



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

H. MARTIN LANCASTER, PRESIDENT

BOARD OF TRUSTEES

MS. ZETTIE WILLIAMS, CHAIRPERSON

WILBUR HUSSEY, JR., VICE CHAIRMAN

**HELEN A. BOYETTE
ALBERT R. BROWN
WILLIAM E. CRAFT
DELILAH GOMES
JANICE B. GRADY**

**DAVID E. JORDAN
ROBERT B. KORNEGAY
VERNELL STEVENS
JAMES F. STRICKLAND
BLAKE WALLACE**

ADMINISTRATIVE OFFICERS

DR. LAWRENCE ROUSE, PRESIDENT

JOHN C. HARDISON, III, DEAN OF ADMINISTRATIVE AND FISCAL SERVICES



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, James Sprunt Community College

We have completed a financial statement audit of James Sprunt Community College for the year ended June 30, 2005, 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 resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

May 15, 2006

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	9
A-3 Statement of Cash Flows	10
Component Unit Exhibits	
B-1 Statement of Financial Position... ..	12
B-2 Statement of Activities.....	13
Notes to the Financial Statements	15
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31
ORDERING INFORMATION	33



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
James Sprunt Community College
Kenansville, North Carolina

We have audited the accompanying financial statements of James Sprunt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the James Sprunt Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the James Sprunt Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the James Sprunt Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of James Sprunt Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 7, 2006

JAMES SPRUNT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of James Sprunt Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2005, and June 30, 2004. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change, and currently known facts, please read it in conjunction with the transmittal letter, the College's basic financial statements, and the Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities that are supported mainly by State, local, federal, and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public. The Statement of Cash Flows presents information detailing the sources and uses of cash from operating activities, noncapital financing capital and related financing and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets

The following condensed Statement of Net Assets compares the current year information with the prior year and indicates the monetary and percentage increase or decrease between years.

Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 1,850,410	\$ 1,695,893	\$ 154,517	9.11 %
Capital Assets	8,479,570	7,044,372	1,435,198	20.37 %
Other Assets	<u>530,898</u>	<u>2,285,714</u>	<u>(1,754,816)</u>	(76.77) %
Total Assets	<u>10,860,878</u>	<u>11,025,979</u>	<u>(165,101)</u>	(1.50) %
Current Liabilities	499,056	518,087	(19,031)	(3.67) %
Noncurrent Liabilities	<u>591,090</u>	<u>698,851</u>	<u>(107,761)</u>	(15.42) %
Total Liabilities	<u>1,090,147</u>	<u>1,216,938</u>	<u>(126,791)</u>	(10.42) %
Net Assets				
Invested in Capital Assets, Net of Related Debt	8,450,813	6,988,350	1,462,463	20.93 %
Restricted	956,254	2,610,297	(1,654,043)	(63.37) %
Unrestricted	<u>363,664</u>	<u>210,394</u>	<u>153,270</u>	72.85 %
Total Net Assets	<u>\$ 9,770,731</u>	<u>\$ 9,809,041</u>	<u>\$ (38,310)</u>	(0.39) %

