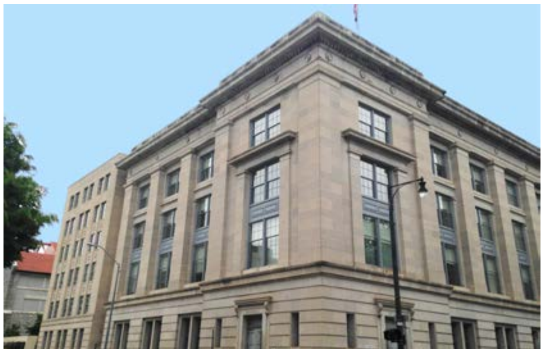
State of North Carolina

Office of the State Auditor

Beth A. Wood, CPA



South Piedmont Community College

Polkton, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2017

A Component Unit of the State of North Carolina

NCOSA

The Taxpayers' Watchdog

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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AUDITOR'S TRANSMITTAL

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

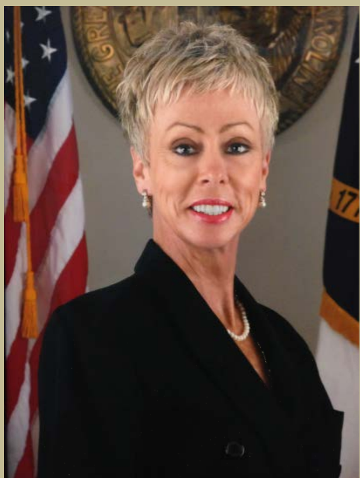
We have completed a financial statement audit of South Piedmont Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

Independent Auditor's Report

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of South Piedmont Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of South Piedmont Community College Foundation, Inc., the College's discretely presented component unit. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of South Piedmont Community College, and its discretely presented component unit, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 April 12, 2018 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

April 12, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of South Piedmont Community College's (College) financial statements, we present the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2017, along with comparative data for the prior fiscal year ended June 30, 2016. We encourage all readers to consider this information as it is designed to focus on activities for the current year, changes that have occurred, and projections for the future of the College.

Overview of the Financial Statements

The discussion and analysis is intended to provide an introduction to the College's financial statements. The College's basic financial statements consist of three components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; and 3) Statement of Cash Flows.

Basic Financial Statements

The Statement of Net Position presents the assets and liabilities of the College as current and noncurrent. The difference between total assets plus total deferred outflows of resources and total liabilities plus total deferred inflows of resources is net position and may provide a useful indicator of the state of the College's financial position.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the revenues and expenses for the fiscal year have affected changes to the net position of the College. The College's net position serves as an indicator of the financial condition of the College.

The Statement of Cash Flows presents information showing how the College's cash changes as a result of current year operations. The Statement of Cash Flows is summarized by different types of activities: operating, capital financing, and noncapital financing.

Notes to the Financial Statements and the Required Supplementary Information provide additional information that is essential to gaining a full understanding of the data provided by the basic financial statements. The Notes to the Financial Statements and the Required Supplementary information follows the basic financial statements.

Comparative Data

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

Analysis of Assets and Deferred Outflows of Resources

For the year, ended June 30, 2017, the College's total assets decreased by $665,682.77 or 2.75%. Capital asset activity is discussed later in the MD&A.

	2016-2017	2015-2016 (as Restated)	Difference	% Change
Assets:				
Current Assets	$ 1,362,895.69	$ 1,431,920.82	$ (69,025.13)	(4.82%)
Noncurrent Assets	19,677.90	22,012.14	(2,334.24)	(10.60%)
Capital Assets, Net	22,119,675.95	22,713,999.35	(594,323.40)	(2.62%)
Total Assets	$ 23,502,249.54	$ 24,167,932.31	$ (665,682.77)	(2.75%)
Deferred Outflows Related to Pensions	$ 5,343,718.00	$ 1,496,336.00	$ 3,847,382.00	257.12%

Current Assets

Current assets decreased by $69,025.13 or 4.82%. Current cash and cash equivalents decreased by a modest $18,470.90 due to less income received from vending and outside use of the conference room. Receivables decreased by $45,943.20 or 6.45% as a result of improved collection efforts made and working more with students to assist with payment plans.

Analysis of Liabilities and Deferred Inflows of Resources

Compared with the year ended June 30, 2016, the current fiscal year showed an increase in the amount of $4,809,503.65 or 104.26% in total liabilities.

	2016-2017	2015-2016 (as Restated)	Difference	% Change
Liabilities:				
Current Liabilities	$ 1,009,839.56	$ 918,952.15	$ 90,887.41	9.89%
Long-Term Liabilities	8,412,505.40	3,693,889.16	4,718,616.24	127.74%
Total Liabilities	$ 9,422,344.96	$ 4,612,841.31	$ 4,809,503.65	104.26%
Deferred Inflows Related to Pensions	$ 359,059.00	$ 661,897.00	$ (302,838.00)	(45.75%)

Current Liabilities

Current liabilities increased by $90,887.41 or 9.89% primarily due to an increase in accounts payable and accrued liabilities related to additional outsourced continuing education classes.

