



STATE OF NORTH CAROLINA

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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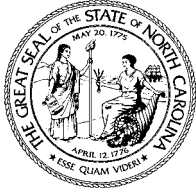
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2012, 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*.

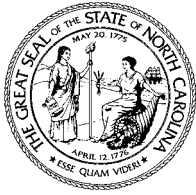
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Sandhills Community College Foundation, Inc., which represent 26.12 percent, 25.36 percent, and 7.69 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 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.

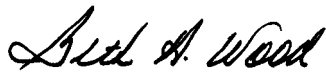
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Sandhills Community College as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013 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,

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

January 29, 2013

SANDHILLS COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights

The College's net assets increased by \$6.79 million. This was an increase of 11.02%. Operating revenues decreased by \$361,830, or 8.30%. Nonoperating revenues decreased by \$3.33 million or 9.16%. Operating expenses decreased by \$2.26 million or 5.63%.

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 receipts of \$6.78 million.

Financial Analysis

Analysis of Current Assets and Net Assets

As of June 30, 2012, the College's total net assets were \$68.46 million. This is an overall increase of \$6.79 million or 11.02% from last fiscal year. The College's largest asset is its investment in capital assets of \$49.47 million, representing 72.26% of total net assets as of June 30, 2012. The College's current assets incurred a net increase of \$1.85 million or 29.41% from the last fiscal year mainly due to the assumption of trust funds from the College Foundation, Inc. of approximately \$1.4 million.

Noncurrent assets had a net increase of \$4.95 million or 8.34%. This is mainly due to a net increase in overall capital assets of \$5.76 million relating to construction in progress for several ongoing projects and projects completed during the year. The completion of four large construction projects increased buildings by \$10.86 million. Restricted investments and other long-term investments decreased by \$740,616 or 5.12% due to a decrease in returns on existing investments.

Condensed Statement of Net Assets

	2012	2011	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	\$ 8,142,680.64	\$ 6,292,267.63	\$ 1,850,413.01	29.41%
Noncurrent Assets:				
Capital Assets, Net	49,474,705.08	43,713,829.93	5,760,875.15	13.18%
Other	14,859,539.39	15,666,969.60	(807,430.21)	(5.15%)
Total Assets	<u>72,476,925.11</u>	<u>65,673,067.16</u>		
LIABILITIES				
Current Liabilities	1,504,075.33	1,522,110.60	(18,035.27)	(1.18%)
Noncurrent Liabilities	2,509,193.42	2,482,123.84	27,069.58	1.09%
Total Liabilities	<u>4,013,268.75</u>	<u>4,004,234.44</u>		
NET ASSETS				
Invested in Capital Assets	49,474,705.08	43,713,829.93	5,760,875.15	13.18%
Restricted	17,143,734.15	16,088,246.07	1,055,488.08	6.56%
Unrestricted	1,845,217.13	1,866,756.72	(21,539.59)	(1.15%)
Total Net Assets	<u>\$ 68,463,656.36</u>	<u>\$ 61,668,832.72</u>		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Net Capital Assets

Decreases in construction in progress of \$3.90 million represent the net effect of ongoing construction projects and the completion of several large projects. Buildings completed and capitalized during the year include the EMS Trades Phase II facility, Logan Hall, the Physical Plant and Transportation Services. Overall net capital assets increased by \$5.76 million or 13.18%.

Analysis of Revenues and Expenses

As noted in the Statement of Revenues, Expenses, and Changes in Net Assets, net assets increased \$6.79 million from the prior year. The College's operating revenues decreased by \$361,830 or 8.30% during the fiscal year due primarily to an 8.26% decrease 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 \$16.67 million or 37.29% of its revenue from state aid and state capital aid. There was a decrease in state aid of \$1.70 million in fiscal year 2012 mainly due to a Management Flexibility Reduction as well as a Call Back Requirement. The Counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received \$4.38 million in county appropriations.

The College experienced decreases in revenue due to decreased enrollment and unrealized losses on long term investments in the financial markets. Noncapital Gifts increased due to the assumption of trust funds from College Foundation, Inc. of approximately \$1.4 million. These funds were initially set up to assist students from Moore County in need of financial aid for college and are now being administered through Sandhills Community College Foundation, Inc.

The College experienced a 5.63% overall decrease in operating expenses from the prior fiscal year. The largest operating expense is for salaries and benefits which represents \$24.23 million or 63.90% of the operating expenses. This represents a decrease of 2.48% from the prior fiscal year. This decrease is due to the conscious effort on the part of management to realign duties upon retirement of personnel.

