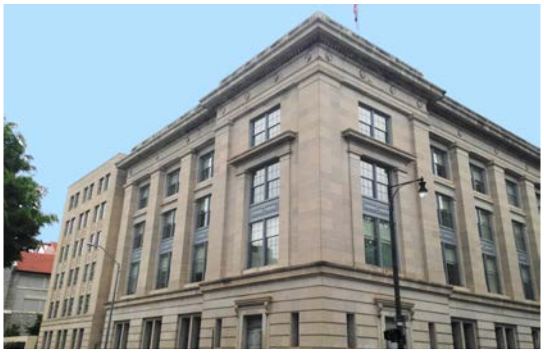
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



SANDHILLS COMMUNITY COLLEGE

PINEHURST, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2016

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Sandhills Community College

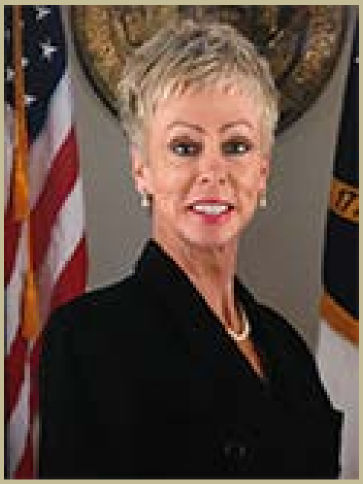
We have completed a financial statement audit of Sandhills Community College for the year ended June 30, 2016, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sandhills Community College
Pinehurst, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Sandhills Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Sandhills Community College Foundation, Inc., which represents 28.6 percent, 31.5 percent, and 4.9 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Sandhills Community College Foundation, Inc., is 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 the Sandhills Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

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 opinion.

Opinion

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 Sandhills Community College, as of June 30, 2016, and the changes in financial position and 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 and other required supplementary information, as listed in the table of contents, 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 February 27, 2017 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 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 27, 2017

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 Position 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 Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Over time, increases and decreases in net position are indicators of the improvement or erosion of the College's financial health.

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

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

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

Financial Highlights

The College's net position increased by $1.68 million. This was an increase of 2.34%. Operating revenues decreased by $262,948, or 6.17%. Nonoperating revenues (exclusive of capital aid, capital grants, capital gifts, and additions to endowments) decreased by $2.74 million, or 8.12%. Operating expenses decreased by $445,002, or 1.24%. Capital aid, capital gifts, and capital grants increased by $314,803, or 16.32%.

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 $1,317,977.

Financial Analysis

Analysis of Current Assets and Net Position

As of June 30, 2016, the College's total net position was $73.25 million. The College's largest asset is its investment in capital assets of $51.89 million, representing 63% of total net position as of June 30, 2016. The College's current assets incurred a net increase of $2.10 million, or 30.15%, from the last fiscal year primarily related to increased restricted cash due to an infusion of capital funding for a performance contracting project to cover current liabilities for this project of $820,873, increases in current unrestricted cash of $699,379 resulting from Moore County funding the difference in estimated and actual sales tax receipts of $662,127, and increases in grants receivable of $538,448 from the Golden Leaf Foundation.

Noncurrent assets had a net increase of $4 million, or 5.56%. Capital assets increased due to the completion of the Dempsey Hall gym, an addition to the Palmer Trade Center, and the performance contracting project due to be completed during fiscal year 2017.

Analysis of Net Capital Assets

Net increases in construction in progress of $1.79 million represent the net effect of the ongoing performance contracting project and the completion of the Dempsey Gymnasium expansion and Palmer Annex projects. Overall net capital assets increased by $3.30 million, or 6.78%.

Analysis of Liabilities

Liabilities increased by $7.9 million, or 173.87%. This was due to increases of $7.1 million in long-term liabilities resulting primarily from the $4.7 million noncurrent portion of a note payable to finance the performance contracting project and increases in the net pension liability of $2.5 million. Other current liabilities (excluding the current portion of long-term liabilities) increased $701,289, or 82.32%, mainly due to construction accounts payable at year-end for the energy savings project totaling $820,873, and a reduction in general accounts payable of $191,280 caused by efforts by the accounts payable department to aggressively liquidate payables before year-end.