Long-Term Liabilities

Long-term liabilities increased by $4,718,616.24 or 127.74% primarily due to the net pension liability increasing by $4,616,351.00 for a total liability of $7,597,308.00 at year end. The increase was due to the change in the College's proportionate share of the collective net pension liability for the Teachers' and State Employees' Retirement System. The notes payable with BB&T Government Finance related to the energy conservation project was paid in full on October 14, 2016. The capital lease for copiers was also paid in full during the 2016-2017 fiscal year. Compensated absences increased by $25,310.27 to a total of $908,297.95. For further details of long-term liabilities, see Note 6 of the Notes to the Financial Statements.

Deferred Outflows and Deferred Inflows of Resources Related to Pensions

Deferred outflows of resources related to pensions for the College were $5,343,718.00 at June 30, 2017. This was an increase from the prior year of $3,847,382.00 due to a change in actuarial assumptions by the pension plan trustees. Approximately $1.2 million of this deferred outflow will reduce the net pension liability for the year ended June 30, 2018. The College also recorded deferred inflows of resources related to pensions in the amount of $359,059.00. This amount represents the net amount of the College's pension deferrals that will decrease pension expense in fiscal years 2018 to 2021. For more information about the College's deferred outflows and inflows of resources related to pensions, refer to Note 10 of the Notes to the Financial Statements.

Analysis of Net Position

Total net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Total net position decreased by $1,234,460.20 or 6.08% compared with the previous fiscal year. One of the major contributing factors to this was a decrease in net investment in capital assets mainly due to current year depreciation. Capital projects increased by $170,496.75 due to increased maintenance funds received from Anson County during the current fiscal year. The deficit amount of $3,443,845.89 in unrestricted net position was mainly attributed to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015. Likewise, the decrease of $807,099.90 to unrestricted net position was mainly attributable to the following changes related to pensions: increase in net pension liability of $4,616,351.00; increase in deferred outflows related to pensions of $3,847,382.00; and decrease of deferred inflows related to pensions of $302,838.00.

	2016-2017	2015-2016 (as Restated)	Difference	% Change
Net Position:				
Net Investment in Capital Assets	$ 22,033,181.03	$ 22,654,757.30	$ (621,576.27)	(2.74%)
Restricted for Expendable:				
Scholarships and Fellowships	97,703.29	89,565.53	8,137.76	9.09%
Loans	19,468.80	22,404.71	(2,935.91)	(13.10%)
Capital Projects	301,626.77	131,130.02	170,496.75	130.02%
Other	56,429.58	37,912.21	18,517.37	48.84%
Unrestricted	(3,443,845.89)	(2,636,745.99)	(807,099.90)	30.61%
Total Net Position	$ 19,064,563.58	$ 20,299,023.78	$ (1,234,460.20)	(6.08%)

Analysis of Revenues

Compared with the year ended June 30, 2016, the current fiscal year showed a 2.78% increase in total revenues.

	2016-2017	2015-2016 (as Restated)	Difference	% Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 2,094,841.26	$ 2,390,877.39	$ (296,036.13)	(12.38%)
State and Local Grants and Contracts	357,078.88	409,088.06	(52,009.18)	(12.71%)
Sales and Services	289,299.09	250,057.13	39,241.96	15.69%
Total Operating Revenues	$ 2,741,219.23	$ 3,050,022.58	$ (308,803.35)	(10.12%)
Nonoperating Revenues:				
State Aid	$ 13,421,726.56	$ 12,892,679.95	$ 529,046.61	4.10%
County Appropriations	3,138,522.54	2,614,470.33	524,052.21	20.04%
Noncapital Grants - Student Financial Aid	2,966,146.98	3,211,461.07	(245,314.09)	(7.64%)
Noncapital Grants and Gifts	355,999.64	394,512.85	(38,513.21)	(9.76%)
Other Nonoperating Revenues	43,984.72	32,788.47	11,196.25	34.15%
Total Nonoperating Revenues	$ 19,926,380.44	$ 19,145,912.67	$ 780,467.77	4.08%
Other Revenues:				
State Capital Aid	$ 112,258.18	$ 107,409.36	$ 4,848.82	4.51%
County Capital Aid	233,250.00	238,391.25	(5,141.25)	(2.16%)
Capital Grants	52,488.19	45,770.95	6,717.24	14.68%
Capital Gifts	150,475.65		150,475.65	
Total Other Revenues	$ 548,472.02	$ 391,571.56	$ 156,900.46	40.07%
Total Revenues	$ 23,216,071.69	$ 22,587,506.81	$ 628,564.88	2.78%

Operating Revenues

Total operating revenues decreased by 10.12% or $308,803.35 when compared to the year ended June 30, 2016 mostly due to a decrease in student tuition and fees of $296,036.13. This was due primarily to a decrease in continuing education and self-supporting summer classes.