The College instituted policies to reduce operating expenses for the fiscal year ended June 30, 2012. Therefore, supplies and materials decreased by \$0.68 million due to a reduction in costs. Services increased by \$0.39 million due to costs associated with staff development, travel expenses, sabbaticals and public relations. The College expensed \$6.53 million or 17.23% of its operating expenses on scholarships and other financial aid. This represents a decrease of \$1.59 million from fiscal year 2011 and can be attributed mainly to a decrease in enrollment and related Pell financial aid awards.

Noncapital Grants - Federal Student Financial Aid such as Pell, SEOG and College Work Study grants decreased due to a decrease in student enrollment and a decrease in the Pell allotment for students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additions to endowments decreased by \$0.36 million due to the decline in annuity values at year end. This decline was the result of a change in the net present value calculation for remaining annuity payments impacted by an increase in the discount rate.

The College experienced large unrealized investment gains for the year ended June 30, 2011. During the current fiscal year, market performance deteriorated resulting in a decrease in Investment Income of \$2.19 million from the prior year.

Statement of Revenues, Expenses, and Changes in Net Assets

	2012	2011	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student Tuition and Fees, Net	\$ 3,452,188.97	\$ 3,762,906.46	\$ (310,717.49)	(8.26%)
Sales and Services	446,642.52	444,550.64	2,091.88	0.47%
Other Operating Revenues	98,612.90	151,816.85	(53,203.95)	(35.04%)
Total Operating Revenues	3,997,444.39	4,359,273.95		
NONOPERATING REVENUES (EXPENSES)				
State Aid	15,782,522.30	17,484,439.19	(1,701,916.89)	(9.73%)
County Appropriations	4,377,240.40	4,229,552.70	147,687.70	3.49%
Noncapital Grants - Federal Student Financial Aid	8,820,566.84	9,827,278.63	(1,006,711.79)	(10.24%)
Noncapital grants	1,421,601.67	1,668,370.16	(246,768.49)	(14.79%)
Noncapital gifts	2,533,554.10	924,156.97	1,609,397.13	174.15%
Investment Income	61,127.27	2,256,033.01	(2,194,905.74)	(97.29%)
Other Nonoperating Revenues (Expenses)	11,809.96	(51,620.47)	63,430.43	122.90%
Net Nonoperating Revenues	33,008,422.54	36,338,210.19		
State Capital Aid	891,274.85	714,736.09	176,538.76	24.70%
County Capital Aid	6,776,371.97	5,242,501.66	1,533,870.31	29.26%
Capital Grants	28,713.15		28,713.15	100.00%
Capital Gifts		155,533.33	(155,533.33)	(100.00%)
Additions to Endowments	5,815.54	364,662.86	(358,847.32)	(98.41%)
Total Revenues	44,708,042.44	47,174,918.08		
OPERATING EXPENSES				
Salaries and Benefits	24,227,446.86	24,843,663.14	(616,216.28)	(2.48%)
Supplies and Materials	2,094,718.40	2,778,370.10	(683,651.70)	(24.61%)
Services	2,556,281.65	2,163,003.53	393,278.12	18.18%
Scholarships and Fellowships	6,533,251.96	8,127,327.17	(1,594,075.21)	(19.61%)
Utilities	1,061,134.56	1,093,168.69	(32,034.13)	(2.93%)
Depreciation	1,440,385.37	1,171,057.18	269,328.19	23.00%
Total Operating Expenses	37,913,218.80	40,176,589.81		
Increase in Net Assets	6,794,823.64	6,998,328.27		
NET ASSETS				
Beginning of Year	61,668,832.72	54,670,504.45		
Net Assets, End of Year	\$ 68,463,656.36	\$ 61,668,832.72		

Economic Factors and Next Year's Budget

The economic future of Sandhills Community College is encouraging. We anticipate level to slight declines in enrollment but increases in tuition rates. As we start the 2013 fiscal year, we anticipate a stable economic future and look forward to serving our students and our community.