Condensed Statement of Net Position

	2016	2015	Increase/ (Decrease)	Percent Change
ASSETS				
Current Assets	$ 9,060,205.56	$ 6,961,386.42	2,098,819.14	30.15%
Noncurrent Assets:				
Capital Assets, Net	51,886,550.86	48,589,899.92	3,296,650.94	6.78%
Other	24,128,508.18	23,424,511.49	703,996.69	3.01%
Total Assets	85,075,264.60	78,975,797.83	6,099,466.77	7.72%
Deferred Outflows of Resources	1,529,125.00	1,365,160.00	163,965.00	12.01%
LIABILITIES				
Current Portion of Long-Term Liabilities	384,934.22	290,375.13	94,559.09	32.56%
Other Current Liabilities	1,553,228.35	851,939.26	701,289.09	82.32%
Long-Term Liabilities	10,526,876.09	3,409,092.46	7,117,783.63	208.79%
Total Liabilities	12,465,038.66	4,551,406.85	7,913,631.81	173.87%
Deferred Inflows of Resources	886,886.00	4,214,145.00	(3,327,259.00)	(78.95%)
NET POSITION				
Net Investment in Capital Assets	46,167,191.47	48,589,899.92	(2,422,708.45)	(4.99%)
Restricted	24,385,998.82	22,977,286.25	1,408,712.57	6.13%
Unrestricted	2,699,274.65	8,219.81	2,691,054.84	32738.65%
Total Net Position	$ 73,252,464.94	$ 71,575,405.98	1,677,058.96	2.34%

Analysis of Revenues and Expenses

As noted in the Statement of Revenues, Expenses, and Changes in Net Position, net position increased $1.68 million from the prior year. The College's operating revenues decreased by $262,948, or 6.17%, during the fiscal year due primarily to a decrease in enrollment combined with an increase in tuition-free college and career readiness students. 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 $17.88 million, or 47.91%, of its revenue from state aid and state capital aid. There was an increase in state aid and state capital aid of $1.35 million in fiscal year 2016 due to an increase in the funding formula for additional employee benefits and construction activities. The counties of Moore and Hoke provide funds to the College to maintain the facilities located in their respective counties. The College received $6.51 million in county appropriations and county capital aid.

Overall operating expenses for the College decreased by $445,002 from the prior fiscal year. The largest operating expense is for salaries and benefits which represents $23.05 million, or 64.84%, of the operating expenses. Salaries and benefits increased by $250,404 from the prior year due to an increase in pension expense and a state funded salary bonus.

Supplies and materials increased by $179,368 and services increased by $30,898. With additional state aid, the College was able to purchase vital supplies and essential technology products. The College expensed $4.50 million, or 12.66%, of its operating expenses on scholarships and other financial aid. This represents a decrease of $968,270 from fiscal year 2015, due primarily to the decrease in full-time equivalents mentioned below.

Nonoperating expenses increased by $101,032 due to the interest expense on the capital note payable. There were no nonoperating expenses in fiscal year 2015.

Noncapital gifts decreased by $1.57 million, or 55.16%, as a result of the College receiving a large estate gift in fiscal year 2015. Noncapital grants – federal student financial aid decreased primarily due to a decrease in Pell grants of $1.1 million, or 16.50%, due to a decrease in full-time equivalents from 2,098 to 1,702.

Capital grants decreased by $417,290 or 54.56% due to a Golden Leaf grant received during the prior fiscal year.

Additions to endowments decreased by $42,930 due to a reduction in gifts and market fluctuations related to the fair market value and adjusted present value of annuities.

