STATE OF NORTH CAROLINA

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Sandhills 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2011, 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 27.18 percent, 26.80 percent, and 9.35 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sandhills Community College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Community College as of June 30, 2011, 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. 59, *Financial Instruments Omnibus* during the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 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

Beth A. Wood, CPA
State Auditor

June 25, 2012

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.

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 $7 million. This was an increase of 12.80%. Operating revenues increased by $741,615, or 20.50%. Nonoperating revenues increased by $2.93 million or 8.77%. Operating expenses increased by $2.18 million or 5.73%.

The College received funding from the State to cover operating expenses and for capital improvements. The College 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 revenues of $5.24 million.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2011, the College's total net assets were $61.67 million. This is an overall increase of $7 million or 12.80% from last fiscal year. The College's largest asset is its investment in capital assets of $43.71 million, representing 66.56% of total assets as of June 30, 2011. The College's current assets incurred an increase of $221,023 or 3.64% from last fiscal year.

Noncurrent assets had a net increase of $6.71 million or 12.73%. This is mainly due to an increase in construction in progress of $4.09 million. Restricted investments and other long-term investments increased by 21.33% due to an increase in returns on existing investments. There was a decrease in Restricted Due from Primary Government due to several construction projects nearing completion at year end. The majority of outstanding projects at June 30, 2011 are financed by county funds.

Condensed Statement of Net Assets

	2011	2010 (as restated)	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 6,292,267.63	$ 6,071,244.27	$ 221,023.36	3.64%
Noncurrent Assets:				
Capital Assets, Net	43,713,829.93	39,396,772.83	4,317,057.10	10.96%
Other	15,666,969.60	13,278,040.10	2,388,929.50	17.99%
Total Assets	65,673,067.16	58,746,057.20		
LIABILITIES				
Current Liabilities	1,522,110.60	1,733,260.96	(211,150.36)	(12.18%)
Noncurrent Liabilities	2,482,123.84	2,342,291.79	139,832.05	5.97%
Total Liabilities	4,004,234.44	4,075,552.75		
NET ASSETS				
Invested in Capital Assets	43,713,829.93	39,396,772.83	4,317,057.10	10.96%
Restricted	16,088,246.07	13,083,031.80	3,005,214.27	22.97%
Unrestricted	1,866,756.72	2,190,699.82	(323,943.10)	(14.79%)
Total Net Assets	$ 61,668,832.72	$ 54,670,504.45		

Analysis of Net Capital Assets

Increases in construction in progress of $4.09 million were due to continuing construction on the EMS Trades Phase II facility, Transportation Services, Logan Hall, and Physical Plant projects. Overall net capital assets increased by $4.32 million or 10.96%.

Analysis of Revenues and Expenses

As noted in the Statement of Revenues, Expenses, and Changes in Net Assets, net assets increased $7 million from the prior year. The College's operating revenues increased by $741,615 or 20.50% during the fiscal year due primarily to a 24.89% increase in student tuition and fees. The sources of operating revenue for the College are tuition and fees, auxiliary services, and other educational activities.

The College is mainly supported by receipts of State and County funds. The College received $18.20 million or 39.28% of its revenue from State aid and State capital aid. The Counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received $4.23 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 5.73% overall increase in operating expenses from the prior fiscal year. The largest operating expense is for salaries and benefits which represents $24.84 million or 61.84% of the operating expenses. This represents an increase of 8.43% from the prior fiscal year. Most of this increase is due to new positions being added at the College.

The College instituted new policies to reduce operating expenses for the fiscal year ended June 30, 2011. Therefore, services decreased by $1 million due to a reduction in costs associated with staff development, travel expenses, sabbaticals, and public relations. The College expensed $8.13 million or 20.23% of its operating expenses on scholarships and other financial aid. This represents an increase of $0.58 million from fiscal year 2010 and can be attributed to increased enrollment as well as new scholarships.

Noncapital Grants - Federal Student Financial Aid such as PELL, SEOG, and College Work Study grants 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 increased by $1.14 million from the prior year due to enhanced market performance.