Nonoperating Revenues

Total nonoperating revenues increased by 4.08%, or $780,467.77 primarily due to increases in state aid and county appropriations provided to the College. State aid increased by $529,046.61 due to an increase in student enrollment. County appropriations increased by $524,052.21 due to an increased budget from Union County and sales tax distribution from Anson County, which was new for 2016-2017. Noncapital grants for student financial aid decreased by $245,314.09, which was a result of a decrease in the number of Pell grants awarded during the year.

Other Revenues

Other revenues for the fiscal year increased by 40.07% or $156,900.46. This was mainly due to new machinery and equipment donated to the College from the Foundation in fiscal year 2016-2017 in the amount of $150,475.65.

Overall Revenue Review

The College recorded an overall increase for the year in the amount of $628,564.88 or 2.78%. The increases in state aid and county appropriations helped ensure the College's ability to provide additional services and more secure campuses for students and staff.

Analysis of Expenses

Total expenses increased by $860,130.99 or 3.65% when compared to fiscal year 2015-2016. Salaries and benefits expense increased $1,366,152.93 mainly due to the pension expense for fiscal year 2016-2017 increasing from $432,188.00 in 2015-2016 to $1,610,414.00. Supplies and materials had a significant decrease of $598,505.20 primarily due to purchasing less noncapitalized equipment, renewing fewer software licenses, and a decrease in overall repairs and maintenance compared to the prior year. Services increased by $227,872.61 primarily due to roof repairs to the Tyson Center and increases for contracted security guards, contracted medical continuing education classes, and student recruitment expenses. Scholarships and fellowships expense decreased due to a fewer number of Pell grants awarded during the year as previously discussed.

	2016-2017	2015-2016	Difference	% Change
Operating Expenses:				
Salaries and Benefits	$ 17,539,267.17	$ 16,173,114.24	$ 1,366,152.93	8.45%
Supplies and Materials	1,347,680.86	1,946,186.06	(598,505.20)	(30.75%)
Services	2,323,308.30	2,095,435.69	227,872.61	10.87%
Scholarships and Fellowships	1,770,992.72	1,896,797.33	(125,804.61)	(6.63%)
Utilities	463,859.79	489,643.24	(25,783.45)	(5.27%)
Depreciation	1,004,929.78	986,665.68	18,264.10	1.85%
Total Operating Expenses	$ 24,450,038.62	$ 23,587,842.24	$ 862,196.38	3.66%
Nonoperating Expenses:				
Interest and Fees on Debt	$ 493.27	$ 2,558.66	$ (2,065.39)	(80.72%)
Total Expenses	$ 24,450,531.89	$ 23,590,400.90	$ 860,130.99	3.65%

Capital Asset Activity

The College's net capital assets as of June 30, 2017, totaled $22,119,675.95 which is a 2.62% decrease compared to June 30, 2016. The College added $428,485.14 in new educational and information technology equipment while disposing of several obsolete pieces of equipment with an original value of $109,911.51. Additionally, the College recorded depreciation expense in the amount of $1,004,929.78. During the 2016-2017 fiscal year, the College had a small increase in construction in progress of $38,000.00 that was spent on the planning stages for the Tyson Family Center for Health and Technology. This renovation project will begin during fiscal year 2017-2018, using NC Connect Bond funds the College is receiving from the State. For further details of all capital asset activity, see Note 4 of the Notes to the Financial Statements.

	2016-2017	2015-2016 (as Restated)	Difference	% Change
Capital Assets:				
Land and Permanent Easements	$ 3,142,960.17	$ 3,142,960.17	$ 0.00	
Construction in Progress	38,000.00		38,000.00	
Buildings	26,702,729.29	26,702,729.29		
Machinery and Equipment	4,890,167.91	4,571,594.28	318,573.63	6.97%
General Infrastructure	706,153.75	706,153.75		
Total	35,480,011.12	35,123,437.49	356,573.63	1.02%
Less: Accumulated Depreciation	13,360,335.17	12,409,438.14	(950,897.03)	(7.66%)
Capital Assets, Net	$ 22,119,675.95	$ 22,713,999.35	$ (594,323.40)	(2.62%)

Economic and Other Factors Impacting Future Periods

On January 3, 2017, Dr. Maria Pharr joined South Piedmont Community College as the new President. Dr. Pharr came to the College from the North Carolina Community College System where she served as the Executive Director of BioNetwork and Life Science Initiatives. She plans to help the College find new opportunities and lead the College to be an integral partner in economic and workforce development within the community.