Statement of Revenues, Expenses, and Changes in Net Position

	2016	2015	Increase/ (Decrease)	Percent Change
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 3,517,428.40	$ 3,721,266.15	(203,837.75)	(5.48%)
Sales and Services	392,547.45	420,949.64	(28,402.19)	(6.75%)
Other Operating Revenues	89,438.98	120,146.91	(30,707.93)	(25.56%)
Total Operating Revenues	3,999,414.83	4,262,362.70	(262,947.87)	(6.17%)
NONOPERATING REVENUES (EXPENSES)				
State Aid	17,304,179.45	16,239,995.15	1,064,184.30	6.55%
County Appropriations	5,189,261.55	5,724,459.00	(535,197.45)	(9.35%)
Noncapital Grants - Student Financial Aid	5,906,904.13	7,103,683.21	(1,196,779.08)	(16.85%)
Noncapital Grants	862,679.94	1,161,271.09	(298,591.15)	(25.71%)
Noncapital Gifts	1,279,769.07	2,854,383.04	(1,574,613.97)	(55.16%)
Investment Income, Net	382,593.46	639,070.42	(256,476.96)	(40.13%)
Interest and Fees on Debt	(101,031.75)		(101,031.75)	
Other Nonoperating Revenues	104,036.37	47,951.04	56,085.33	116.96%
Total Net Nonoperating Revenues	30,928,392.22	33,770,812.95	(2,842,420.73)	(8.42%)
State Capital Aid	578,699.51	291,906.48	286,793.03	98.25%
County Capital Aid	1,317,976.55	722,677.02	595,299.53	82.37%
Capital Grants	347,600.13	764,889.84	(417,289.71)	(54.56%)
Capital Gifts		150,000.00	(150,000.00)	(100.00%)
Additions to Endowments	54,637.94	97,568.10	(42,930.16)	(44.00%)
Total Revenues	37,327,752.93	40,060,217.09	(2,732,464.16)	(6.82%)
OPERATING EXPENSES				
Salaries and Benefits	23,049,703.25	22,799,299.21	250,404.04	1.10%
Supplies and Materials	2,163,066.89	1,983,699.39	179,367.50	9.04%
Services	2,987,342.41	2,956,444.71	30,897.70	1.05%
Scholarships and Fellowships	4,502,295.97	5,470,565.77	(968,269.80)	(17.70%)
Utilities	1,076,817.33	1,077,490.04	(672.71)	(0.06%)
Depreciation	1,770,436.37	1,707,165.26	63,271.11	3.71%
Total Operating Expenses	35,549,662.22	35,994,664.38	(445,002.16)	(1.24%)
Total Expenses	35,650,693.97	35,994,664.38	(343,970.41)	(0.96%)
Increase in Net Position	1,677,058.96	4,065,552.71	(2,388,493.75)	(58.75%)
NET POSITION				
Beginning of Year	71,575,405.98	67,509,853.27		
Net Position, End of Year	$ 73,252,464.94	$ 71,575,405.98		

Economic Factors and Next Year's Budget

The economic future of Sandhills Community College is encouraging. Increases in college and career readiness students and occupational enrollment during 2015-2016 will lead to additional state aid. The ratification of year-round funding for all curriculum courses will allow for continued enrollment growth. With the additional Palmer Trades Center building made possible by the Golden Leaf grant, the College's Trades program is positioned for additional growth as well.

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.

FINANCIAL STATEMENTS

Sandhills Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2016 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	4,355,116.59
Restricted Cash and Cash Equivalents		3,407,373.73
Receivables, Net (Note 5)		1,172,930.10
Inventories		116,672.13
Notes Receivable		8,113.01
Total Current Assets		9,060,205.56
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,190,921.89
Restricted Due from Primary Government		5,000.00
Restricted Investments		19,932,256.92
Other Investments		2,000,329.37
Capital Assets - Nondepreciable (Note 6)		3,364,167.85
Capital Assets - Depreciable, Net (Note 6)		48,522,383.01
Total Noncurrent Assets		76,015,059.04
Total Assets		85,075,264.60
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		1,529,125.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		1,060,719.46
Interest Payable		101,031.75
Unearned Revenue		237,908.14
Funds Held for Others		153,569.00
Long-Term Liabilities - Current Portion (Note 8)		384,934.22
Total Current Liabilities		1,938,162.57
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		10,526,876.09
Total Liabilities		12,465,038.66
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		886,886.00

NET POSITION	
Net Investment in Capital Assets	46,167,191.47
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,565,968.59
Restricted for Specific Programs	4,131,825.86
Expendable:	
Loans	7,000.00
Capital Projects	463,581.40
Restricted for Specific Programs	14,217,622.97
Unrestricted	2,699,274.65
Total Net Position	$ 73,252,464.94

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 Position
For the Fiscal Year Ended June 30, 2016

