.06	11,554.90	5,438.16	47.06%
State & Local Grants & Contracts	403,488.07	1,090,975.29	(687,487.22)	-63.02%
Sales & Services, Net	205,059.46	636,014.10	(430,954.64)	-67.76%
Other Revenues	<u>6,626.02</u>	<u>1,416.82</u>	<u>5,209.20</u>	367.67%
Total Operating Revenues	2,411,899.16	3,643,373.67	(1,231,474.51)	-33.80%
Nonoperating Revenues:				
State Aid	12,107,919.39	11,060,375.43	1,047,543.96	9.47%
County Appropriations	1,640,800.83	1,722,034.00	(81,233.17)	-4.72%
Noncapital Grants	6,002,639.12	4,893,074.97	1,109,564.15	22.68%
Noncapital Gifts	178,946.74	300,680.05	(121,733.31)	-40.49%
Investment Income	2,212.63	1,420.11	792.52	55.81%
State Capital Aid	1,167,248.95	684,555.75	482,693.20	70.51%
County Capital Aid	184,296.01	842,307.16	(658,011.15)	-78.12%
Capital Grants	6,182.10	15,253.93	(9,071.83)	-59.47%
Capital Gifts		133,669.85	(133,669.85)	-100.00%
Interest and Fees on Debt	(8,544.57)		(8,544.57)	100.00%
Other Nonoperating Revenues	<u>33,059.00</u>	<u>27,973.00</u>	<u>5,086.00</u>	18.18%
Total Nonoperating Revenues	<u>21,314,760.20</u>	<u>19,681,344.25</u>	<u>1,633,415.95</u>	8.30%
Total Revenues	<u>\$ 23,726,659.36</u>	<u>\$ 23,324,717.92</u>	<u>\$ 401,941.44</u>	1.72%

### Analysis of Expenses

Total Operating Expenses increased by 7.74% when compared to 2009-2010. The increase is primarily the result of an increase in financial aid awards (Scholarships and Fellowships) and salaries and benefits.

	<u>2010-2011</u>	<u>2009-2010</u>	<u>Difference</u>	<u>% Change</u>
Salaries & Benefits	\$ 14,472,237.62	\$ 13,205,749.53	\$ 1,266,488.09	9.59%
Supplies & Materials	1,706,715.94	2,643,641.13	(936,925.19)	-35.44%
Services	2,321,224.03	1,997,942.98	323,281.05	16.18%
Scholarships & Fellowships	3,899,183.82	2,859,757.39	1,039,426.43	36.35%
Utilities	425,961.81	435,358.74	(9,396.93)	-2.16%
Depreciation	<u>779,935.66</u>	<u>767,723.07</u>	<u>12,212.59</u>	1.59%
Total Operating Expenses	<u>\$ 23,605,258.88</u>	<u>\$ 21,910,172.84</u>	<u>\$ 1,695,086.04</u>	7.74%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

### Capital Asset Activity

South Piedmont Community College's capital assets as of June 30, 2011 totaled \$29,878,711.63 with accumulated depreciation of \$8,435,009.17, which is a 1.09% decrease in Capital Assets, Net compared to June 30, 2010.

	<u>2010-2011</u>	<u>2009-2010 (as restated)</u>	<u>Difference</u>	<u>% Change</u>
Capital Assets:				
Land	\$ 2,413,160.17	\$ 2,413,160.17	\$ 0.00	0.00%
Buildings	22,961,068.36	22,961,068.36		0.00%
Machinery & Equipment	2,947,555.72	2,495,481.53	452,074.19	18.12%
General Infrastructure	464,181.00	464,181.00		0.00%
Construction in Progress	<u>1,092,746.38</u>	<u>1,001,876.38</u>	<u>90,870.00</u>	9.07%
Total	29,878,711.63	29,335,767.44	542,944.19	1.85%
Less:				
Accumulated Depreciation	<u>8,435,009.17</u>	<u>7,655,073.51</u>	<u>779,935.66</u>	10.19%
Capital Assets, Net	<u>\$ 21,443,702.46</u>	<u>\$ 21,680,693.93</u>	<u>\$ (236,991.47)</u>	-1.09%

### Economic Factors and Next Year's Budget

The economy of the State of North Carolina is expected to remain flat; therefore, the state may have difficulty in maintaining current funding for the College. With the 2011-2012 budget, the College expects another Management Flexibility Reduction and the possibility of a reversion of up to 2%.

County funding will remain stable in both counties of the service area. The population growth is expected to continue at 5%-10% for Union County and remain static in Anson County.