An initiative of the College is to increase enrollment in Anson County and provide more classes at the two Anson County locations. Anson County has made funds available to the College through a sales tax distribution in order for the College to reach out to the community and assist students with tuition and fees to help them attend classes. Part of the initiative is also to help the College increase its visibility and partnership within the County.

Enrollment in curriculum courses has increased over the last two years. In the Fall semester of 2015, the unduplicated headcount enrollment was 2,618. In Fall 2016, curriculum enrollment increased to 2,777. Curriculum enrollment continued to increase for the Fall 2017 semester and surpassed 3,000 for the first time in the College's history.

During fiscal year 2017-2018, the College will begin a renovation project at the Tyson Family Center for Health and Technology using NC Connect Bond funds. Plans are for the Continuing Education Department, the Small Business Center, and Customized Training to move into the newly renovated facility. This will place all of these departments in the same building where the Union County Economic Development offices are located.

The economy of the State of North Carolina is expected to continue to outpace the National economy for 2017-2018. The state budget for the College will increase by 4.78% in fiscal year 2017-2018.

FINANCIAL STATEMENTS

South Piedmont Community College
Statement of Net Position
June 30, 2017

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	498,035.37
Restricted Cash and Cash Equivalents		151,063.20
Receivables, Net (Note 3)		666,628.92
Inventories		47,168.20
Total Current Assets		1,362,895.69
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		19,677.90
Capital Assets - Nondepreciable (Note 4)		3,180,960.17
Capital Assets - Depreciable, Net (Note 4)		18,938,715.78
Total Noncurrent Assets		22,139,353.85
Total Assets		23,502,249.54
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		5,343,718.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		747,855.93
Unearned Revenue		147,438.57
Funds Held for Others		21,444.51
Long-Term Liabilities - Current Portion (Note 6)		93,100.55
Total Current Liabilities		1,009,839.56
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		8,412,505.40
Total Liabilities		9,422,344.96
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		359,059.00
NET POSITION		
Net Investment in Capital Assets		22,033,181.03
Restricted for Expendable:		
Scholarships and Fellowships		97,703.29
Loans		19,468.80
Capital Projects		301,626.77
Other		56,429.58
Unrestricted		(3,443,845.89)
Total Net Position	$	19,064,563.58

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

South Piedmont Community College
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,094,841.26
State and Local Grants and Contracts		357,078.88
Sales and Services		289,299.09
Total Operating Revenues		2,741,219.23
EXPENSES		
Operating Expenses:		
Salaries and Benefits		17,539,267.17
Supplies and Materials		1,347,680.86
Services		2,323,308.30
Scholarships and Fellowships		1,770,992.72
Utilities		463,859.79
Depreciation		1,004,929.78
Total Operating Expenses		24,450,038.62
Operating Loss		(21,708,819.39)
NONOPERATING REVENUES (EXPENSES)		
State Aid		13,421,726.56
County Appropriations		3,138,522.54
Noncapital Grants - Student Financial Aid		2,966,146.98
Noncapital Grants		253,970.62
Noncapital Gifts		102,029.02
Interest and Fees on Debt		(493.27)
Other Nonoperating Revenues		43,984.72
Net Nonoperating Revenues		19,925,887.17
Loss Before Other Revenues		(1,782,932.22)
State Capital Aid		112,258.18
County Capital Aid		233,250.00
Capital Grants		52,488.19
Capital Gifts		150,475.65
Decrease in Net Position		(1,234,460.20)
NET POSITION		
Net Position, July 1, 2016 as Restated (Note 15)		20,299,023.78
Net Position, June 30, 2017	$	19,064,563.58

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

South Piedmont Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,794,846.52
Payments to Employees and Fringe Benefits	(17,063,821.90)
Payments to Vendors and Suppliers	(4,003,858.62)
Payments for Scholarships and Fellowships	(1,770,992.72)
Other Receipts	45,994.85
Net Cash Used by Operating Activities	(19,997,831.87)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	13,421,726.56
County Appropriations	3,138,522.54
Noncapital Grants - Student Financial Aid	2,966,146.98
Noncapital Grants	253,970.62
Noncapital Gifts	102,029.02
Total Cash Provided by Noncapital Financing Activities	19,882,395.72
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	112,258.18
County Capital Aid	233,250.00
Capital Grants	52,488.19
Acquisition and Construction of Capital Assets	(260,287.04)
Principal Paid on Capital Debt and Leases	(42,585.05)
Interest Paid on Capital Debt and Leases	(493.27)
Net Cash Provided by Capital and Related Financing Activities	94,631.01
Net Decrease in Cash and Cash Equivalents	(20,805.14)
Cash and Cash Equivalents, July 1, 2016	689,581.61
Cash and Cash Equivalents, June 30, 2017	$ 668,776.47