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	3,517,428.40
Sales and Services		392,547.45
Other Operating Revenues		89,438.98
Total Operating Revenues		3,999,414.83
EXPENSES		
Operating Expenses:		
Salaries and Benefits		23,049,703.25
Supplies and Materials		2,163,066.89
Services		2,987,342.41
Scholarships and Fellowships		4,502,295.97
Utilities		1,076,817.33
Depreciation		1,770,436.37
Total Operating Expenses		35,549,662.22
Operating Loss		(31,550,247.39)
NONOPERATING REVENUES (EXPENSES)		
State Aid		17,304,179.45
County Appropriations		5,189,261.55
Noncapital Grants - Student Financial Aid		5,906,904.13
Noncapital Grants		862,679.94
Noncapital Gifts		1,279,769.07
Investment Income (Net of Investment Expense of $759.02)		382,593.46
Interest and Fees on Debt		(101,031.75)
Other Nonoperating Revenues		104,036.37
Net Nonoperating Revenues		30,928,392.22
Loss Before Other Revenues		(621,855.17)
State Capital Aid		578,699.51
County Capital Aid		1,317,976.55
Capital Grants		347,600.13
Additions to Endowments		54,637.94
Increase in Net Position		1,677,058.96
NET POSITION		
Net Position, July 1, 2015		71,575,405.98
Net Position, June 30, 2016	$	73,252,464.94

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

Sandhills Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2016 — *Page 1 of 2*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,158,507.36
Payments to Employees and Fringe Benefits	(24,124,173.19)
Payments to Vendors and Suppliers	(6,456,563.38)
Payments for Scholarships and Fellowships	(4,502,295.97)
Other Receipts	115,593.87
Net Cash Used by Operating Activities	(30,808,931.31)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	17,304,179.45
County Appropriations	5,189,261.55
Noncapital Grants - Student Financial Aid	5,909,183.53
Noncapital Grants	852,632.53
Noncapital Gifts and Endowments	1,393,247.61
Cash Provided by Noncapital Financing Activities	30,648,504.67
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	624,530.57
County Capital Aid	1,317,976.55
Capital Grants	669,970.26
Proceeds from Capital Debt	4,793,910.82
Acquisition and Construction of Capital Assets	(4,249,719.44)
Net Cash Provided by Capital and Related Financing Activities	3,156,668.76
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	1,551,615.07
Investment Income	331,229.93
Purchase of Investments and Related Fees	(1,053,294.86)
Net Cash Provided by Investing Activities	829,550.14
Net Increase in Cash and Cash Equivalents	3,825,792.26
Cash and Cash Equivalents, July 1, 2015	6,127,619.95
Cash and Cash Equivalents, June 30, 2016	$ 9,953,412.21

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(31,550,247.39)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,770,436.37
Pension Expense		354,308.00
Miscellaneous Pension Adjustments		1,488.00
Nonoperating Other Income		104,035.94
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		189,603.15
Inventories		(37,796.75)
Notes Receivable		(141.99)
Accounts Payable and Accrued Liabilities		(200,266.84)
Unearned Revenue		(30,510.62)
Funds Held for Others		11,699.49
Deferred Outflows for Contributions Subsequent to the Measurement Date		(1,393,997.57)
Compensated Absences		(27,541.10)
Net Cash Used by Operating Activities	$	(30,808,931.31)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	4,355,116.59
Restricted Cash and Cash Equivalents		3,407,373.73
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		2,190,921.89
Total Cash and Cash Equivalents - June 30, 2016	$	9,953,412.21

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	820,872.94
Change in Fair Value of Annuities		(56,840.60)
Change in Fair Value of Investments		(503,507.17)
Loss on Disposal of Capital Assets		(13,778.73)
Interest Expense Recorded Through Assumption of Interest Payable		(101,031.75)

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

NOTES TO THE FINANCIAL STATEMENTS

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 of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended with the College's financial statements. See below for further discussion of the College's component unit.

Blended Component Unit - Although legally separate, the Sandhills Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a 37-member board consisting of two ex-officio directors and 35 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 Executive Vice President's Office, 3395 Airport Road, Pinehurst, North Carolina 28374, or by calling (910) 695-3731.

Condensed combining information regarding blended component units is provided in Note 16.

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, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF 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 are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. 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 a fair market value at date of gift, if donated.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs.

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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

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, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

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

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2015 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. 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 calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

L. 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 liabilities related to those capital assets.

Restricted Net Position - **Nonexpendable** - Nonexpendable restricted net position includes 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 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, 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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net 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.

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 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 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 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 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, 2016 was $13,979.70. The carrying amount of the College's deposits not with the State Treasurer was $9,621,537.94, and the bank balance was $9,964,217.42.

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, 2016, 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 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, 2016, the amount shown on the Statement of Net Position as cash and cash equivalents includes $317,894.57, which represents the College's equity position in the State Treasurer's Short-Term Investment

Fund (STIF). The STIF (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, 2016. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) 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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

Investments of the College's component unit, the Sandhills Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2016, for the College'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 College does not have a formal investment policy that addresses interest rate risk.