Statement of Revenues, Expenses, and Changes in Net Assets

	2011	2010 (as restated)	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 3,762,906.46	$ 3,013,084.25	$ 749,822.21	24.89%
Sales and Services	444,550.64	437,170.72	7,379.92	1.69%
Other Operating Revenues	151,816.85	167,404.44	(15,587.59)	(9.31%)
Total Operating Revenues	4,359,273.95	3,617,659.41		
NONOPERATING REVENUES (EXPENSES)				
State Aid	17,484,439.19	16,171,008.08	1,313,431.11	8.12%
County Appropriations	4,229,552.70	4,375,520.92	(145,968.22)	(3.34%)
Noncapital Grants - Federal Student Financial Aid	9,827,278.63	8,494,237.55	1,333,041.08	15.69%
Noncapital grants	1,668,370.16	1,996,172.57	(327,802.41)	(16.42%)
Noncapital gifts	924,156.97	1,101,275.71	(177,118.74)	(16.08%)
Investment Income, Net	2,256,033.01	1,113,732.10	1,142,300.91	102.57%
Other Nonoperating Revenues (Expenses)	(51,620.47)	155,321.84	(206,942.31)	(133.23%)
Net Nonoperating Revenues	36,338,210.19	33,407,268.77		
State Capital Aid	714,736.09	663,567.02	51,169.07	7.71%
County Capital Aid	5,242,501.66	2,529,042.53	2,713,459.13	107.29%
Capital Gifts	155,533.33	8,615.65	146,917.68	1705.24%
Additions to Endowments	364,662.86	388,039.23	(23,376.37)	(6.02%)
Total Revenues	47,174,918.08	40,614,192.61		
OPERATING EXPENSES				
Salaries and Benefits	24,843,663.14	22,912,180.36	1,931,482.78	8.43%
Supplies and Materials	2,778,370.10	2,104,845.69	673,524.41	32.00%
Services	2,163,003.53	3,161,803.95	(998,800.42)	(31.59%)
Scholarships and Fellowships	8,127,327.17	7,546,318.23	581,008.94	7.70%
Utilities	1,093,168.69	1,122,579.24	(29,410.55)	(2.62%)
Depreciation	1,171,057.18	1,153,272.50	17,784.68	1.54%
Total Operating Expenses	40,176,589.81	38,000,999.97		
Increase in Net Assets	6,998,328.27	2,613,192.64		
NET ASSETS				
Beginning of Year	54,670,504.45	51,176,686.08		
Restatements		880,625.73		
Net Assets, End of Year, as Restated	$ 61,668,832.72	$ 54,670,504.45		

Economic Factors and Next Year's Budget

The economic future of Sandhills Community College is encouraging. We continue to see modest growth in enrollment and are encouraged by this. As we start the 2012 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 2012 fiscal year.

Sandhills Community College
Statement of Net Assets
June 30, 2011 — *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents (Note 2)	$ 2,583,741.45
Restricted Cash and Cash Equivalents (Note 2)	2,926,013.40
Receivables, Net (Note 4)	662,036.81
Inventories	112,124.85
Notes Receivable (Note 4)	8,351.12
Total Current Assets	6,292,267.63
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note 2)	303,240.69
Receivables (Note 4)	237,229.62
Restricted Due from Primary Government	650,818.88
Restricted Investments (Note 2)	13,002,152.93
Other Investments (Note 2)	1,473,527.48
Capital Assets - Nondepreciable (Note 5)	5,631,192.24
Capital Assets - Depreciable, Net (Note 5)	38,082,637.69
Total Noncurrent Assets	59,380,799.53
Total Assets	65,673,067.16
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	888,478.06
Unearned Revenue	319,216.65
Funds Held for Others	107,375.90
Long-Term Liabilities - Current Portion (Note 7)	207,039.99
Total Current Liabilities	1,522,110.60
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	2,482,123.84
Total Liabilities	4,004,234.44
NET ASSETS	
Invested in Capital Assets	43,713,829.93
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,131,638.45
Restricted for Specific Programs	3,076,880.68
Expendable:	
Loans	7,000.00
Capital Projects	781,055.04
Restricted for Specific Programs	8,091,671.90
Unrestricted	1,866,756.72
Total Net Assets	$ 61,668,832.72

