

STATE OF NORTH CAROLINA

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SOUTH PIEDMONT COMMUNITY COLLEGE

POLKTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

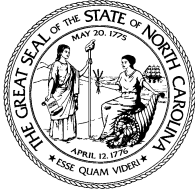
BOARD OF TRUSTEES

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DR. STANLEY M. SIDOR, PRESIDENT

MICHELLE BROCK, VICE PRESIDENT OF FINANCE AND ADMINISTRATIVE SERVICES



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, South Piedmont Community College

We have completed a financial statement audit of South Piedmont Community College for the year ended June 30, 2013, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

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

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position	10
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	11
A-3 Statement of Cash Flows	12
Component Unit Exhibits	
B-1 Statement of Financial Position	14
B-2 Statement of Activities.....	15
Notes to the Financial Statements	17
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	33
AUDIT FINDINGS AND RESPONSES	35
ORDERING INFORMATION	37

Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of South Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of South Piedmont Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely 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 from material misstatement. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of South Piedmont Community College, as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2014 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

June 2, 2014

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SOUTH PIEDMONT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of South Piedmont Community College provides this Management's Discussion and Analysis for readers of the College's financial statements. This narrative overview and analysis of the financial activities of South Piedmont Community College is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the additional information that is furnished in the College's financial statements.

Overview of the Financial Statements

The College's financial statements include four components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements.

Comparative Data

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

Financial Highlights

The College's FTE (full-time equivalent) decreased slightly (2.38%) in 2012-2013 when compared to 2011-2012 (2,752 FTE in 2012-2013 compared to 2,819 FTE in 2011-2012). FTE is expected to remain stable with little fluctuation.

As compared to the final 2011-2012 state appropriation, the final 2012-2013 state appropriation increased by 3.44%, or \$400,251.41.

The Anson County appropriation and the Union County appropriation both remained stable from 2011-2012 to 2012-2013.

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

Analysis of Assets

For the year, ended June 30, 2013, the College's total assets increased 10.31%.

Current Assets

Current assets increased by \$331,627.95. Cash and cash equivalents went up by \$213,474.43, mainly due to commissions earned but not spent on the leased bookstore and excess cash in self-supporting accounts. Restricted cash and cash equivalents increased by \$148,544.96 because invoices related to Phase I renovations of a newly purchased building were not paid until after June 30th.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent Assets

Capital assets increased by 8.23% because of the purchase of a new building in Union County, the Center for Technology and Health Education. Other noncurrent assets increased because of a \$345,000 grant received by the College from the Golden LEAF Foundation during 2012-2013.

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Assets:				
Current Assets	\$ 3,515,653.73	\$ 3,184,025.78	\$ 331,627.95	10.42%
Capital Assets, Net	22,965,686.89	21,218,402.97	1,747,283.92	8.23%
Other Noncurrent Assets	452,502.69	14,232.85	438,269.84	3079.28%
Total Assets	<u>\$ 26,933,843.31</u>	<u>\$ 24,416,661.60</u>	<u>\$ 2,517,181.71</u>	10.31%

Analysis of Liabilities

Compared with the year ended June 30, 2012, the current fiscal year showed a 13.19% increase in total liabilities.

Current Liabilities

Current liabilities increased by \$187,489.76. The current portion of long-term liabilities related to accrued vacation leave increased by \$50,189.49. This coincides with an increase in total salaries and benefits for the year. The remainder of the current portion of long-term liabilities increased due to capital leases entered into by the College for sonography equipment and copiers. Unearned revenue increased by \$100,029.59 due to more students paying their tuition and fees in advance.

Noncurrent Liabilities

Noncurrent liabilities increased slightly by \$14,634.77.

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Liabilities:				
Current Liabilities	\$ 986,570.15	\$ 799,080.39	\$ 187,489.76	23.46%
Noncurrent Liabilities	747,930.84	733,296.07	14,634.77	2.00%
Total Liabilities	<u>\$ 1,734,500.99</u>	<u>\$ 1,532,376.46</u>	<u>\$ 202,124.53</u>	13.19%