Investments

	Amount	Investment Maturity More than 10 years
Investment Type		
Debt Securities		
Annuity Contracts	$ 1,200,621.90	$ 1,200,621.90
Total Debt Securities	$ 1,200,621.90	$ 1,200,621.90
Other Securities		
Mutual Funds	20,722,714.39	
Investments in Real Estate	9,250.00	
Total Investments	$ 21,932,586.29	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2016, the College's investments were rated as follows:

	Fair Value	AA Aa
Annuity Contracts	$ 1,200,621.90	$ 1,200,621.90

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 College places no limit on the amount that may be invested in any one issuer. The College holds investments in a mutual fund in which 94% of the College's total investments are invested.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2016, is as follows:

Cash on Hand	$ 13,979.70
Carrying Amount of Deposits with Private Financial Institutions	9,621,537.94
Investments in the Short-Term Investment Fund	317,894.57
Other Investments	21,932,586.29
Total Deposits and Investments	$ 31,885,998.50
Deposits	
Current:	
Cash and Cash Equivalents	$ 4,355,116.59
Restricted Cash and Cash Equivalents	3,407,373.73
Noncurrent:	
Restricted Cash and Cash Equivalents	2,190,921.89
Total Deposits	9,953,412.21
Investments	
Noncurrent:	
Restricted Investments	19,932,256.92
Other Investments	2,000,329.37
Total Investments	21,932,586.29
Total Deposits and Investments	$ 31,885,998.50

NOTE 3 - FAIR VALUE MEASUREMENTS

To the extent available, the College's investments are recorded at fair value as of June 30, 2016. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1	Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
Level 2	Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
Level 3	Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2016:

		Fair Value Measurements Using	
	Fair Value	Level 1	Level 2
Investments by Fair Value Level			
Debt Securities			
Annuity Contracts	$ 1,200,621.90	$ 0.00	$ 1,200,621.90
Total Debt Securities	1,200,621.90	0.00	1,200,621.90
Other Securities			
Short-Term Investment Fund	317,894.57		317,894.57
Mutual Funds	20,722,714.39	20,722,714.39	
Total Investments by Fair Value Level	22,241,230.86	$ 20,722,714.39	$ 1,518,516.47
Investments Measured at the Net Asset Value (NAV)			
Condominium Time Share	9,250.00		
Total Investments Measured at the NAV	9,250.00		
Total Investments Measured at Fair Value	$ 22,250,480.86		

Short-Term Investment Fund – Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the

STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Annuity Contracts – Annuity contracts classified as Level 2 of the fair value hierarchy are valued at present value using discounted future cash flows.

Mutual Funds – Mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The valuation of investments measured at the Net Asset Value (NAV) per share (or its equivalent) is presented on the following table.

Investments Measured at the NAV

	Fair Value
Condominium Time Share	$ 9,250.00
Total Investments Measured at the NAV	$ 9,250.00

There are no restrictions from redemption and the College is not restricted on the ability to sell the investment. The College has no probable plans to sell the investment.

NOTE 4 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. However, a majority of the College's endowment donor agreements prohibit spending of nonexpendable balances and therefore the related nonexpendable balances are not eligible for expenditure. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Investment return of the College'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 College'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 position endowment balance. If current year earnings do not meet the payout requirements, the Foundation uses accumulated income from restricted, expendable net position endowment balances to make up the difference. At June 30, 2016, net appreciation of $5,341,004.63 was available to be spent, of which $2,531,058.72 was restricted for specific purposes. The remaining portion of the net appreciation available to be spent is classified as unrestricted.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2016, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Accounts Receivables:			
Students	$ 785,553.24	$ 411,846.84	$ 373,706.40
Student Sponsors	153,350.33	56,160.93	97,189.40
Intergovernmental	4,038.75		4,038.75
Pledges	275.00		275.00
Grants	688,448.00		688,448.00
Returned Checks	9,272.55		9,272.55
Total Accounts Receivables	$ 1,640,937.87	$ 468,007.77	$ 1,172,930.10