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$ (21,708,819.39)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,004,929.78
Nonoperating Other Income	43,984.72
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	45,943.20
Inventories	4,611.03
Deferred Outflows for Pensions	(3,847,382.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	110,383.32
Unearned Revenue	7,684.09
Net Pension Liability	4,616,351.00
Funds Held for Others	2,010.13
Deferred Inflows for Pensions	(302,838.00)
Compensated Absences	25,310.25
Net Cash Used by Operating Activities	$ (19,997,831.87)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	$ 498,035.37
Restricted Cash and Cash Equivalents	151,063.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	19,677.90
Total Cash and Cash Equivalents - June 30, 2017	$ 668,776.47

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$ 38,975.09
Assets Acquired through a Gift	150,475.65
Assets Acquired through a Like-Kind Exchange	55,878.76

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

South Piedmont Community College Foundation, Inc.
Statement of Financial Position
June 30, 2017 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	994,847
Marketable Securities		821,784
Pledges Receivable, Net		369,484
Total Current Assets		2,186,115
Property and Equipment:		
Land		9,700
Other Assets:		
Restricted Endowments		1,660,777
Total Assets	$	3,856,592
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Credit Card Payable	$	664
Deferred Revenue		30,004
Total Current Liabilities		30,668
Net Assets:		
Unrestricted		825,615
Temporarily Restricted		1,339,532
Permanently Restricted		1,660,777
Total Net Assets		3,825,924
Total Liabilities and Net Assets	$	3,856,592

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

South Piedmont Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2017 *Exhibit B-2*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions:				
New Century - Anson	$ 0	$ 88	$ 0	$ 88
New Century - Union		2,342		2,342
Student Access		51,883	61,573	113,456
Other	4,880	148,803		153,683
In-Kind	270,079			270,079
Fundraising		53,856		53,856
Investment Earnings	26,219	132,473	1,189	159,881
Net Assets Released from Restrictions	365,300	(365,300)		
Total Revenues, Gains, and Other Support	666,478	24,145	62,762	753,385
EXPENSES				
Program Services	558,009			558,009
Supporting Services:				
Management and General	144,978			144,978
Fundraising	63,137			63,137
Total Expenses	766,124			766,124
Change in Net Assets	(99,646)	24,145	62,762	(12,739)
Net Assets at Beginning of Year	925,261	1,307,794	1,605,608	3,838,663
Prior Period Adjustment		7,593	(7,593)	
Net Assets at End of Year	$ 825,615	$ 1,339,532	$ 1,660,777	$ 3,825,924

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. South Piedmont Community College (College) is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. See below for further discussion of the College's component unit. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

Discretely Presented Component Unit - South Piedmont Community College Foundation, Inc. (Foundation) is a legally separate, nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 21 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2017, the Foundation distributed $573,009.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Ginger McLain, Foundation Operations and Grants Coordinator, SPCC Foundation, PO Box 126, Polkton, NC 28135 or through an email request to Ginger McLain at gmclain@spcc.edu.

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 aid, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

D. **Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private bank accounts.

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

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

G. **Capital Assets** - Capital assets are stated at cost at date of acquisition or 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. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-50 years
Machinery and Equipment	2-40 years
General Infrastructure	10-20 years

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

I. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include net pension liability and compensated absences 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 2016 *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 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

K. Deferred Outflows/Inflows of Resources - In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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 - 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 of resources and deferred inflows of resources.

M. Scholarship Discounts - Student tuition and fees 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 and fees, the College has recorded a scholarship discount.

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

College - 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, 2017 was $2,002.00. The carrying amount of the College's deposits not with the State Treasurer was $666,774.47, and the bank balance was $1,038,043.51.

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, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

Component Unit - Investments of the College's discretely presented component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. Investments in marketable securities with readily determinable fair value (Level 1) are reported at their fair values in the statement of financial position. The following is an analysis of investments by type:

	Fair Value
Investment Type	
Money Market Funds	$ 62,452
Equity Mutual Funds	1,026,970
Fixed Income Funds	704,014
Total Investments	$ 1,793,436

NOTE 3 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 629,158.61	$ 335,153.91	$ 294,004.70
Student Sponsors	51,385.68		51,385.68
Intergovernmental	213,410.80		213,410.80
Other	107,827.74		107,827.74
Total Current Receivables	$ 1,001,782.83	$ 335,153.91	$ 666,628.92