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

Sandhills Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents (Note 2)	\$ 2,681,306.68
Restricted Cash and Cash Equivalents (Note 2)	4,898,341.97
Receivables, Net (Note 4)	505,673.12
Due from State of North Carolina Component Units	11,881.00
Inventories	32,726.74
Notes Receivable (Note 4)	12,751.13
	<hr/>
Total Current Assets	8,142,680.64
Noncurrent Assets:	
Restricted Cash and Cash Equivalents (Note 2)	397,529.61
Receivables (Note 4)	5,946.72
Restricted Due from Primary Government	720,998.83
Restricted Investments (Note 2)	12,458,683.56
Other Investments (Note 2)	1,276,380.67
Capital Assets - Nondepreciable (Note 5)	1,735,013.13
Capital Assets - Depreciable, Net (Note 5)	47,739,691.95
	<hr/>
Total Noncurrent Assets	64,334,244.47
	<hr/>
Total Assets	72,476,925.11

LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	736,999.76
Due to State of North Carolina Component Units	118.41
Unearned Revenue	387,239.53
Funds Held for Others	100,561.23
Long-Term Liabilities - Current Portion (Note 7)	279,156.40
	<hr/>
Total Current Liabilities	1,504,075.33
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	2,509,193.42
	<hr/>
Total Liabilities	4,013,268.75

NET ASSETS

Invested in Capital Assets	49,474,705.08
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	4,286,169.21
Restricted for Specific Programs	2,798,602.96
Expendable:	
Loans	7,000.00
Capital Projects	715,215.62
Restricted for Specific Programs	9,336,746.36
Unrestricted	1,845,217.13
	<hr/>
Total Net Assets	\$ 68,463,656.36

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, 2012

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 3,452,188.97
Sales and Services	446,642.52
Other Operating Revenues	98,612.90
	<hr/>
Total Operating Revenues	3,997,444.39
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	24,227,446.86
Supplies and Materials	2,094,718.40
Services	2,556,281.65
Scholarships and Fellowships	6,533,251.96
Utilities	1,061,134.56
Depreciation	1,440,385.37
	<hr/>
Total Operating Expenses	37,913,218.80
	<hr/>
Operating Loss	(33,915,774.41)
	<hr/>

NONOPERATING REVENUES

State Aid	15,782,522.30
County Appropriations	4,377,240.40
Noncapital Grants - Federal Student Financial Aid	8,820,566.84
Noncapital Grants	1,421,601.67
Noncapital Gifts	2,533,554.10
Investment Income, Net	61,127.27
Other Nonoperating Revenues	11,809.96
	<hr/>
Nonoperating Revenues	33,008,422.54
	<hr/>
Loss Before Other Revenues	(907,351.87)
	<hr/>

State Capital Aid	891,274.85
County Capital Aid	6,776,371.97
Capital Grants	28,713.15
Additions to Endowments	5,815.54
	<hr/>
Increase in Net Assets	6,794,823.64
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NET ASSETS

Net Assets, July 1, 2011	61,668,832.72
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Net Assets, June 30, 2012	\$ 68,463,656.36
	<hr/> <hr/>

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

Sandhills Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,021,178.15
Payments to Employees and Fringe Benefits	(24,266,902.12)
Payments to Vendors and Suppliers	(5,756,326.45)
Payments for Scholarships and Fellowships	(6,533,251.96)
Loans Issued to Students	(25,345.00)
Collection of Loans to Students	20,944.99
Other Payments	(6,814.67)
	<hr/>
Net Cash Used by Operating Activities	(32,546,517.06)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	15,782,522.30
County Appropriations	4,377,240.40
Noncapital Grants - Federal Student Financial Aid	8,994,276.28
Noncapital Grants Received	1,409,720.67
Noncapital Gifts and Endowments Received	2,348,833.62
Other Receipts	181,425.29
	<hr/>
Cash Provided by Noncapital Financing Activities	33,094,018.56

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	821,094.90
County Capital Aid	6,899,494.87
Capital Grants	28,713.15
Acquisition and Construction of Capital Assets	(7,260,169.93)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	489,132.99

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	1,101,257.31
Investment Income	279,949.10
Purchase of Investments and Related Fees	(253,658.18)
	<hr/>
Net Cash Provided by Investing Activities	1,127,548.23

Net Increase in Cash and Cash Equivalents	2,164,182.72
Cash and Cash Equivalents, July 1, 2011	5,812,995.54
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 7,977,178.26