Analysis of Net Position

Total net position increased 10.09% compared with the year ended June 30, 2012. Net investment in capital assets increased by \$1,648,833.54 primarily due to the purchase of a new building in Union County. Restricted expendable scholarships and fellowships, restricted expendable capital projects, restricted expendable for specific programs, and unrestricted net position increased due to enhanced efficiency of financial operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Net Position:				
Net Investment in Capital Assets	\$ 22,732,818.85	\$ 21,083,985.31	\$ 1,648,833.54	7.82%
Restricted Expendable	621,947.30	165,180.10	456,767.20	276.53%
Unrestricted	1,844,576.17	1,639,836.63	204,739.54	12.49%
Total Net Position	<u>\$ 25,199,342.32</u>	<u>\$ 22,889,002.04</u>	<u>\$ 2,310,340.28</u>	10.09%

Analysis of Revenues

Compared with the year ended June 30, 2012, the current fiscal year showed a 15.9% increase in total revenues.

Operating

Total operating revenues decreased 7.48% (\$199,544.67) when compared to the year ending June 30, 2012. Student tuition and fees increased \$199,259.73 as a result of an increase in tuition rates. State and local grants and contracts decreased by \$291,689.22 due to the College not receiving any exchange grants during 2012-2013.

Nonoperating and Other Revenues

Nonoperating and other revenues increased by 19.00%, or \$3,813,149.63. Union County funded the purchase of the new building. The County budgeted \$3,500,000.00 for the building in Monroe and the purchase price was approximately \$2,800,000.00. The remaining funds are earmarked for Phase I renovations of the building. Those funds were recorded in county capital appropriations.

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Revenues:				
Operating Revenues:				
Student Tuition & Fees	\$ 2,204,192.70	\$ 2,004,932.97	\$ 199,259.73	9.94%
Federal Grants & Contracts		16,054.92	(16,054.92)	-100.00%
State & Local Grants & Contracts		291,689.22	(291,689.22)	-100.00%
Sales & Services, Net	262,565.73	357,875.90	(95,310.17)	-26.63%
Other Revenues		(4,249.91)	4,249.91	-100.00%
Total Operating Revenues	<u>2,466,758.43</u>	<u>2,666,303.10</u>	<u>(199,544.67)</u>	-7.48%
Nonoperating and Other Revenues:				
State Aid	12,020,998.86	11,620,747.45	400,251.41	3.44%
County Appropriations	1,586,146.01	1,714,807.74	(128,661.73)	-7.50%
Non-Capital Grants	5,574,636.99	5,222,087.68	352,549.31	6.75%
Non-Capital Gifts	94,805.24	344,771.63	(249,966.39)	-72.50%
Investment Income		2,499.45	(2,499.45)	-100.00%
State Capital Aid	616,403.05	876,045.61	(259,642.56)	-29.64%
County Capital Appropriations	3,814,921.99	169,898.26	3,645,023.73	2145.42%
Capital Grants	61,865.74	85,826.41	(23,960.67)	-27.92%
Other Nonoperating Revenues	110,571.98	30,516.00	80,055.98	262.34%
Total Nonoperating and Other Revenues	<u>23,880,349.86</u>	<u>20,067,200.23</u>	<u>3,813,149.63</u>	19.00%
Total Revenues	<u>\$ 26,347,108.29</u>	<u>\$ 22,733,503.33</u>	<u>\$ 3,613,604.96</u>	15.90%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Analysis of Expenses

Total operating expenses increased by less than 1% when compared to 2011-2012. The increase is primarily the result of the 1.20% salary increase during the current fiscal year and an increased cost for benefits. Additionally, during the current fiscal period the College discontinued a capital asset project that was in the design phase. The College opted to purchase the new building in Union County rather than continue with its plans to build resulting in an increase in nonoperating expenses due to the capital asset impairment loss of \$1,092,746.38.

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Expenses:				
Operating Expenses:				
Salaries & Benefits	\$ 14,800,431.90	\$ 14,419,427.47	\$ 381,004.43	2.64%
Supplies & Materials	1,865,979.91	1,754,342.85	111,637.06	6.36%
Services	2,078,796.40	2,112,381.64	(33,585.24)	-1.59%
Scholarships & Fellowships	2,863,895.50	3,186,986.82	(323,091.32)	-10.14%
Utilities	413,644.15	411,047.08	2,597.07	0.63%
Depreciation	917,398.29	831,199.82	86,198.47	10.37%
Total Operating Expenses	<u>22,940,146.15</u>	<u>22,715,385.68</u>	<u>224,760.47</u>	0.99%
Nonoperating expenses:				
Interest and Fees on Debt	3,875.48		3,875.48	100.00%
Capital Asset Impairment Loss	1,092,746.38		1,092,746.38	100.00%
Total Nonoperating Expenses	<u>1,096,621.86</u>		<u>1,096,621.86</u>	100.00%
Total Expenses	<u>\$ 24,036,768.01</u>	<u>\$ 22,715,385.68</u>	<u>\$ 1,321,382.33</u>	5.82%