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, 2011 ***Exhibit A-2***

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 3,762,906.46
Sales and Services	444,550.64
Other Operating Revenues	151,816.85
Total Operating Revenues	4,359,273.95
EXPENSES	
Operating Expenses:	
Salaries and Benefits	24,843,663.14
Supplies and Materials	2,778,370.10
Services	2,163,003.53
Scholarships and Fellowships	8,127,327.17
Utilities	1,093,168.69
Depreciation	1,171,057.18
Total Operating Expenses	40,176,589.81
Operating Loss	(35,817,315.86)
NONOPERATING REVENUES (EXPENSES)	
State Aid	17,484,439.19
County Appropriations	4,229,552.70
Noncapital Grants - Federal Student Financial Aid	9,827,278.63
Noncapital Grants	1,668,370.16
Noncapital Gifts	924,156.97
Investment Income, Net	2,256,033.01
Other Nonoperating Expenses	(51,620.47)
Net Nonoperating Revenues	36,338,210.19
Income Before Other Revenues	520,894.33
State Capital Aid	714,736.09
County Capital Aid	5,242,501.66
Capital Gifts	155,533.33
Additions to Endowments	364,662.86
Increase in Net Assets	6,998,328.27
NET ASSETS	
Net Assets, July 1, 2010 as Restated (Note 17)	54,670,504.45
Net Assets, June 30, 2011	$ 61,668,832.72

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

Sandhills Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,172,294.64
Payments to Employees and Fringe Benefits	(24,726,802.89)
Payments to Vendors and Suppliers	(5,875,062.18)
Payments for Scholarships and Fellowships	(8,127,327.17)
Loans Issued to Students	(15,767.77)
Collection of Loans	15,416.55
Other Payments	(57,829.71)
Net Cash Used by Operating Activities	(34,615,078.53)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,484,439.19
County Appropriations	4,229,552.70
Noncapital Grants - Federal Student Financial Aid	9,783,049.30
Noncapital Grants Received	1,603,205.00
Noncapital Gifts and Endowments Received	919,644.36
Other Receipts	63,745.78
Cash Provided by Noncapital Financing Activities	34,083,636.33
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,023,789.03
County Capital Aid	5,129,467.66
Capital Grants Received	7,980.41
Capital Gifts Received	5,833.33
Acquisition and Construction of Capital Assets	(5,775,797.04)
Net Cash Provided by Capital and Related Financing Activities	391,273.39
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	172,983.76
Investment Income	746,964.52
Purchase of Investments and Related Fees	(824,767.20)
Net Cash Provided by Investing Activities	95,181.08
Net Decrease in Cash and Cash Equivalents	(44,987.73)
Cash and Cash Equivalents, July 1, 2010	5,857,983.27
Cash and Cash Equivalents, June 30, 2011	$ 5,812,995.54

Sandhills Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011 — *Page 2 of 2*

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(35,817,315.86)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,171,057.18
Miscellaneous Nonoperating Income		(51,620.47)
Changes in Assets and Liabilities:		
Receivables, Net		(240,987.99)
Inventories		(28,931.95)
Notes Receivable, Net		(351.12)
Accounts Payable and Accrued Liabilities		302,570.82
Unearned Revenue		54,008.58
Funds Held for Others		(6,209.24)
Compensated Absences		2,701.52
Net Cash Used by Operating Activities	$	(34,615,078.53)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	2,583,741.45
Restricted Cash and Cash Equivalents		2,926,013.40
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		303,240.69
Total Cash and Cash Equivalents - June 30, 2011	$	5,812,995.54

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	58,909.41
Assets Acquired through a Gift		273,835.38
Change in Fair Value of Investments		1,487,303.19
Increase in Receivables Related to Nonoperating Income		198,775.70
Change in Fair Value of Annuities		260,095.45
Capital Asset Write-Offs		345,835.23

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 Associate Vice President's Office, 3395 Airport Road, Pinehurst, North Carolina 28374, or by calling (910) 695-3731.