***South Piedmont Community College***  
***Statement of Net Assets***  
***June 30, 2011***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,033,418.56
Restricted Cash and Cash Equivalents	74,208.95
Receivables, Net (Note 3)	484,572.39
Restricted Due from State of North Carolina Component Units	221,480.68
Inventories	101,076.12

Total Current Assets	2,914,756.70
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	18,762.36
Capital Assets - Nondepreciable (Note 4)	3,505,906.55
Capital Assets - Depreciable, Net (Note 4)	17,937,795.91

Total Noncurrent Assets	21,462,464.82
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Total Assets	24,377,221.52
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	481,185.74
Due to Primary Government	1,735.22
Unearned Revenue	11,270.79
Funds Held for Others	24,230.26
Long-Term Liabilities - Current Portion (Note 6)	130,251.10

Total Current Liabilities	648,673.11
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	774,802.66
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Total Liabilities	1,423,475.77
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	21,274,558.58
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Restricted for:

Expendable:

Scholarships and Fellowships	128,691.52
Loans	12,151.69
Restricted for Specific Programs	206,786.54

Unrestricted	1,331,557.42
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Total Net Assets	\$ 22,953,745.75
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The accompanying notes to the financial statements are an integral part of this statement.

***South Piedmont Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2011***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,779,732.55
Federal Grants and Contracts	16,993.06
State and Local Grants and Contracts	403,488.07
Sales and Services, Net (Note 8)	205,059.46
Other Operating Revenues	6,626.02
	<hr/>
Total Operating Revenues	2,411,899.16
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	14,472,237.62
Supplies and Materials	1,706,715.94
Services	2,321,224.03
Scholarships and Fellowships	3,899,183.82
Utilities	425,961.81
Depreciation	779,935.66
	<hr/>
Total Operating Expenses	23,605,258.88
	<hr/>
Operating Loss	(21,193,359.72)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	12,107,919.39
County Appropriations	1,640,800.83
Noncapital Grants - Student Financial Aid	6,002,639.12
Noncapital Gifts	178,946.74
Investment Income	2,212.63
Interest and Fees on Debt	(8,544.57)
Other Nonoperating Revenues	33,059.00
	<hr/>
Net Nonoperating Revenues	19,957,033.14
	<hr/>
Loss Before Other Revenues	(1,236,326.58)
	<hr/>
State Capital Aid	1,167,248.95
County Capital Aid	184,296.01
Capital Grants	6,182.10
	<hr/>
Increase in Net Assets	121,400.48

**NET ASSETS**

Net Assets, July 1, 2010 as Restated (Note 13)	<hr/> 22,832,345.27
Net Assets, June 30, 2011	<hr/> <hr/> \$ 22,953,745.75

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

***South Piedmont Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2011***

***Exhibit A-3  
Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,477,457.23
Payments to Employees and Fringe Benefits	(14,364,961.07)
Payments to Vendors and Suppliers	(4,612,597.28)
Payments for Scholarships and Fellowships	(3,901,985.18)
Other Receipts	118,500.42
	<hr/>
Net Cash Used by Operating Activities	(20,283,585.88)
	<hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	12,107,919.39
County Appropriations	1,640,800.83
Noncapital Grants - Student Financial Aid	6,002,639.12
Noncapital Grants Received	129,195.83
Noncapital Gifts Received	178,946.74
	<hr/>
Cash Provided by Noncapital Financing Activities	20,059,501.91
	<hr/>

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

State Capital Aid Received	1,167,248.95
County Capital Aid	184,296.01
Capital Grants Received	6,182.10
Acquisition and Construction of Capital Assets	(542,944.19)
Principal Paid on Capital Debt and Leases	(35,465.56)
Interest Paid on Capital Debt and Leases	(8,544.57)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	770,772.74
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	2,212.63
	<hr/>
Net Increase in Cash and Cash Equivalents	548,901.40
Cash and Cash Equivalents, July 1, 2010	1,577,488.47
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 2,126,389.87
	<hr/> <hr/>

***South Piedmont Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2011***

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

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

Operating Loss	\$ (21,193,359.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	779,935.66
Miscellaneous Nonoperating Income	114,831.74
Changes in Assets and Liabilities:	
Receivables, Net	62,805.72
Inventories	(20,080.54)
Accounts Payable and Accrued Liabilities	(45,526.90)
Due to Primary Government	1,050.07
Unearned Revenue	29.07
Funds Held for Others	3,668.68
Compensated Absences	13,060.34
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (20,283,585.88)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,033,418.56
Restricted Cash and Cash Equivalents	74,208.95
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/> 18,762.36
Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 2,126,389.87</u></u>