Sandhills Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (33,915,774.41)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,440,385.37
Changes in Assets and Liabilities:	
Receivables, Net	(44,289.12)
Inventories	79,398.11
Notes Receivable, Net	(4,400.01)
Accounts Payable and Accrued Liabilities	(92,615.87)
Unearned Revenue	68,022.88
Funds Held for Others	(6,814.67)
Compensated Absences	(70,429.34)
	<u>(70,429.34)</u>
Net Cash Used by Operating Activities	<u>\$ (32,546,517.06)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,681,306.68
Restricted Cash and Cash Equivalents	4,898,341.97
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>397,529.61</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 7,977,178.26</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 364,302.96
Change in Fair Value of Investments	(202,146.52)
Decrease in Receivables Related to Nonoperating Income	(311,894.71)
Capital Asset Write-Offs	298,337.49
Change in Fair Value of Annuities	(38,498.18)

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

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SANDHILLS COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, include 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for general infrastructure, 25 to 50 years for buildings, and 5 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 method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,000,000. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by North Carolina General Statute 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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, 2012 was \$15,782.00. The carrying amount of the College's deposits not with the State Treasurer was \$6,129,015.29, and the bank balance was \$6,135,286.70.

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, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

federal agencies; prime quality commercial paper bearing specified ratings; 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, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,832,380.97, 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 1.5 years as of June 30, 2012. 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) 707-0500.

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; 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the Foundation's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The Foundation does not have a formal investment policy that addresses interest rate risk.

	Investments	
Investment Type	<u>Fair Value</u>	<u>Investment Maturity More than 10 Years</u>
Debt Securities		
Annuity Contracts	\$ 1,418,844.51	<u>\$ 1,418,844.51</u>
Other Securities		
Mutual Funds	12,306,969.72	
Investments in Real Estate	<u>9,250.00</u>	
Total Investments	<u>\$ 13,735,064.23</u>	

Alternative investments at June 30, 2012 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, 2012, the Foundation's investments were rated as follows:

	<u>Fair Value</u>	<u>AA Aa</u>
Annuity Contracts	<u>\$ 1,418,844.51</u>	<u>\$ 1,418,844.51</u>

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 investments in a mutual fund of which 90% of the Foundation's total investments are invested.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012 is as follows:

Cash on Hand	\$	15,782.00
Carrying Amount of Deposits with Private Financial Institutions		6,129,015.29
Investments in the Short-Term Investment Fund		1,832,380.97
Other Investments		<u>13,735,064.23</u>
Total Deposits and Investments	\$	<u>21,712,242.49</u>
Current:		
Cash and Cash Equivalents	\$	2,681,306.68
Restricted Cash and Cash Equivalents		4,898,341.97
Noncurrent:		
Restricted Cash and Cash Equivalents		397,529.61
Restricted Investments		12,458,683.56
Other Investments		<u>1,276,380.67</u>
Total	\$	<u>21,712,242.49</u>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the Foundation's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 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 Foundation'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, 2012, endowment net appreciation of \$2,995,261.59 was available to be spent, of which \$1,405,757.07 was restricted to specific purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,079,257.89	\$ 687,850.79	\$ 391,407.10
Student Sponsors	119,379.14	24,532.68	94,846.46
Intergovernmental	3,660.76		3,660.76
Pledges	15,758.80		15,758.80
Total Current Receivables	\$ 1,218,056.59	\$ 712,383.47	\$ 505,673.12
Noncurrent Receivables:			
Pledges	\$ 5,946.72	\$ 0.00	\$ 5,946.72
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	\$ 12,751.13	\$ 0.00	\$ 12,751.13

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 579,436.45	\$ 0.00	\$ 0.00	\$ 579,436.45
Construction in Progress	5,051,755.79	6,967,703.76	10,863,882.87	1,155,576.68
Total Capital Assets, Nondepreciable	5,631,192.24	6,967,703.76	10,863,882.87	1,735,013.13
Capital Assets, Depreciable:				
Buildings	46,635,980.24	10,863,882.87		57,499,863.11
Machinery and Equipment	2,983,266.19	366,856.54	298,337.49	3,051,785.24
General Infrastructure	1,758,162.03			1,758,162.03
Total Capital Assets, Depreciable	51,377,408.46	11,230,739.41	298,337.49	62,309,810.38
Less Accumulated Depreciation for:				
Buildings	11,695,145.35	1,142,725.33		12,837,870.68
Machinery and Equipment	1,037,120.44	260,052.64	165,037.71	1,132,135.37
General Infrastructure	562,504.98	37,607.40		600,112.38
Total Accumulated Depreciation	13,294,770.77	1,440,385.37	165,037.71	14,570,118.43
Total Capital Assets, Depreciable, Net	38,082,637.69	9,790,354.04	133,299.78	47,739,691.95
Capital Assets, Net	\$ 43,713,829.93	\$ 16,758,057.80	\$ 10,997,182.65	\$ 49,474,705.08