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 3,142,960.17	$ 0.00	$ 0.00	$ 3,142,960.17
Construction in Progress		38,000.00		38,000.00
Total Capital Assets, Nondepreciable	3,142,960.17	38,000.00		3,180,960.17
Capital Assets, Depreciable:				
Buildings	26,702,729.29			26,702,729.29
Machinery and Equipment	4,571,594.28	428,485.14	109,911.51	4,890,167.91
General Infrastructure	706,153.75			706,153.75
Total Capital Assets, Depreciable	31,980,477.32	428,485.14	109,911.51	32,299,050.95
Less Accumulated Depreciation for:				
Buildings	10,332,586.82	660,609.96		10,993,196.78
Machinery and Equipment	1,693,020.99	305,523.02	54,032.75	1,944,511.26
General Infrastructure	383,830.33	38,796.80		422,627.13
Total Accumulated Depreciation	12,409,438.14	1,004,929.78	54,032.75	13,360,335.17
Total Capital Assets, Depreciable, Net	19,571,039.18	(576,444.64)	55,878.76	18,938,715.78
Capital Assets, Net	$ 22,713,999.35	$ (538,444.64)	$ 55,878.76	$ 22,119,675.95

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 338,135.35
Accrued Payroll	409,720.58
Total Current Accounts Payable and Accrued Liabilities	$ 747,855.93

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016 (as Restated)	Additions	Reductions	Balance June 30, 2017	Current Portion
Notes Payable	$ 8,184.80	$ 0.00	$ 8,184.80	$ 0.00	$ 0.00
Capital Leases Payable	34,400.25		34,400.25		
Net Pension Liability	2,980,957.00	4,616,351.00		7,597,308.00	
Compensated Absences	882,987.68	702,622.92	677,312.65	908,297.95	93,100.55
Total Long-Term Liabilities	$ 3,906,529.73	$ 5,318,973.92	$ 719,897.70	$ 8,505,605.95	$ 93,100.55

Additional information regarding the net pension liability is included in Note 10.

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2017	Principal Outstanding June 30, 2017
Energy Conservation Improvement	BB&T	4.19%	09/15/2016	$ 376,481.00	$ 376,481.00	$ 0.00

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 109,796.40
2019	75,797.40
2020	51,512.40
2021	51,512.40
2022	30,048.90
Total Minimum Lease Payments	$ 318,667.50

Rental expense for all operating leases during the year was $160,890.04.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees, Net	$ 3,528,638.11	$ 1,291,761.88	$ 142,034.97	$ 2,094,841.26

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 9,245,749.62	$ 346,248.29	$ 486,375.16	$ 0.00	$ 2,562.98	$ 0.00	$ 10,080,936.05
Academic Support	1,874,022.41	64,110.74	15,551.88				1,953,685.03
Student Services	1,511,848.43	151,768.13	36,543.99		359.29		1,700,519.84
Institutional Support	4,036,992.98	349,406.20	631,337.17				5,017,736.35
Operations and Maintenance of Plant	817,985.08	422,934.34	1,074,361.65		460,937.52		2,776,218.59
Student Financial Aid			2,993.60	1,770,992.72			1,773,986.32
Auxiliary Enterprises	52,668.65	13,213.16	76,144.85				142,026.66
Depreciation						1,004,929.78	1,004,929.78
Total Operating Expenses	$ 17,539,267.17	$ 1,347,680.86	$ 2,323,308.30	$ 1,770,992.72	$ 463,859.79	$ 1,004,929.78	$ 24,450,038.62

NOTE 10 - 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 that elect to join the Retirement System. 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 annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $697,562.80, and the College's contributions were $1,160,279.46 for the year ended June 30, 2017.

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 2016 *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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $7,597,308.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the College's proportion was 0.08266%, which was an increase of 0.00177 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 14,289,068.00	$ 7,597,308.00	$ 1,970,455.00

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,610,414.00. At June 30, 2017, 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	$ 359,059.00
Changes of Assumptions	1,120,418.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,709,442.54	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	353,578.00	
Contributions Subsequent to the Measurement Date	1,160,279.46	
Total	$ 5,343,718.00	$ 359,059.00

The amount of $1,160,279.46 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, 2018. 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
2018	$ 732,350.00
2019	728,933.00
2020	1,528,423.00
2021	834,673.54
Total	$ 3,824,379.54

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System (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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $675,473.31, $640,749.58, and $612,520.75, 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 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.

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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $44,178.98, $46,912.02, and $45,743.81, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

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

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

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. In addition, all full-time employees are covered by contracts with private insurance companies with coverage of $102,250 per occurrence and no 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.

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. Professional liability insurance is provided for instructors and students in the nursing program. This insurance is provided through a private insurance company with coverage of $1,000,000 per occurrence with no deductible.