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital Assets, Nondepreciable:				
Land	$ 598,972.45	$ 0.00	$ 0.00	$ 598,972.45
Construction in Progress	973,949.97	4,257,505.47	2,466,260.04	2,765,195.40
Total Capital Assets, Nondepreciable	1,572,922.42	4,257,505.47	2,466,260.04	3,364,167.85
Capital Assets, Depreciable:				
Buildings	60,210,000.85	2,466,260.04		62,676,260.89
Machinery and Equipment	3,983,010.24	823,360.57	51,379.04	4,754,991.77
General Infrastructure	2,074,160.65			2,074,160.65
Total Capital Assets, Depreciable	66,267,171.74	3,289,620.61	51,379.04	69,505,413.31
Less Accumulated Depreciation for:				
Buildings	16,686,009.37	1,337,967.71		18,023,977.08
Machinery and Equipment	1,823,322.13	384,024.57	37,600.31	2,169,746.39
General Infrastructure	740,862.74	48,444.09		789,306.83
Total Accumulated Depreciation	19,250,194.24	1,770,436.37	37,600.31	20,983,030.30
Total Capital Assets, Depreciable, Net	47,016,977.50	1,519,184.24	13,778.73	48,522,383.01
Capital Assets, Net	$ 48,589,899.92	$ 5,776,689.71	$ 2,480,038.77	$ 51,886,550.86

The College has pledged 100% of the assets acquired under the Energy Savings loan contract with a value at June 30, 2016 of $2,669,444.60 as security for the loan. Additional information regarding this loan can be found in Note 8.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2016, were as follows:

	Amount
Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 76,739.61
Accrued Payroll	163,106.91
Contracts Payable	820,872.94
Total Accounts Payable and Accrued Liabilities	$ 1,060,719.46

NOTE 8 - LONG-TERM LIABILITIES

A. **Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2016, is presented as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Notes Payable	$ 0.00	$ 4,793,910.82	$ 0.00	$ 4,793,910.82	$ 86,037.61
Net Pension Liability	1,132,676.00	2,453,022.00		3,585,698.00	
Compensated Absences	1,335,456.91	740,990.47	768,531.57	1,307,915.81	164,502.85
Annuities Payable	1,231,334.68	261,830.00	268,879.00	1,224,285.68	134,393.76
Total Long-Term Liabilities	$ 3,699,467.59	$ 8,249,753.29	$ 1,037,410.57	$ 10,911,810.31	$ 384,934.22

Additional information regarding the net pension liability is included in Note 12.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2016	Principal Outstanding June 30, 2016
Energy Savings Project	Bank of America	3.37%	09/10/2035	$ 4,793,910.82	$ 0.00	$ 4,793,910.82

The annual requirements to pay principal and interest on notes payable at June 30, 2016, are as follows:

	Annual Requirements	
	Notes Payable	
Fiscal Year	Principal	Interest
2017	$ 86,037.61	$ 167,759.30
2018	226,369.11	162,611.61
2019	200,102.23	155,543.79
2020	206,396.67	148,540.58
2021	212,885.09	141,322.15
2022-2026	1,168,970.59	590,325.14
2027-2031	1,363,951.09	373,514.05
2032-2036	1,329,198.47	124,228.83
Total Requirements	$ 4,793,910.82	$ 1,863,845.41

C. **Annuities Payable** - The College 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 College 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, 2016 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, 2016 was $1,200,621.90. Gift annuities are normally based on one or two life expectancies. An agreed upon quarterly percentage is calculated and paid over these life expectancies.

NOTE 9 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for an automobile and a modular building. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2016:

Fiscal Year	Amount
2017	$ 4,265.58
Total Minimum Lease Payments	$ 4,265.58

Rental expense for all operating leases during the year was $15,003.67.

NOTE 10 - 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, Net	$ 5,934,011.01	$ 2,498,325.98	$ (81,743.37)	$ 3,517,428.40

NOTE 11 - 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	$ 12,672,857.47	$ 1,236,913.39	$ 522,405.04	$ 0.00	$ 0.00	$ 0.00	$ 14,432,175.90
Academic Support	2,358,406.55	34,764.96	51,835.78				2,445,007.29
Student Services	2,283,194.94	82,387.53	253,288.22				2,618,870.69
Institutional Support	3,714,557.73	416,803.76	1,431,717.82				5,563,079.31
Operations and Maintenance of Plant	1,854,265.58	369,213.34	549,665.41		1,076,817.33		3,849,961.66
Student Financial Aid	166,420.98	14,358.91	92,852.73	4,502,295.97			4,775,928.59
Auxiliary Enterprises		8,625.00	85,577.41				94,202.41
Depreciation						1,770,436.37	1,770,436.37
Total Operating Expenses	$ 23,049,703.25	$ 2,163,066.89	$ 2,987,342.41	$ 4,502,295.97	$ 1,076,817.33	$ 1,770,436.37	$ 35,549,662.22