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012 were as follows:

	Amount
Accounts Payable	\$ 583,864.92
Accrued Payroll	151,337.86
Intergovernmental Payables	1,796.98
Total Accounts Payable and Accrued Liabilities	\$ 736,999.76

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, 2012 is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 1,372,121.23	\$ 761,124.19	\$ 831,553.56	\$ 1,301,691.86	\$ 151,907.44
Annuities Payable	1,317,042.60	774,120.81	604,505.45	1,486,657.96	127,248.96
Total Long-Term Liabilities	\$ 2,689,163.83	\$ 1,535,245.00	\$ 1,436,059.01	\$ 2,788,349.82	\$ 279,156.40

B. Annuities Payable - The Foundation participates in split-interest agreements with donors that require benefit 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, 2012 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, 2012 was \$1,418,843.69. Gift annuities are normally based on one or two life expectancies. An agreed upon quarterly percentage is calculated and paid over these life expectancies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for the president's car, a bus, and two modular units. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 19,080.24
2014	<u>4,932.72</u>
Total Minimum Lease Payments	<u><u>\$ 24,012.96</u></u>

Rental expense for all operating leases during the year was \$34,567.57.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 6,565,330.97</u>	<u>\$ 3,029,564.24</u>	<u>\$ 83,577.76</u>	<u>\$ 3,452,188.97</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 13,913,959.12	\$ 1,454,606.23	\$ 523,648.47	\$ 0.00	\$ 0.00	\$ 0.00	\$ 15,892,213.82
Academic Support	2,385,222.62	70,230.64	52,728.39				2,508,181.65
Student Services	1,752,902.56	84,547.23	155,985.93				1,993,435.72
Institutional Support	3,495,031.41	272,349.90	901,134.55				4,668,515.86
Operations and Maintenance of Plant	1,904,637.20	171,896.09	572,263.96		1,061,134.56		3,709,931.81
Student Financial Aid	335,165.33	41,088.31	229,223.00	6,533,251.96			7,138,728.60
Auxiliary Enterprises	440,528.62		121,297.35				561,825.97
Depreciation						1,440,385.37	1,440,385.37
Total Operating Expenses	<u>\$ 24,227,446.86</u>	<u>\$ 2,094,718.40</u>	<u>\$ 2,556,281.65</u>	<u>\$ 6,533,251.96</u>	<u>\$ 1,061,134.56</u>	<u>\$ 1,440,385.37</u>	<u>\$ 37,913,218.80</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$19,173,028.82, of which \$15,582,167.33 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$1,159,313.25 and \$934,930.04, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$1,159,313.25, \$829,720.13, and \$559,932.17, 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) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$80,104.00 for the year ended June 30, 2012.

Internal Revenue Code 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, 2012, were \$8,485.53. The voluntary contributions by employees amounted to \$316,358.24 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrators are TSA Consulting Group, Inc. No costs are incurred by the College. The voluntary contributions by employees amounted to \$149,904.32 for the year ended June 30, 2012.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$779,108.37, \$824,671.12, and \$705,796.86, 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) 707-0500.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, 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, 2011, and 2010, 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, 2012, 2011, and 2010, which were \$81,027.27, \$87,516.12, and \$81,558.75, 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 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10,000,000 deductible. Membership insured 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$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. The 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 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 .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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

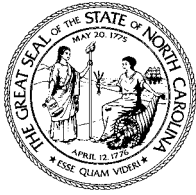
NOTE 14 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$2,178,241.82 at June 30, 2012.
- 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 are as follows:

<u>Purpose</u>	<u>Amount</u>
Restricted Pledges	<u>\$ 391,802.56</u>

NOTE 15 - RELATED PARTIES

In the normal course of business, Sandhills Community College Foundation, Inc. receives contributions from Board members and employees of the College. Included in the annuities payable is \$229,010.81 due in future years to Board members of the Foundation.



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**

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, 2012, and have issued our report thereon dated January 29, 2013. 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 Sandhills Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of Sandhills Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective 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 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.

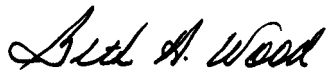
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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, CPA
State Auditor

January 29, 2013

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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 376.5 audit hours at an approximate cost of \$27,108. The cost represents .07% of the College's total expenses subjected to audit.