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $2,000.00 and on other purchases were $28,512.00 at June 30, 2017.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues - An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 15 - NET POSITION RESTATEMENTS

As of July 1, 2016, net position as previously reported was restated as follows:

		Amount
July 1, 2016 Net Position as Previously Reported	$	19,739,789.46
Restatements:		
Correct Prior Period Overstatement in Accounts Payable		440,897.74
Record Machinery and Equipment Acquired During Prior Period		208,842.80
Correct Prior Period Understatement in Compensated Absences		(90,506.22)
July 1, 2016 Net Position as Restated	$	20,299,023.78

REQUIRED SUPPLEMENTARY INFORMATION

South Piedmont Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit C-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.08266%	0.08089%	0.07520%	0.06950%
Proportionate Share of TSERS Collective Net Pension Liability	$ 7,597,308.00	$ 2,980,957.00	$ 881,661.00	$ 4,219,358.00
Covered Payroll	$ 11,441,956.72	$ 11,157,026.37	$ 10,310,361.94	$ 9,775,062.38
Net Pension Liability as a Percentage of Covered Payroll	66.40%	26.72%	8.55%	43.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

South Piedmont Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,160,279.46	$ 1,046,939.04	$ 1,020,867.92	$ 895,970.45	$ 814,262.70
Contributions in Relation to the Contractually Determined Contribution	1,160,279.46	1,046,939.04	1,020,867.92	895,970.45	814,262.70
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 11,626,046.67	$ 11,441,956.72	$ 11,157,026.37	$ 10,310,361.94	$ 9,775,062.38
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 714,986.36	$ 481,712.45	$ 328,270.05	$ 309,624.97	$ 263,329.40
Contributions in Relation to the Contractually Determined Contribution	714,986.36	481,712.45	328,270.05	309,624.97	263,329.40
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 9,610,031.73	$ 9,771,043.63	$ 9,195,239.41	$ 9,215,029.01	$ 8,633,750.77
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

South Piedmont 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
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina's 2016 *Comprehensive Annual Financial Report* .

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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

Board of Trustees
South Piedmont Community College
Polkton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Piedmont Community College (College), a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 12, 2018. Our report includes a reference to other auditors who audited the financial statements of South Piedmont Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of South Piedmont Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with South Piedmont Community College Foundation, Inc.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

College's Response to Finding

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

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 12, 2018

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS

The financial statements, related notes, and required supplementary information prepared by the College and submitted for audit contained significant misstatements. The following issues were identified and corrected as a result of our audit:

A. The College's fiscal year 2017 beginning balances were incorrect. As a result, the following misstatements were identified and corrected:

Account		Overstated / (Understated)	Percentage *
Accounts Payable and Accrued Liabilities	$	440,898	59%
Machinery and Equipment		(208,843)	4%
Long-Term Liabilities - Compensated Absences		(90,506)	10%

* Percentage of the misstatement compared to the final audited account balance

B. The College's year-end entries were not prepared or not prepared correctly. As a result, the following audit adjustments were made to correct them:

- To correct classification of noncapital grants revenue;
- To record the scholarship discount related to student tuition and fees revenue and scholarships and fellowships expense;
- To correctly record additions and disposals of capital assets in their proper period (impacting machinery and equipment, supplies and materials, and net position); and
- To record revenue associated with a donated capital gift.

Account		Overstated / (Understated)	Percentage *
Noncapital Grants - Student Financial Aid	$	(2,966,147)	100%
Noncapital Grants		2,966,147	1168%
Student Tuition and Fees, Net		1,291,762	62%
Scholarships and Fellowships		1,291,762	73%
Machinery and Equipment		(112,358)	2%
Net Investment in Capital Assets		(112,358)	1%
Supplies and Materials		(17,525)	1%
Capital Gifts		(150,476)	100%

* Percentage of the misstatement compared to the final audited account balance

C. The College did not reconcile its capital assets subsidiary ledger to the general ledger during the fiscal year. As a result, the College did not capitalize machinery and equipment in the prior period in the amount of $208,843. Approximately $96,485 of this amount was improperly reported as a current year addition, thus the machinery and equipment balance at year end was understated by $112,358. These errors are included in the list of audit adjustments made above. Several other errors were noted related to machinery and equipment as well as accumulated depreciation as a result of the College's failure to reconcile its subsidiary ledger to the general ledger.

The auditors also made adjustments to the statement of cash flows, the management's discussion and analysis, and a majority of the notes to the financial statements.

Without these error corrections and inclusions of all required statements and disclosures, users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance, and operating results. This finding was also reported in prior years.

The omissions and errors in financial reporting occurred and were not detected and corrected timely by the College management, in part because:

- College management did not ensure that staff responsible for the preparation of the financial statements possessed the necessary knowledge and training.
- College management did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Recommendation: College management should ensure that appropriate and adequate resources are provided to ensure:

- Staff are adequately trained to perform year-end financial reporting; and
- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting.

College's Response: See page 41 for the College's response to this finding.