During the current fiscal year the College's net assets decreased by \$38,310. There was a prior year adjustment of (\$165,889) to beginning net assets. This adjustment was done to correct an error in posting accumulated depreciation in prior years. The College completed construction on a new building during this fiscal year. The funds used were originally classified in the restricted for capital projects net assets category. Once the building was complete, the building was capitalized and now the balance is included in the invested in capital assets caption. Current liabilities decreased \$19,031. This account includes accounts payables of \$160,403, of which \$49,062 was a commitment to our building contractor. Accrued payroll increased \$17,718. The current portion of accrued leave payable has increased by \$111,584. This amount is calculated based on a formula comparing hours accrued and hours liquidated each year. This year's current percentage was 21% compared to 6% in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The following comparative statement for fiscal years ending 2005 and 2004 reflects the monetary and percentage increase or decrease in reported revenues and expenses between years.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Student Tuition and Fees	\$ 776,451	\$ 699,818	\$ 76,633	10.95 %
Federal Grants and Contracts	3,379,147	3,295,436	83,711	2.54 %
State and Local Grants and Contracts	222,797	149,537	73,260	48.99 %
Sales and Services	451,707	418,310	33,397	7.98 %
Other Operating Revenues	2,514	2,411	103	4.27 %
Total Operating Revenues	4,832,616	4,565,512	267,104	5.85 %
Operating Expenses:				
Personal Services	8,145,766	7,972,895	172,871	2.17 %
Supplies and Materials	1,336,957	1,371,114	(34,157)	(2.49) %
Services	1,790,701	1,400,984	389,717	27.82 %
Scholarships and Fellowships	1,162,010	1,288,269	(126,259)	(9.80) %
Utilities	193,972	196,323	(2,351)	(1.20) %
Depreciation	454,407	420,924	33,483	7.95 %
Total Operating Expenses	13,083,813	12,650,509	433,304	3.43 %
Operating Loss	(8,251,197)	(8,084,997)	(166,200)	2.06 %
Nonoperating Revenues:				
State Aid	6,136,877	5,642,325	494,552	8.77 %
County Appropriations	1,100,125	1,028,328	71,797	6.98 %
Noncapital Grants	257,672	187,548	70,124	37.39 %
Investment Income	24,424	27,798	(3,374)	(12.14) %
Other Nonoperating Revenues	5,251		5,251	100.00 %
Other Revenues:				
State Capital Aid	534,985	2,315,273	(1,780,288)	(76.89) %
County Capital Aid	319,442	370,260	(50,818)	(13.72) %
Total Nonoperating Revenues	8,378,776	9,571,532	(1,192,756)	(12.46) %
Change in Net Assets	127,579	1,486,535	(1,358,956)	(91.42) %
Net Assets - Beginning of Year	9,809,041	8,322,506	1,486,535	17.86 %
Restatements	(165,889)		(165,889)	
Net Assets - End of Year	\$ 9,770,731	\$ 9,809,041	\$ (38,310)	(0.39) %

Student tuition and fees increased \$76,633 over the prior year. This was caused by an increase in community service registrations of \$45,134 and an increase of \$33,068 in curriculum tuition. The State and local grants increase was due to the addition of the Kate B. Reynolds Grant. This grant in the amount of \$81,126 was used to support the Associated Degree in Nursing program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The State capital aid decrease was due to the authorization of \$1,783,718 in general obligation bonds during the prior year. These funds were available for use during last fiscal year and therefore revenue was recognized for this amount. The College only recognized revenue of \$150,117 for these bonds during this fiscal year. The capital grants shown for this year represent the amount of federal grants used to fund capital expenditures. The use of these funds for capital or current purposes may change each year depending on the College's needs. Although State appropriations are used to cover operating expenses, GASB Statement No. 35 requires that they be reported as nonoperating revenue. With adherence to this standard, the College will always report an operating loss.

Capital Assets

At June 30, 2005, the College reported \$13.43 million invested in capital assets less \$4.95 million in accumulated depreciation for net capital assets of \$8.48 million. Funds from the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System were received during the year and were used to continue the repair and renovation work on several campus buildings and infrastructure. The final phase of this project is due to be completed by June 2006. Construction of the Technology Building was completed this year. This building was funded almost entirely from bond money. The sum of \$2.32 million dollars in general obligation bonds was authorized for these projects. The remaining authorized funds total \$265,000.

	2005	2004	Increase (Decrease)	Percent Change
Land	\$ 172,764	\$ 106,360	\$ 66,404	62.4 %
Construction in Progress	22,103	126,372	(104,269)	(82.5) %
Buildings	6,442,433	4,869,345	1,573,088	32.3 %
Machinery and Equipment	350,855	452,134	(101,279)	(22.4) %
General Infrastructure	1,491,415	1,490,161	1,254	0.1 %
Capital Assets, Net	<u>\$ 8,479,570</u>	<u>\$ 7,044,372</u>	<u>\$ 1,435,198</u>	20.4 %

Debt

The College reported long-term debt of \$772,360 as of June 30, 2005. This balance consists of a note payable and accrued vacation leave liability. A note payable in the amount of \$28,757 for the cost of the implementation of the energy savings program entered into with Johnson Controls Inc. will mature in September 2005. The balance of this note is classified as current. The liability for accrued vacation is \$743,604, of which \$152,513 is reported as current.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Cash Flow

The following condensed statement of cash flows shows the source or use of funds by major activity category.