Capital Asset Activity

South Piedmont Community College's capital assets as of June 30, 2013 totaled \$22,965,686.79, which is an 8.23% increase in net capital assets compared to June 30, 2012. As mentioned before, the College purchased a new building in Union County for approximately \$2,800,000.00.

	<u>2012-2013</u>	<u>2011-2012</u>	<u>Difference</u>	<u>% Change</u>
Capital Assets:				
Land and Permanent Easements	\$ 3,142,960.17	\$ 2,413,160.17	\$ 729,800.00	30.24%
Construction in Progress	612,715.56	1,125,996.38	(513,280.82)	-45.58%
Buildings	25,072,334.09	22,971,592.41	2,100,741.68	9.14%
Machinery & Equipment	3,666,274.52	3,484,357.37	181,917.15	5.22%
General Infrastructure	464,181.00	464,181.00		0.00%
Total	32,958,465.34	30,459,287.33	2,499,178.01	8.20%
Less: Accumulated Depreciation	<u>9,992,778.45</u>	<u>9,240,884.36</u>	<u>751,894.09</u>	8.14%
Capital Assets, Net	<u>\$ 22,965,686.89</u>	<u>\$ 21,218,402.97</u>	<u>\$ 1,747,283.92</u>	8.23%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budget

The economy of the State of North Carolina is expected to remain flat. With the 2013-2014 budget, the College expects another mandatory reversion of state appropriations and the possibility of a reversion of up to 2%.

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

South Piedmont Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,461,079.63
Restricted Cash and Cash Equivalents	248,870.68
Receivables, Net (Note 3)	732,957.12
Inventories	72,746.30
	<hr/>
Total Current Assets	3,515,653.73

Noncurrent Assets:

Restricted Cash and Cash Equivalents	107,502.69
Restricted Due From Primary Government	345,000.00
Capital Assets - Nondepreciable (Note 4)	3,755,675.73
Capital Assets - Depreciable, Net (Note 4)	19,210,011.16
	<hr/>
Total Noncurrent Assets	23,418,189.58

Total Assets	<hr/> <hr/> 26,933,843.31
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources	<hr/> 0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	592,113.43
Unearned Revenue	119,727.41
Funds Held for Others	35,423.09
Long-Term Liabilities - Current Portion (Note 6)	239,306.22
	<hr/>
Total Current Liabilities	986,570.15

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 747,930.84
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Total Liabilities	<hr/> <hr/> 1,734,500.99
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources	<hr/> 0.00
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NET POSITION

Net Investment in Capital Assets	22,732,818.85
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Restricted for:

Expendable:	
Scholarships and Fellowships	96,662.61
Loans	19,719.04
Capital Projects	87,866.58
Specific Programs	417,699.07

Unrestricted	<hr/> 1,844,576.17
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Total Net Position	<hr/> <hr/> <hr/> \$ 25,199,342.32
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The accompanying notes to the financial statements are an integral part of this statement.

***South Piedmont Community College
Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 2,204,192.70
Sales and Services	262,565.73
	<hr/>
Total Operating Revenues	2,466,758.43
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	14,800,431.90
Supplies and Materials	1,865,979.91
Services	2,078,796.40
Scholarships and Fellowships	2,863,895.50
Utilities	413,644.15
Depreciation	917,398.29
	<hr/>
Total Operating Expenses	22,940,146.15
	<hr/>
Operating Loss	(20,473,387.72)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	12,020,998.86
County Appropriations	1,586,146.01
Noncapital Grants - Student Financial Aid	4,864,627.10
Noncapital Grants	710,009.89
Noncapital Gifts	94,805.24
Interest and Fees on Debt	(3,875.48)
Other Nonoperating Revenues	110,571.98
	<hr/>
Net Nonoperating Revenues	19,383,283.60
	<hr/>
Income Before Other Revenues and Losses	(1,090,104.12)
	<hr/>
State Capital Aid	616,403.05
County Capital Aid	3,814,921.99
Capital Grants	61,865.74
Capital Asset Impairment Loss (Note 4)	(1,092,746.38)
	<hr/>
Increase in Net Position	2,310,340.28