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

***South Piedmont Community College Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2011***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 752,580
Investments	<u>372,248</u>

Total Current Assets	<u>1,124,828</u>
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Endowment Investments:

Cash and Cash Equivalents	<u>971,444</u>
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Total Endowment Investments	<u>971,444</u>
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Fixed Assets

Land	<u>9,700</u>
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Total Assets	<u>\$ 2,105,972</u>
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**NET ASSETS**

Unrestricted	\$ 320,921
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Temporarily Restricted	764,530
------------------------	---------

Permanently Restricted	<u>1,020,521</u>
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Total Net Assets	<u>\$ 2,105,972</u>
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The accompanying notes to the financial statements are an integral part of this statement.



**South Piedmont Community College Foundation, Inc.**  
**Statement of Activities**  
**June 30, 2011**

**Exhibit B-2**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Contributions and Other Income	\$ 42,109	\$ 86,365	\$ 213,314	\$ 341,788
Investment Earnings	11,958	85,519	10,379	107,856
Net Assets Released from Restrictions:	<u>72,472</u>	<u>(62,697)</u>	<u>(9,775)</u>	
Total Revenue, Gains, and Other Support	<u>126,539</u>	<u>109,187</u>	<u>213,918</u>	<u>449,644</u>
<b>EXPENSES</b>				
Supporting Services				
Bank Charges	2			2
Dues	1,515			1,515
Insurance	1,070			1,070
Management Fees	6,157			6,157
Meals and Entertainment	1,966			1,966
Presidential Recruitment	8,058			8,058
Presidential Supplement	23,148			23,148
Professional Fees	<u>2,740</u>			<u>2,740</u>
Total Supporting Services	44,656			44,656
Scholarship Awards	29,151			29,151
Support for South Piedmont Community College Expenses and Programs	<u>49,124</u>			<u>49,124</u>
Total Expenses	<u>122,931</u>			<u>122,931</u>
Change in Net Assets	3,608	109,187	213,918	326,713
<b>NET ASSETS</b>				
Net Assets, Beginning of Year	<u>307,613</u>	<u>655,343</u>	<u>806,603</u>	<u>1,769,559</u>
Prior Period Adjustment: Land	<u>9,700</u>			<u>9,700</u>
Net Assets, End of Year	<u>\$ 320,921</u>	<u>\$ 764,530</u>	<u>\$ 1,020,521</u>	<u>\$ 2,105,972</u>

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**SOUTH PIEDMONT COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. Discretely presented component unit financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of twenty-two members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2011, the Foundation distributed \$101,423 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Hayne White, Executive Director, South Piedmont Community College Foundation, Inc., PO Box 126, Polkton North Carolina 28135, 704 272-7220.

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

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost 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 14 to 22 years for general infrastructure, 23 to 50 years for buildings, and 5 to 40 years for equipment.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(LIFO) method. Also, any accumulated vacation leave in excess of 30 days at fiscal 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 calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

**Invested in Capital Assets, Net of Related Debt** - This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

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

### NOTE 2 - DEPOSITS 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. Cash on hand at June 30, 2011 was \$1,510.10. The carrying amount of the College's deposits not with the State Treasurer was \$2,124,879.77 and the bank balance was \$2,188,136.29.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2011, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments - Component Unit** - Investments of the College's discretely presented component unit, the South Piedmont Community College Foundation, Inc., 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation has \$372,248 in equity securities.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 409,746.53	\$ 117,296.67	\$ 292,449.86
Student Sponsors	61,706.52		61,706.52
Intergovernmental	64,822.41		64,822.41
Other	65,593.60		65,593.60
<b>Total Current Receivables</b>	<u>\$ 601,869.06</u>	<u>\$ 117,296.67</u>	<u>\$ 484,572.39</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 2,413,160.17	\$ 0.00	\$ 0.00	\$ 2,413,160.17
Construction in Progress	1,001,876.38	90,870.00		1,092,746.38
<b>Total Capital Assets, Nondepreciable</b>	<b>3,415,036.55</b>	<b>90,870.00</b>		<b>3,505,906.55</b>
Capital Assets, Depreciable:				
Buildings	22,961,068.36			22,961,068.36
Machinery and Equipment	2,495,481.53	452,074.19		2,947,555.72
General Infrastructure	464,181.00			464,181.00
<b>Total Capital Assets, Depreciable</b>	<b>25,920,730.89</b>	<b>452,074.19</b>		<b>26,372,805.08</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	6,630,890.70	566,629.92		7,197,520.62
Machinery and Equipment	829,983.38	186,237.58		1,016,220.96
General Infrastructure	194,199.43	27,068.16		221,267.59
<b>Total Accumulated Depreciation</b>	<b>7,655,073.51</b>	<b>779,935.66</b>		<b>8,435,009.17</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>18,265,657.38</b>	<b>(327,861.47)</b>		<b>17,937,795.91</b>
<b>Capital Assets, Net</b>	<b>\$ 21,680,693.93</b>	<b>\$ (236,991.47)</b>	<b>\$ 0.00</b>	<b>\$ 21,443,702.46</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 91,072.48
Accrued Payroll	388,846.63
Intergovernmental Payables	1,266.63
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 481,185.74</b>