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash Provided (Used) by:				
Operating Activities	\$ (7,803,940)	\$ (7,025,509)	\$ (778,431)	11.08 %
Noncapital Financing Activities	7,494,675	6,858,201	636,474	9.28 %
Capital Financing Activities	235,795	650,091	(414,296)	(63.73) %
Investing Activities	24,424	27,798	(3,375)	(12.14) %
Net Change in Cash and Cash Equivalents	(49,046)	510,581	(559,627)	(109.61) %
Cash and Cash Equivalents, Beginning of Year	1,668,652	1,394,153	274,499	19.69 %
Cash and Cash Equivalents, End of Year	<u>\$ 1,619,606</u>	<u>\$ 1,904,734</u>	<u>\$ (285,128)</u>	(14.97) %

The major funding sources from operating activities included federal contracts and grants (\$3.38 million), sales and services (\$451,707), and student tuition and fees (\$776,451).

Major uses of funds from operating activities included employee compensation (\$8.15 million), payment for goods and services (\$3.13 million), and scholarship payments of (\$1.16 million).

Cash provided by non-capital financing activities included State appropriations (\$6.14 million), county appropriations (\$1.10 million), and grants (\$257,673).

The major sources of cash provided by capital financing activities include State capital appropriations actually received (\$534,986) and county capital appropriations (\$319,442). The major uses of these funds were for acquisition of capital assets (\$2.06 million) and capital note payment of (\$27,265).

Economic Factors and Next Year's Budget

While the economy of Duplin County has struggled in the past several years, The North Carolina Economic Outlook published by North Carolina State University gives hope of future economic growth in its Fall 2005 publication. The North Carolina Economic Outlook Fall issue states, "Looking ahead, the region is expected to increase its job base by 1% in both 2005 and 2006. Annual real retail sales growth will hover near 3%, and real wages per employee will improve modestly." James Sprunt Community College will seek to aid this economic development by supporting the training needs of area businesses and continuing to provide education to the population of Duplin County.

James Sprunt Community College
Statement of Net Assets
June 30, 2005

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 974,103.82
Restricted Cash and Cash Equivalents	334,836.81
Receivables, Net (Note 3)	390,280.87
Inventories	151,188.60

Total Current Assets	1,850,410.10
----------------------	--------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	310,665.01
Restricted Due from Primary Government	220,232.95
Capital Assets - Nondepreciable (Note 4)	194,866.83
Capital Assets - Depreciable, Net (Note 4)	8,284,702.70

Total Noncurrent Assets	9,010,467.49
-------------------------	--------------

Total Assets	10,860,877.59
--------------	---------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	224,283.94
Deferred Revenue	93,502.23
Long-Term Liabilities - Current Portion (Note 6)	181,269.95

Total Current Liabilities	499,056.12
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	591,090.49
--------------------------------	------------

Total Liabilities	1,090,146.61
-------------------	--------------

NET ASSETS

Invested in Capital Assets, Net of Related Debt	8,450,812.65
---	--------------

Restricted for:

Nonexpendable:	
Scholarships and Fellowships	16,989.68

Expendable:	
Scholarships and Fellowships	11,503.43
Loans	5,631.00
Capital Projects	543,291.74
Other	378,838.01

Unrestricted	363,664.47
--------------	------------

Total Net Assets	\$ 9,770,730.98
------------------	-----------------

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

***James Sprunt Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 776,450.90
Federal Grants and Contracts	3,379,147.18
State and Local Grants and Contracts	222,796.90
Sales and Services, Net (Note 8)	451,707.31
Other Operating Revenues	2,513.41

Total Operating Revenues	4,832,615.70
--------------------------	--------------

EXPENSES

Operating Expenses:

Personal Services	8,145,766.31
Supplies and Materials	1,336,956.78
Services	1,790,700.44
Scholarships and Fellowships	1,162,010.42
Utilities	193,971.83
Depreciation	454,407.21

Total Operating Expenses	13,083,812.99
--------------------------	---------------

Operating Loss	(8,251,197.29)
----------------	----------------

NONOPERATING REVENUES

State Aid	6,136,876.71
County Appropriations	1,100,125.10
Noncapital Grants	257,672.47
Investment Income, Net	24,423.96
Other Nonoperating Revenues	5,251.00

Net Nonoperating Revenues	7,524,349.24
---------------------------	--------------

Income Before Other Revenues	(726,848.05)
------------------------------	--------------