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2016 was 9.15% of covered payroll. The College's contributions to the pension plan were $1,393,997.57, and employee contributions were $914,096.77 for the year ended June 30, 2016.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2016, the College reported a liability of $3,585,698 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the College's proportion was .0973%, which was an increase of.00069 from its proportion measured as of June 30, 2014.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.2 %
Global Equity	5.8 %
Real Estate	5.2 %
Alternatives	9.8 %
Credit	6.8 %
Inflation Protection	3.4 %

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 10,791,960	$ 3,585,698	$ (2,529,647)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the College recognized pension expense of $354,308. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 407,694.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		388,480.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	135,127.43	90,712.00
Contributions Subsequent to the Measurement Date	1,393,997.57	
Total	$ 1,529,125.00	$ 886,886.00

The amount of $1,393,997.57 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2017	$ (461,963.00)
2018	(461,963.00)
2019	(440,400.00)
2020	612,567.43
Total	$ (751,758.57)

NOTE 13 - 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 (TSERS). 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 TSERS 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 5.60% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2015, and 2014, were 5.49% and 5.4%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2016, 2015, and 2014, which were $853,156.98, $819,096.00, and $810,321.66, 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 TSERS. 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, 2016, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2015, and 2014, were .41% and .44%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2016, 2015, and 2014, which were $62,463.28, $61,171.10, and $66,026.21, 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 14 - 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.

A. Public Entity Risk Pool

Public School Insurance Fund

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 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.

B. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 $100,000 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 $25,000.00. The College is protected for errors and omissions by a policy with a private insurance company for $1,000,000 with a $250 deductible.

4. Statewide Workers' Compensation Program

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.

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 15 - 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 $2,117,041.40 at June 30, 2016.

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:

Purpose	Amount
Restricted Pledges	$ 53,770.80

NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2016, is presented as follows:

Condensed Statement of Net Position
June 30, 2016

	College	Sandhills Community College Foundation, Inc.	Total
ASSETS			
Current Assets	$ 6,747,162.94	$ 2,313,042.62	$ 9,060,205.56
Capital Assets	51,886,550.86		51,886,550.86
Other Noncurrent Assets	2,135,009.44	21,993,498.74	24,128,508.18
Total Assets	60,768,723.24	24,306,541.36	85,075,264.60
Total Deferred Outflows of Resources	1,529,125.00		1,529,125.00
LIABILITIES			
Current Liabilities	1,794,650.60	143,511.97	1,938,162.57
Long-Term Liabilities	9,440,527.70	1,086,348.39	10,526,876.09
Total Liabilities	11,235,178.30	1,229,860.36	12,465,038.66
Total Deferred Inflows of Resources	886,886.00		886,886.00
NET POSITION			
Net Investment in Capital Assets	46,167,191.47		46,167,191.47
Restricted - Nonexpendable		9,697,794.45	9,697,794.45
Restricted - Expendable	4,102,813.37	10,585,391.00	14,688,204.37
Unrestricted	(94,220.90)	2,793,495.55	2,699,274.65
Total Net Position	$ 50,175,783.94	$ 23,076,681.00	$ 73,252,464.94

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2016

	College	Sandhills Community College Foundation, Inc.	Eliminations	Total
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 3,517,428.40	$ 0.00	$ 0.00	$ 3,517,428.40
Sales and Services	392,547.45			392,547.45
Other Operating Revenues	89,438.98	553,649.92	(553,649.92)	89,438.98
Total Operating Revenues	3,999,414.83	553,649.92	(553,649.92)	3,999,414.83
OPERATING EXPENSES				
Operating Expenses	31,398,475.62	2,934,400.15	(553,649.92)	33,779,225.85
Depreciation	1,770,436.37			1,770,436.37
Total Operating Expenses	33,168,911.99	2,934,400.15	(553,649.92)	35,549,662.22
Operating Loss	(29,169,497.16)	(2,380,750.23)		(31,550,247.39)
NONOPERATING REVENUES (EXPENSES)				
State/County Aid	22,493,441.00			22,493,441.00
Noncapital Grants - Student Financial Aid	5,906,904.13			5,906,904.13
Noncapital Grants	862,679.94			862,679.94
Noncapital Gifts	102,151.07	1,177,618.00		1,279,769.07
Investment Income, Net		382,593.46		382,593.46
Interest and Fees on Debt	(101,031.75)			(101,031.75)
Other Nonoperating Income (Expense)	(90,975.46)	195,011.83		104,036.37
Net Nonoperating Revenues	29,173,168.93	1,755,223.29		30,928,392.22
Capital Aid	1,896,676.06			1,896,676.06
Capital Grants	347,600.13			347,600.13
Additions to Endowments		54,637.94		54,637.94
Increase (Decrease) in Net Position	2,247,947.96	(570,889.00)		1,677,058.96
NET POSITION				
Net Position, July 1, 2015	47,927,835.98	23,647,570.00		71,575,405.98
Net Position, June 30, 2016	$ 50,175,783.94	$ 23,076,681.00	$ 0.00	$ 73,252,464.94