NET POSITION

Net Position, July 1, 2012 as Restated (Note 14)	22,889,002.04
	<hr/>
Net Position, June 30, 2013	\$ 25,199,342.32
	<hr/> <hr/>

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

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,478,840.18
Payments to Employees and Fringe Benefits	(14,795,972.14)
Payments to Vendors and Suppliers	(4,371,386.31)
Payments for Scholarships and Fellowships	(2,896,686.46)
Other Receipts	123,503.05
	<hr/>
Net Cash Used by Operating Activities	(19,461,701.68)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	12,020,998.86
County Appropriations	1,586,146.01
Noncapital Grants - Student Financial Aid	4,864,627.10
Noncapital Grants Received	520,076.61
Noncapital Gifts Received	94,805.24
	<hr/>
Net Cash Provided by Noncapital Financing Activities	19,086,653.82

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

State Capital Aid Received	616,403.05
County Capital Aid	3,814,921.99
Capital Grants Received	61,865.74
Acquisition and Construction of Capital Assets	(3,587,415.83)
Principal Paid on Capital Debt and Leases	(71,562.38)
Interest Paid on Capital Debt and Leases	(3,875.48)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	830,337.09

Net Increase in Cash and Cash Equivalents	455,289.23
Cash and Cash Equivalents, July 1, 2012	2,362,163.77
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 2,817,453.00

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (20,473,387.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	917,398.29
Miscellaneous Nonoperating Income	110,571.98
Changes in Assets and Liabilities:	
Receivables, Net	(125,520.59)
Inventories	845.31
Accounts Payable and Accrued Liabilities	(2,594.50)
Due to Primary Government	(1,396.01)
Unearned Revenue	100,029.59
Funds Held for Others	12,931.07
Compensated Absences	(579.10)
	<u>(579.10)</u>
Net Cash Used by Operating Activities	<u>\$ (19,461,701.68)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,461,079.63
Restricted Cash and Cash Equivalents	248,870.68
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>107,502.69</u>
Total Cash and Cash Equivalents - June 30, 2013	<u>\$ 2,817,453.00</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 170,012.76
Capital Asset Impairment Loss	1,092,746.38
Increase in Receivables Related to Nonoperating Income	189,933.28

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

South Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	1,168,595.00
Pledges Receivable (Net)		<u>7,706.00</u>

Total Current Assets		<u>1,176,301.00</u>
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Other Assets:

Restricted Endowments		<u>1,359,625.00</u>
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Fixed Assets:

Land		<u>9,700.00</u>
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Total Assets	\$	<u><u>2,545,626.00</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Monroe Manufacturing	\$	<u>60,050.00</u>
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Net Assets:

Unrestricted Net Assets:		
Operating		375,050.00

Temporarily Restricted Net Assets		750,900.00
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Permanently Restricted Net Assets		<u>1,359,626.00</u>
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Total Net Assets		<u>2,485,576.00</u>
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Total Liabilities and Net Assets	\$	<u><u>2,545,626.00</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

South Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions and Other Income	\$ 20,650.00	\$ 47,837.00	\$ 142,936.00	\$ 211,423.00
Investment Earnings (Loss)		36,283.00	91,415.00	127,698.00
Net Assets Released from Restriction	60,113.00	(60,113.00)		0.00
Total Revenues, Gains, and Other Support	<u>80,763.00</u>	<u>24,007.00</u>	<u>234,351.00</u>	<u>339,121.00</u>
EXPENSES				
Supporting Services:				
Bank Charges	17.00			17.00
Dues	891.00			891.00
Insurance	1,696.00			1,696.00
Management Fees	8,503.00			8,503.00
Meals and Entertainment	2,199.00			2,199.00
Miscellaneous	27.00			27.00
Presidential Supplement	24,376.00			24,376.00
Professional Fees	2,950.00			2,950.00
Taxes & License	57.00			57.00
Total Supporting Services	<u>40,716.00</u>	<u>0.00</u>	<u>0.00</u>	<u>40,716.00</u>
Scholarship Awards	46,109.00			46,109.00
Support for South Piedmont Community College: Expenses and Programs	<u>14,004.00</u>			<u>14,004.00</u>
Total Expenses	100,829.00	0.00	0.00	100,829.00
Change in Net Assets	<u>(20,066.00)</u>	<u>24,007.00</u>	<u>234,351.00</u>	<u>238,292.00</u>
Net Assets at Beginning of Year	<u>395,116.00</u>	<u>726,893.00</u>	<u>1,125,275.00</u>	<u>2,247,284.00</u>
Net Assets at End of Year	<u>\$ 375,050.00</u>	<u>\$ 750,900.00</u>	<u>\$ 1,359,626.00</u>	<u>\$ 2,485,576.00</u>