### NOTE 6 - LONG-TERM LIABILITIES

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Notes Payable	\$ 204,609.44	\$ 0.00	\$ 35,465.56	\$ 169,143.88	\$ 30,009.32
Compensated Absences	722,849.54	609,601.00	596,540.66	735,909.88	100,241.78
<b>Total Long-Term Liabilities</b>	<b>\$ 927,458.98</b>	<b>\$ 609,601.00</b>	<b>\$ 632,006.22</b>	<b>\$ 905,053.76</b>	<b>\$ 130,251.10</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2011	Principal Outstanding June 30, 2011
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	\$ 376,481.00	\$ 207,337.12	\$ 169,143.88

The annual requirements to pay principal and interest on notes payable at June 30, 2011, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2012	\$ 30,009.32	\$ 5,972.62
2013	32,737.44	5,201.04
2014	32,737.44	3,829.34
2015	32,737.44	2,457.65
2016	32,737.44	1,085.95
2017-2021	8,184.80	56.72
Total Requirements	\$ 169,143.88	\$ 18,603.32

### NOTE 7 - LEASE OBLIGATIONS

**Operating Lease Obligations** - The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	\$ 24,437.75
2013	22,216.32
2014	22,216.32
2015	22,216.32
2016	5,554.08
Total Minimum Lease Payments	\$ 96,640.79

Rental expense for all operating leases during the year was \$257,527.17.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 3,410,452.43	\$ 1,630,581.99	\$ 137.89	\$ 1,779,732.55
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore Commission	129,880.62			129,880.62
Vending	17,175.05			17,175.05
Rent	46,863.39			46,863.39
Other	16,218.41		5,078.01	11,140.40
<b>Total Sales and Services</b>	\$ 210,137.47	\$ 0.00	\$ 5,078.01	\$ 205,059.46

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,399,067.30	\$ 1,113,672.49	\$ 432,089.51	\$ 0.00	\$ 3,539.26	\$ 0.00	\$ 9,948,368.56
Academic Support	1,651,921.11	87,342.46	19,259.34				1,758,522.91
Student Services	1,236,913.96	72,976.52	65,526.66		193.49		1,375,610.63
Institutional Support	2,875,477.82	256,043.25	931,700.18				4,063,221.25
Operations and Maintenance of Plant	308,857.43	176,681.22	807,371.89		422,229.06		1,715,139.60
Student Financial Aid			4,065.50	3,899,183.82			3,903,249.32
Auxiliary Enterprises			61,210.95				61,210.95
Depreciation						779,935.66	779,935.66
Total Operating Expenses	\$ 14,472,237.62	\$ 1,706,715.94	\$ 2,321,224.03	\$ 3,899,183.82	\$ 425,961.81	\$ 779,935.66	\$ 23,605,258.88

### NOTE 10 - 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,527,081.05, of which \$9,771,043.63 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$481,712.45 and \$586,262.62, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$481,712.45, \$328,270.05, and \$309,624.97, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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 \$24,166.96 for the year ended June 30, 2011.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$151,146.00 for the year ended June 30, 2011.

### NOTE 11 - 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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$478,781.14, \$413,785.77,

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and \$377,816.19, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "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, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2010, and 2009, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$50,809.43, \$47,815.24, and \$47,918.15, 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 12 - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible.