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

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

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

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

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

D. **Cash and Cash Equivalents** - This classification includes petty cash, 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.

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 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.

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 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 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. Cash on hand at June 30, 2011 was $4,370.00. The carrying amount of the College's deposits not with the State Treasurer was $3,810,433.50, and the bank balance was $4,197,889.33.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and bankers' acceptances; specified bills of exchange; certain savings certificates; 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 of custodian.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,998,192.04, 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 1.9 years as of June 30, 2011. 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 "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; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

All investments are held by the College's blended component unit, the Sandhills Community College Foundation, Inc. Investments of the 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, 2011, 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

	Fair Value	Investment Maturity More than 10 years
Investment Type		
Debt Securities		
Annuity Contracts	$ 1,481,969.17	$ 1,481,969.17
Other Securities		
Mutual Funds	12,984,461.24	
Investments in Real Estate	9,250.00	
Total Investments	$ 14,475,680.41	

Alternative investments at June 30, 2011 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.

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, 2011, the Foundation's investments were rated as follows:

	Fair Value	AA Aa
Annuity Contracts	$ 1,481,969.17	$ 1,481,969.17

Rating Agency: Hartford, Moody's, S&P, A.M. Best, 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. The Foundation holds an investment in a mutual fund of which 80% of the Foundation's total investments are invested.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	$	4,370.00
Carrying Amount of Deposits with Private Financial Institutions		3,810,433.50
Investments in the Short-Term Investment Fund		1,998,192.04
Other Investments		14,475,680.41
Total Deposits and Investments	$	20,288,675.95
Current:		
Cash and Cash Equivalents	$	2,583,741.45
Restricted Cash and Cash Equivalents		2,926,013.40
Noncurrent:		
Restricted Cash and Cash Equivalents		303,240.69
Restricted Investments		13,002,152.93
Other Investments		1,473,527.48
Total	$	20,288,675.95

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, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet 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, 2011, endowment net appreciation of $3,106,163.16 was available to be spent, of which $1,408,056.90 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 1,070,770.15	$ 628,805.71	$ 441,964.44
Intergovernmental	177,204.81		177,204.81
Pledges	42,867.56		42,867.56
Total Current Receivables	$ 1,290,842.52	$ 628,805.71	$ 662,036.81
Noncurrent Receivables:			
Intergovernmental	$ 123,122.90	$ 0.00	$ 123,122.90
Pledges	114,106.72		114,106.72
Total Noncurrent Receivables	$ 237,229.62	$ 0.00	$ 237,229.62
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 8,351.12	$ 0.00	$ 8,351.12

NOTE 5 - 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	$ 429,736.45	$ 149,700.00	$ 0.00	$ 579,436.45
Construction in Progress	958,365.62	5,137,783.35	1,044,393.18	5,051,755.79
Total Capital Assets, Nondepreciable	1,388,102.07	5,287,483.35	1,044,393.18	5,631,192.24
Capital Assets, Depreciable:				
Buildings	45,823,312.82	961,879.59	149,212.17	46,635,980.24
Machinery and Equipment	2,760,403.26	419,485.99	196,623.06	2,983,266.19
General Infrastructure	1,758,162.03			1,758,162.03
Total Capital Assets, Depreciable	50,341,878.11	1,381,365.58	345,835.23	51,377,408.46
Less Accumulated Depreciation for:				
Buildings	10,826,891.87	1,000,990.68	132,737.20	11,695,145.35
Machinery and Equipment	981,417.94	132,459.04	76,756.54	1,037,120.44
General Infrastructure	524,897.52	37,607.46		562,504.98
Total Accumulated Depreciation	12,333,207.33	1,171,057.18	209,493.74	13,294,770.77
Total Capital Assets, Depreciable, Net	38,008,670.78	210,308.40	136,341.49	38,082,637.69
Capital Assets, Net	$ 39,396,772.85	$ 5,497,791.75	$ 1,180,734.67	$ 43,713,829.93