SOUTH PIEDMONT COMMUNITY COLLEGE

www.spcc.edu

April 5, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Dear Ms. Wood:

Please accept this letter as South Piedmont Community College's official response to the financial audit performed by the Office of the State Auditor for fiscal year 2016-2017.

OSA Finding

Financial Statements Contained Significant Misstatements

The financial statements, related notes, and required supplementary information prepared by the College and submitted for audit contained significant misstatements.

OSA Recommendations

College Management should ensure that appropriate and adequate resources are provided to ensure:

- Staff are adequately trained to perform year-end financial reporting; and
- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting.

Agency Response

South Piedmont Community College agrees with the findings and recommendations of the audit of the financial statements contained in the State Auditor's report. The institution takes very seriously the Governmental Accounting Standards Board (GASB) reporting standards and will take all necessary actions to ensure future reports are incompliance with the GASB standards.

The College offers the following responses and explanations to the findings for the audit year 2016-2017:

A. Fiscal year 2017 beginning balances were incorrect.
   1. *Accounts Payable and Accrued Liabilities overstated by $440,898.* The College acknowledges that the fiscal year 2017 beginning balances were incorrect due to these misstatements and agrees to commit additional training and new procedures to prevent misstatements in future periods.
   2. *Machinery and Equipment understated by $208,843.00.* The College agrees that the 2017 beginning balance was understated. The College will continue working to establish new procedures to record and reconcile all capital assets correctly for future periods.
   3. *Long-Term Liabilities-Compensated Absences understated by $90,506.00.* The College agrees that this error did misstate the 2017 beginning balance. With the knowledge gained from this audit, the College is confident that this error will not be repeated.
B. These year-end entries were not prepared or not prepared correctly:
   1. *To correct classification of noncapital grants revenue* – The College did not separate Non-Capital Grants-Student Financial Aid from Noncapital Grants and present this on financial Exhibit A-2. We understand what is required and will add it to our year-end closing checklist.
   2. *To record the scholarship discount* – The College agrees that recording scholarship discounts was omitted from the 2017 financial statements that were submitted. This task will be included in our new year-end checklist as the College develops new plans for year-end closings.
   3. *Correctly record additions and disposal of capital assets* – We agree with this finding. As a result of working with the auditors, the capital assets subsidiary ledger is now in balance with the general ledger capital assets. New procedures and additional training will ensure that the College will correctly record and reconcile capital assets for future periods.
   4. *Supplies and Materials understated by $17,525.00* – The College agrees with this entry as it corrected errors from two separate capital leases. The College no longer has any capital leases.
   5. *To record revenue associated with a donated capital gift* – The auditors calculated the entry to record donated capital gifts. The College hired a private consultant to assist with training or how to record and reconcile capital assets. The College is confident that donated capital gifts will be properly recorded in future periods.

To address the findings of this report, the institution has already implemented changes to improve financial reporting and will continue to develop and implement other plans that will include the following corrective plans:

1. In order to address the recommendation that College management be adequately trained to perform year-end financial reporting, the Vice-President of Finance and Administrative Services, Associate Vice-President of Finance and Administrative Services, and Director of Financial Services have registered to attend the CCFI (Community College Financial Institute) Financial Statement and CAFR Preparation Course on May 14-16, 2018. This course will focus on Financial Statement and CAFR preparation as well as preparation of Notes to the Financial Statements and Management Discussion and Analysis.

2. In order to address the issue of reconciling capital assets, the College has enlisted the services of a private consultant and the assistance of persons associated with other North Carolina community colleges to gain more knowledge in how to properly record and reconcile the capital assets subsidiary ledger to the general during the fiscal year. The College has developed procedures to correctly account for asset disposals, asset additions, work in progress, and capital donations. After recording the auditor's adjusting entry for machinery and equipment, the College is now able to reconcile capital assets and to maintain this on a monthly basis.
3. The College already has a notebook for year-end closing instructions to assist in preparing financial reports. To ensure accurate and timely year-end work, the College will create a checklist that will coincide with our year-end instructions. The checklist will include a sequenced list of procedures, time lines for each procedure, and places for the preparer and reviewer to initial each procedure when completed. This checklist will be finished by April 30, 2018 and reviewed by the Vice President of Finance and Administrative Services by May 15, 2018.
4. All year-end journal entries, spreadsheets, financial exhibits, Notes to Financials, and Management Discussion and Analysis will be reviewed by the Vice President of Finance and Administrative Services.

Ms. Michelle Brock, Vice President of Finance and Administrative Services, will oversee all corrective action plans which will be completed by May 31, 2018.

Sincerely,

Maria Pharr

Maria Pharr, Ed.D.
President
South Piedmont Community College

ORDERING INFORMATION

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For additional information contact:
Brad Young
Director of External Affairs
919-807-7513

This audit required 484 hours at an approximate cost of $49,852.