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

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

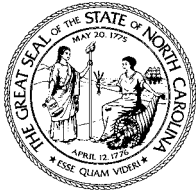
Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### NOTE 13 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2010 Net Assets as Previously Reported	\$ 22,497,072.29
Corrections from Prior Audits that Were Not Recorded	
Properly and Other Various Recording Errors	(12,699.51)
Error in Establishing Useful Lives of Capital Assets	<u>347,972.49</u>
July 1, 2010 Net Assets as Restated	<u><u>\$ 22,832,345.27</u></u>





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

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

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Board of Trustees  
South Piedmont Community College  
Polkton, North Carolina

We have audited the financial statements of South Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 23, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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 identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

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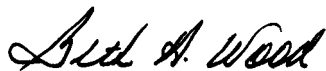
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination 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 all deficiencies described in the Audit Findings and Responses section of this report to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The 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

February 23, 2012

## **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 or noncompliance with laws, regulations, contracts, grant agreements, or other matters. Finding numbers 1 and 2 were also reported in the prior year.

#### **1. LACK OF SEGREGATION OF DUTIES**

The College did not properly segregate duties in the recording and maintaining of student accounts receivable funds. Also, the College did not assign employee access rights to ensure adequate segregation of duties. As a result, there is an increased risk that errors or fraud could occur and not be detected in a timely manner.

The accounts receivable technicians update the rate tables, receipt funds, bill third party sponsors, run processes to post financial aid and refunds, and adjust student accounts. The director and assistant director of financial services have access to perform most functions within the business office from initiation to completion. Six additional employees of the business office have access rights inappropriate for their job duties. All human resource and payroll employees have the ability to perform all human resource and payroll functions from adding an employee to printing paychecks.

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.

A similar finding was reported in the prior audit.

*Recommendation:* The College should evaluate and reassign job duties and access rights necessary to better segregate duties and enhance internal control.

*College's Response:* A thorough examination of all access to Datatel mnemonics that potentially affect financial transactions was completed by the Director of Financial Services in January 2012. Results and recommendations were emailed from the Director of Financial Services to the Vice President of Finance and Administrative Services, the Vice President of Information Systems, the System Administrator, and the backup System Administrator on January 3, 2012. This review is done semi-annually and the next review is scheduled for late May 2012. A review of privileged users occurs quarterly and the next review is scheduled for late February 2012.

The lead Accounts Receivable Technician is responsible for updating rate tables. Access to rate table mnemonics will be removed from everyone except the lead Accounts Receivable Technician and the Director of Financial Services. South Piedmont Community College is a multi-campus college with Business Offices located on the OCH campus and the LLP campus. All three Accounts Receivable Technicians must be able to

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

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receipt funds and adjust student accounts. Due to cross-training and limited employees, all Accounts Receivable Technicians must be able to bill third party sponsors and run processes to post financial aid and refunds.

The access of the Director and Assistant Director of Financial Services will be reviewed and changed so that they cannot perform business office functions from initiation to completion.

Internal control risks are mitigated by the annual internal control review for the EAGLE program.

The six additional employees of the business office who have access rights inappropriate for their job duties will be identified and their access will be restricted to mnemonics that help them fulfill their job duties.

Based on the recommendations from the last audit, duties were changed and separated between the Payroll and Human Resources Technicians. User rights were discussed with Information Services and decisions were made to have these rights corrected. At that point, it was understood that the rights had been corrected. Due to this year's auditing recommendations, more rights have been changed and more job duties separated within Human Resources and Payroll. To ensure changes remain in effect, the Director of Human Resources and Payroll will conduct an internal audit with Information Services twice a year (July and December).

### **2. DEFICIENCIES IN FINANCIAL REPORTING**

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

- a. The College did not evaluate its useful lives appropriately, which resulted in understated depreciable capital assets; understated invested in capital assets, net of related debt; and a restated net assets balance in the amount of \$347,942.
- b. The College did not properly record federal and state student financial aid, which resulted in an overstatement of \$23,025 in federal grants and contracts, \$146,610 in state and local grants and contracts, and \$133,813 in noncapital gifts, as well as an understatement in noncapital grants - student financial aid in the amount of \$303,448.
- c. The College did not ensure that amounts in its capital asset system agreed to amounts reported in the general ledger. As a result, the College overstated depreciable capital assets and overstated invested in capital assets, net of related debt in the amount of \$229,518. There were additional capital asset related audit

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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adjustments from prior years that were not recorded properly and resulted in a net restatement of \$12,700.