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

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SOUTH PIEDMONT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2013, the Foundation distributed \$84,490.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Hayne White, Vice President, Institutional Advancement/SPCC Foundation, P.O. Box 126, Polkton, NC 28135 or by calling 704-272-7220.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the 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.

- 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 and cash on deposit with private bank accounts.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from state and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

F. Inventories - Inventories, consisting of expendable supplies, are valued at the last invoice cost.

G. Capital Assets - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 15 years for general infrastructure, 15 to 50 years for buildings, and 5 to 40 years for equipment.

H. Restricted Assets - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, and resources whose use is limited by external parties or statute.

I. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include a note payable, capital lease obligations, and compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

K. Net Position - The College's net position is classified as follows:

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

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, and unrestricted gifts.

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

L. Scholarship Discounts - Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. Revenue and Expense Recognition - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

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, 2013 was \$1,931.15. The carrying amount of the College's deposits not with the State Treasurer was \$2,815,521.85, and the bank balance was \$2,892,454.88.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments - Component Unit - Investments of the College's discretely presented component unit, the 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The Foundation has investments, stated at fair value, of \$1,063,891.00 in equity securities.

C. Reconciliation of Deposits - A reconciliation of deposits for the College to the basic financial statements as of June 30, 2013, is as follows:

Cash on Hand	\$ 1,931.15
Carrying Amount of Deposits with Private Financial Institutions	<u>2,815,521.85</u>
Total Deposits	<u><u>\$ 2,817,453.00</u></u>
Current:	
Cash and Cash Equivalents	\$ 2,461,079.63
Restricted Cash and Cash Equivalents	248,870.68
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>107,502.69</u>
Total Deposits	<u><u>\$ 2,817,453.00</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Receivables:			
Students	\$ 754,685.31	\$ 162,051.11	\$ 592,634.20
Student Sponsors	72,752.27		72,752.27
Other	<u>67,570.65</u>		<u>67,570.65</u>
Total Receivables	<u><u>\$ 895,008.23</u></u>	<u><u>\$ 162,051.11</u></u>	<u><u>\$ 732,957.12</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012 (as restated)	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 2,413,160.17	\$ 729,800.00	\$ 0.00	\$ 3,142,960.17
Construction in Progress	1,125,996.38	612,715.56	1,125,996.38	612,715.56
Total Capital Assets, Nondepreciable	3,539,156.55	1,342,515.56	1,125,996.38	3,755,675.73
Capital Assets, Depreciable:				
Buildings	22,971,592.41	2,100,741.68		25,072,334.09
Machinery and Equipment	3,484,357.37	347,421.35	165,504.20	3,666,274.52
General Infrastructure	464,181.00			464,181.00
Total Capital Assets, Depreciable	26,920,130.78	2,448,163.03	165,504.20	29,202,789.61
Less Accumulated Depreciation for:				
Buildings	7,764,618.30	614,507.24		8,379,125.54
Machinery and Equipment	1,227,930.31	275,822.89	165,504.20	1,338,249.00
General Infrastructure	248,335.75	27,068.16		275,403.91
Total Accumulated Depreciation	9,240,884.36	917,398.29	165,504.20	9,992,778.45
Total Capital Assets, Depreciable, Net	17,679,246.42	1,530,764.74		19,210,011.16
Capital Assets, Net	\$ 21,218,402.97	\$ 2,873,280.30	\$ 1,125,996.38	\$ 22,965,686.89

The Statement of Revenues, Expenses, and Changes in Net Position contains a nonoperating expense related to a capital asset impairment loss of \$1,092,746.38. This impairment was caused by the write off of construction in progress for design and architect costs related to a building project that was discontinued.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 209,992.31
Accrued Payroll	378,291.78
Other	3,829.34
Total Accounts Payable and Accrued Liabilities	\$ 592,113.43