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 707,454.87
Accrued Payroll	120,363.78
Contracts Payable	58,909.41
Intergovernmental Payables	1,750.00
Total Accounts Payable and Accrued Liabilities	$ 888,478.06

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, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	$ 1,369,419.71	$ 820,481.31	$ 817,779.79	$ 1,372,121.23	$ 83,913.91
Annuities Payable	1,253,296.82	98,817.67	35,071.89	1,317,042.60	123,126.08
Total Long-Term Liabilities	$ 2,622,716.53	$ 919,298.98	$ 852,851.68	$ 2,689,163.83	$ 207,039.99

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 amount of the gift, and using IRS-issued Life Tables. Annuities payable obligations relating to 19 annuities at June 30, 2011 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, 2011 was $1,481,969.17. 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, 2011:

Fiscal Year	Amount
2012	$ 30,833.51
2013	15,006.72
2014	4,593.26
Total Minimum Lease Payments	$ 50,433.49

Rental expense for all operating leases during the year was $32,635.64.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 6,504,781.30	$ 2,598,834.64	$ 143,040.20	$ 3,762,906.46

NOTE 10 - 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	$ 14,628,538.03	$ 1,382,370.58	$ 554,161.54	$ 0.00	$ 0.00	$ 0.00	$ 16,565,070.15
Academic Support	2,445,657.56	93,002.54	52,277.61				2,590,937.71
Student Services	1,779,364.98	101,572.21	155,256.11				2,036,193.30
Institutional Support	3,590,532.45	552,068.63	596,682.23				4,739,283.31
Operations and Maintenance of Plant	1,940,477.43	626,355.66	593,568.93		1,093,168.69		4,253,570.71
Student Financial Aid	337,760.15	21,001.48	102,518.97	8,127,327.17			8,588,607.77
Auxiliary Enterprises	121,332.54	1,999.00	108,538.14				231,869.68
Depreciation						1,171,057.18	1,171,057.18
Total Operating Expenses	$ 24,843,663.14	$ 2,778,370.10	$ 2,163,003.53	$ 8,127,327.17	$ 1,093,168.69	$ 1,171,057.18	$ 40,176,589.81

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, 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 $19,925,571.79, of which $16,830,022.89 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $829,720.13 and $1,009,801.37, 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 $829,720.13, $559,932.17, and $528,257.32, 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 $47,939.00 for the year ended June 30, 2011.

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, 2011, were $9,953.15. The voluntary contributions by employees amounted to $287,355.00 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $181,053.29 for the year ended June 30, 2011.

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 4.9% 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 $824,671.12, $705,796.86, and $644,599.70, 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 0.52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2010, and 2009, were 0.52% and 0.52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $87,516.12, $81,558.75, and $81,754.11, 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.

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

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the $10 million deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. 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 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 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.

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 0.16% 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 $8,475,762.94 at June 30, 2011.

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	$ 78,805.00

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 $965,765.00 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, 2011, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 59 updates the disclosure and reporting requirements for certain financial instruments and external investment pools.

NOTE 17 - NET ASSET RESTATEMENTS

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

	Amount
July 1, 2010 Net Assets as Previously Reported	$ 53,789,878.72
Restatements:	
To Correct Prior Year Unearned Revenue for Blended Foundation	1,116,605.29
Other Prior Year Corrections	(235,979.56)
July 1, 2010 Net Assets as Restated	$ 54,670,504.45

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STATE OF NORTH CAROLINA
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*

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, 2011, and have issued our report thereon dated June 25, 2012. 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. 59, *Financial Instruments Omnibus* during the year ended June 30, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Sandhills Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of the 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.

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.

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)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

June 25, 2012

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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