Condensed Statement of Cash Flows June 30, 2016

	College	Sandhills Community College Foundation,	Total
Net Cash Used by Operating Activities	$ (27,856,678.31)	$ (2,952,253.00)	$ (30,808,931.31)
Net Cash Provided by Noncapital Financing Activities	28,451,998.81	2,196,505.86	30,648,504.67
Net Cash Provided by Capital and Related Financing Activities	3,156,668.76		3,156,668.76
Net Cash Provided by Investing Activities		829,550.14	829,550.14
Net Increase in Cash and Cash Equivalents	3,751,989.26	73,803.00	3,825,792.26
Cash and Cash Equivalents, July 1, 2015	3,921,622.61	2,205,997.34	6,127,619.95
Cash and Cash Equivalents, June 30, 2016	$ 7,673,611.87	$ 2,279,800.34	$ 9,953,412.21

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2016, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

REQUIRED SUPPLEMENTARY INFORMATION

Sandhills Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Three Fiscal Years

Exhibit B-1

	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.09730%	0.09661%	0.10210%
Proportionate Share of TSERS Collective Net Pension Liability	$ 3,585,698.00	$ 1,132,676.00	$ 6,198,510.00
Covered-Employee Payroll	$ 14,919,781.42	$ 15,005,956.59	$ 15,180,485.24
Net Pension Liability as a Percentage of Covered-Employee Payroll	24.03%	7.55%	40.83%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.64%	98.24%	90.60%

Sandhills Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2016	2015	2014	2013	2012
Contractually Required Contribution	$ 1,393,997.57	$ 1,365,160.00	$ 1,304,017.63	$ 1,264,534.42	$ 1,159,313.25
Contributions in Relation to the Contractually Determined Contribution	1,393,997.57	1,365,160.00	1,304,017.63	1,264,534.42	1,159,313.25
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 15,234,946.14	$ 14,919,781.42	$ 15,005,956.59	$ 15,180,485.24	$ 15,582,167.33
Contributions as a Percentage of Covered-Employee Payroll	9.15%	9.15%	8.69%	8.33%	7.44%

	2011	2010	2009	2008	2007
Contractually Required Contribution	$ 829,720.13	$ 559,932.17	$ 528,257.32	$ 457,906.83	$ 376,297.15
Contributions in Relation to the Contractually Determined Contribution	829,720.13	559,932.17	528,257.32	457,906.83	376,297.15
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 16,830,022.92	$ 15,684,374.59	$ 15,721,944.05	$ 15,013,338.73	$ 14,146,509.43
Contributions as a Percentage of Covered-Employee Payroll	4.93%	3.57%	3.36%	3.05%	2.66%

Sandhills Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Changes of Benefit Terms:

Cost of Living Increase

2015*	2014	2013	2012	2011	2010	2009	2008	2007	2006
1.00%	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

*Per the 2015 State of North Carolina *Comprehensive Annual Financial Report* , the 1.00% cost of living adjustment applies to retirees whose retirement began on or before July 1, 2013.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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Raleigh, NC 27699-0600
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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, 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 Sandhills Community College (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 27, 2017. Our report includes a reference to other auditors who audited the financial statements of the Sandhills Community College Foundation, Inc. (Foundation), as described in our report on the College's financial statements. The financial statements of the Foundation 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 the Foundation.

<u>Internal Control Over Financial Reporting</u>

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 opinion 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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 27, 2017

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NC OSA
The Taxpayers' Watchdog

This audit required 305 audit hours at an approximate cost of $31,415.00.