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Note Payable	\$ 139,134.56	\$ 0.00	\$ 32,737.44	\$ 106,397.12	\$ 32,737.44
Capital Leases Payable		170,012.76	43,541.84	126,470.92	28,330.12
Compensated Absences	754,948.12	647,649.94	648,229.04	754,369.02	178,238.66
Total Long-Term Liabilities	<u>\$ 894,082.68</u>	<u>\$ 817,662.70</u>	<u>\$ 724,508.32</u>	<u>\$ 987,237.06</u>	<u>\$ 239,306.22</u>

Additional information regarding capital lease obligations is included in Note 7.

B. Note Payable - The College was indebted for a note payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2013	Principal Outstanding June 30, 2013
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	<u>\$ 376,481.00</u>	<u>\$ 270,073.88</u>	<u>\$ 106,407.12</u>

The annual requirements to pay principal and interest on the note payable at June 30, 2013, is as follows:

Fiscal Year	Annual Requirements	
	Principal	Interest
2014	\$ 32,737.00	\$ 3,829.00
2015	32,737.00	2,458.00
2016	32,737.00	1,086.00
2017	8,196.12	57.00
Total Requirements	<u>\$ 106,407.12</u>	<u>\$ 7,430.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to educational equipment and copiers are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 33,610.03
2015	35,208.00
2016	35,208.00
2017	24,519.76
2018	<u>11,136.01</u>
Total Minimum Lease Payments	139,681.80
Amount Representing Interest (4.9% Rate of Interest)	<u>13,210.88</u>
Present Value of Future Lease Payments	<u><u>\$ 126,470.92</u></u>

Machinery and equipment acquired under capital lease amounted to \$170,012.76 at June 30, 2013.

Depreciation for the capital assets associated with capital leases is included in depreciation expense.

- B. Operating Lease Obligations** - The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 53,508.96
2015	53,508.96
2016	36,846.72
2017	<u>10,430.88</u>
Total Minimum Lease Payments	<u><u>\$ 154,295.52</u></u>

Rental expense for all operating leases during the year was \$139,849.92.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 3,965,563.00	\$ 1,741,169.16	\$ 20,201.14	\$ 2,204,192.70

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,277,195.50	\$ 808,354.71	\$ 414,519.18	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,500,069.39
Academic Support	1,623,825.93	133,207.31	19,611.39				1,776,644.63
Student Services	1,216,305.32	75,202.53	70,875.68		271.83		1,362,655.36
Institutional Support	3,356,227.74	423,306.33	902,878.32				4,682,412.39
Operations and Maintenance of Plant	326,683.64	391,985.23	583,833.80		413,372.32		1,715,874.99
Student Financial Aid			13,050.18	2,863,895.50			2,876,945.68
Auxiliary Enterprises	193.77	33,923.80	74,027.85				108,145.42
Depreciation						917,398.29	917,398.29
Total Operating Expenses	\$ 14,800,431.90	\$ 1,865,979.91	\$ 2,078,796.40	\$ 2,863,895.50	\$ 413,644.15	\$ 917,398.29	\$ 22,940,146.15

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the current fiscal year, the College had a total payroll of \$11,663,637.67, of which \$9,775,062.38 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$814,262.70 and \$586,503.74, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$814,262.70, \$714,986.36, and \$481,712.45, respectively.

The TSERS 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 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 \$6,120.00 for the year ended June 30, 2013.

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. The voluntary contributions by employees amounted to \$86,583.00 for the year ended June 30, 2013.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$518,078.31, \$480,501.59, and \$478,781.14, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2012, and 2011, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$43,010.27, \$49,972.16, and \$50,809.43, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 million deductible per occurrence. Reinsurance is purchased by the Fund

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to cover catastrophic events in excess of the \$10 million 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 \$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 purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Professional liability insurance is provided for instructors and students in the nursing program. This insurance is provided through a private insurance company with coverage of \$1,000,000 per occurrence and no deductible. Additionally, the College has purchased installation floater coverage for HVAC, electrical, and mechanical engineering students. This insurance is provided through a private insurance company with coverage of \$50,000 per occurrence and a \$500 deductible.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

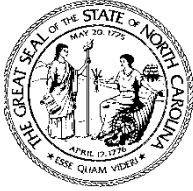
The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$74,707.44 and on other purchases were \$167,996.58 at June 30, 2013.