- d. The expendable net assets balance restricted for scholarships and fellowships was understated by \$126,909. The expendable net assets balance restricted for specific programs was overstated by \$37,581 and the unrestricted balance was overstated by \$89,328 due to the classification errors.
- e. The College inappropriately recognized a receivable and liability in the amount of \$50,671 related to the federal student financial aid awards. In addition, the College had not recognized the receivables due from students for the Federal Return to Title IV program in the amount of \$64,151 and insurance held for employees of \$753, which resulted in an understatement of receivables and an overstatement of accounts payable. The College also failed to reconcile the accounts receivable subsidiary ledger to the general ledger, clearing items from eight years prior.
- f. The College failed to properly capitalize expenses in the amount of \$33,177, which resulted in an understatement of nondepreciable capital assets and an overstatement of supplies and materials expense.
- g. Noncurrent restricted cash was understated by \$19,836 and current restricted cash was overstated by the same amount due to classification errors.

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

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and strengthen internal control to ensure the accuracy and completeness of the financial statements. The College should appropriately dispose of reconciling items from prior years and ensure that subsidiary ledgers are reconciled to the general ledger.

*College's Response:* A greater emphasis will be placed on the year-end financial reporting process. A Certified Public Accountant has been hired as the Assistant Director of Financial Services and will assist in the year-end financial reporting process. In addition, training opportunities from the System Office and NACUBO will be utilized.

*The College responded to each individual aspect of the finding as follows:*

- a. The Director of Financial Services uses procedures documented by the system office. The Director of Financial Services will request clarification from the system office on why this function is not properly updating the fixed assets subsidiary ledger and the general ledger. The Director of Financial Services has requested from the auditors a list of the assets that were not properly evaluated. When that list is received, those assets will be corrected in the fixed assets subsidiary ledger.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- b. The grouping sheets (a report generated out of Datatel) used by the college to help prepare financial statements has been updated to correctly identify and record federal and state student financial aid.
- c. A greater emphasis will be placed on reconciling the general ledger and the fixed assets subsidiary ledger.
- d. The Director of Financial Services has requested from the auditors a breakdown of the accounts that were classified incorrectly. When that breakdown is received, the grouping sheets will be updated to correctly classify those accounts.
- e. The grouping sheets have been updated to ignore the receivable and associated liability related to federal student financial aid awards. The grouping sheets have also been updated to correctly classify the receivables due from students for the Federal Return to Title IV program and insurance held for employees. The accounts receivable subsidiary ledger has been reconciled with the general ledger. The issue is that there are journal entries totaling approximately \$22,000 from fiscal year 2003 through fiscal year 2009 that are part of the reconciliation. The college will work with the system office to properly reconcile the accounts receivable subsidiary ledger with the general ledger.
- f. This understatement of nondepreciable capital assets and overstatement of supplies and materials expense is the result of two checks that were coded to Union county expense instead of construction expense. Therefore, they were not identified as a Construction in Progress item. Greater attention to detail will be given to coding of construction expenses.
- g. Agency funds were recognized in Restricted Cash and Cash Equivalents Current instead of Restricted Cash and Cash Equivalents Noncurrent. The grouping sheets have been updated to correctly identify agency funds as Restricted Cash and Cash Equivalents Noncurrent.

### 3. JOURNAL ENTRIES NOT ADEQUATELY REVIEWED AND APPROVED OR SUPPORTED

Journal entries are not appropriately reviewed and approved and are not supported by adequate documentation. As a result, there is an increased risk that errors or fraud could occur and not be detected in a timely manner.

We examined 259 journal entries during our audit and noted no review and approval or adequate supporting documentation for 41 of those journal entries.

*Recommendation:* The College should establish adequate internal controls to ensure that transactions are properly recorded, reviewed and approved, adequately supported, and presented in the financial statements.

*College's Response:* A process has been put in place to ensure that journal entries are appropriately reviewed and approved and are supported by adequate documentation. The Director of Financial Services and the Assistant Director of Financial Services have started using a standardized journal entry form. Each journal entry is recorded on that

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

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form and supporting documentation is attached to the form. The Vice President of Finance and Administrative Services signs his approval on each journal entry entered by the Director of Financial Services. The Director of Financial Services signs her approval on each journal entry entered by the Assistant Director of Financial Services. Weekly, the Director of Financial Services prints a report of all budget journal entries and all general journal entries entered during the previous week. The Director of Financial Services verifies that the beginning journal entry number on the report immediately follows the ending journal entry number on the previous report and that all journal entry numbers are accounted for. Budget journal entries and general journal entries are compiled and put in order by journal entry number. Each journal entry is reviewed for a signature of approval and attached to the budget journal entry report or the general journal entry report. The weekly reports with journal entries attached are filed in a central location in the Business Office.

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