NOTE 14 - NET POSITION RESTATEMENT

A prior period correction was required adjust the general ledger balances to actual as a result of prior period errors in the recording of capital assets. This correction had no impact on the prior year results of operations. As of July 1, 2012, net position as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2012 Net Position as Previously Reported	\$ 23,302,872.67
Restatement: Prior period capital asset correction	<u>(413,870.63)</u>
July 1, 2012 Net Position as Restated	<u><u>\$ 22,889,002.04</u></u>

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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
South Piedmont Community College
Polkton, North Carolina

We have audited, in accordance with the 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, the financial statements of South Piedmont Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated June 2, 2014. Our report includes a reference to other auditors who audited the financial statements of South Piedmont Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with South Piedmont Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

**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)**

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Audit Findings and Responses section to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

June 2, 2014

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control. A similar finding was also reported in the prior audit.

DEFICIENCIES IN FINANCIAL REPORTING

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

- a. The College overstated capital assets – depreciable by \$729,800 and understated capital assets – nondepreciable by the same amount due to a classification error.
- b. The College understated noncapital grants by \$710,010, noncapital grants – student financial aid by \$6,449, and overstated federal and state grants by \$716,459. This was the result of inappropriately classifying nonoperating grants as operating grants.
- c. The College overstated capital assets – depreciable by \$413,870. This required a prior period adjustment of \$371,132 and a correction to the College's restatement of \$42,738. This was the result of prior period errors in the recording of capital assets.
- d. The College understated restricted amounts due from the State by \$345,000 and overstated unrestricted amounts due from the State by the same amount. This is the result of the College improperly classifying the amount on the face of the financial statements.
- e. The College understated capital assets - nondepreciable by \$103,529 and understated accounts payable and accrued liabilities by the same amount as the result of not accruing construction expenses for work completed prior to year end.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and reviews over that process. The College should strengthen internal controls over financial reporting to ensure the completeness and accuracy of the financial statements and related notes.

College's Response: A greater emphasis will be placed on the year-end financial reporting process.

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

- a. The \$729,800 is the value of the 14.5 acres of land bought with the Center for Technology and Health Education located at 3509 Old Charlotte Highway,

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Monroe, North Carolina. The College reported the entire purchase price as the building and did not record the value of the land. A journal entry increasing the value of the land (capital assets – nondepreciable) and decreasing the value of the building (capital assets – depreciable) has been recorded.

- b. The grouping sheets (a report generated out of Datatel) used by the College to help prepare financial statements has been updated to correctly identify and record nonoperating grants and operating grants. In addition, a word document that the College uses to document year-end processes has been updated to include analysis of these general ledger accounts.
- c. Office of the State Auditor staff was very helpful in assisting the College to identify tools to use to help correctly record capital assets. In addition, the College sought help from the North Carolina Community College System Office staff by requesting a Colleague assessment of Business Office processes and practices to include purchasing and fixed assets processes. NCCCS subject matter experts completed an assessment in March 2014 and made recommendations that included timelines for completion. The first deadline (to begin recording inventory with a bar code scanner) is set for July 1, 2014 and the College is on track to meet that deadline. The College's Coordinator of Purchasing and Equipment has been networking with colleagues at nearby community colleges to review their purchasing and inventory practices to strengthen SPCC's own practices. Finally, the College has hired two purchasing technicians (one at the LLP campus and one at the OCH campus) to work with purchasing/receiving, inventory, and capital assets.
- d. This was a misstatement of the Golden LEAF receivable. The word document that the College uses to document year-end processes has been updated to include further analysis of nonstudent receivables.
- e. This was an oversight of a construction invoice for work completed in June that was not accrued. The word document that the College uses to document year-end processes has been updated to include a process to review vouchers paid in July and August to verify all appropriate invoices are accrued at year end.

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
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Raleigh, North Carolina 27699-0601

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Facsimile: 919-807-7647

Internet: <http://www.ncauditor.net>

To report alleged incidents of fraud, waste or abuse in state government contact the:

Office of the State Auditor Fraud Hotline: 1-800-730-8477

or download our free app



<https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor>



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:

Bill Holmes
Director of External Affairs
919-807-7513

This audit required 869.5 audit hours at an approximate cost of \$66,082.