State Capital Aid	534,985.57
County Capital Appropriations	319,441.90

Increase in Net Assets	127,579.42
------------------------	------------

NET ASSETS

Net Assets, July 1, 2004 as Restated (Note 15)	9,643,151.56
Net Assets, June 30, 2005	\$ 9,770,730.98

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

James Sprunt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,676,787.73
Payments to Employees and Fringe Benefits	(8,095,468.34)
Payments to Vendors and Suppliers	(3,222,482.93)
Payments for Scholarships and Fellowships	(1,162,010.42)
Other Payments	(765.90)
	<hr/>
Net Cash Used by Operating Activities	(7,803,939.86)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	6,136,876.71
County Appropriations	1,100,125.10
Noncapital Grants Received	257,672.47
	<hr/>
Cash Provided by Noncapital Financing Activities	7,494,674.28

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,993,861.85
County Capital Appropriations	319,441.90
Proceeds from Sale of Capital Assets	5,251.00
Acquisition and Construction of Capital Assets	(2,055,493.92)
Principal Paid on Capital Debt and Leases	(27,265.49)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	235,795.34

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	24,423.96
	<hr/>
Net Decrease in Cash and Cash Equivalents	(49,046.28)
Cash and Cash Equivalents, July 1, 2004	1,668,651.92
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 1,619,605.64

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

Operating Loss	\$ (8,251,197.29)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	454,407.21
Changes in Assets and Liabilities:	
Receivables, Net	(157,641.45)
Inventories	13,935.75
Accounts Payable and Accrued Liabilities	102,928.53
Deferred Revenue	1,813.48
Funds Held for Others	(765.90)
Compensated Absences	32,579.81
	<hr/>
Net Cash Used by Operating Activities	\$ (7,803,939.86)

James Sprunt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

Exhibit A-3
Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	\$	974,103.82
Restricted Cash and Cash Equivalents		334,836.81
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		<u>310,665.01</u>
Total Cash and Cash Equivalents - June 30, 2005	\$	<u><u>1,619,605.64</u></u>

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

James Sprunt Foundation, Inc.
Statement of Financial Position
June 30, 2005

Exhibit B-1

CURRENT ASSETS

Cash and Cash Equivalents	\$	78,667
Investments		197,882
Interest Receivable		217
Loans Receivable, Less Allowance of \$24,193		11,966
		<hr/>
Total Current Assets		288,732

ENDOWMENT INVESTMENTS

Cash and Cash Equivalents		211,194
Investments		499,855
		<hr/>
Total Endowment Investments		711,049

FIXED ASSETS

Computer Equipment		3,890
Less: Accumulated Depreciation		(3,890)
		<hr/>
Total Assets	\$	999,781

NET ASSETS

Unrestricted	\$	430,384
Permanently Restricted		569,397
		<hr/>
Total Net Assets	\$	999,781

See Note 1 in the Notes to the Financial Statements

James Sprunt Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2005

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Support:		
Contributions	\$	8,654
Scholarship Income		39,961
Special Events		23,993
		<hr/>
Total Unrestricted Support		72,608
		<hr/>
Revenue:		
Endowment and Other Investment Income		23,296
Net Gain on Investments		57,249
Bad Debt Recovery		2,483
		<hr/>
Total Unrestricted Revenue		83,028
		<hr/>
Total Unrestricted Support and Revenue		155,636
		<hr/>
Expenses:		
Program Services		
Financial Aid		49,854
Communications and Development		12,642
Educational Services		1,873
		<hr/>
Total Program Services		64,369
		<hr/>
Supporting Activities		
General Administration		20,636
Rent Expense		300
Special Event Expense		16,632
		<hr/>
Total Supporting Activities		37,568
		<hr/>
Total Expenses		101,937
		<hr/>
Increase in Unrestricted Net Assets		53,699
		<hr/>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Endowment Contributions		34,874
		<hr/>
Increase in Permanently Restricted Net Assets		34,874
		<hr/>
Increase in Net Assets		88,573
Net Assets at Beginning of Year		911,208
		<hr/>
Net Assets at End of Year	\$	999,781
		<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

[This Page Left Blank Intentionally]

**JAMES SPRUNT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005**

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, 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. James Sprunt 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 for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 15 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

features are different from 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, 2005, the Foundation distributed \$28,663.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by calling (910) 296-2416.

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

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

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

- C. Basis of Accounting** – The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, savings accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 first-in, first-out method. Merchandise for resale is valued using the retail inventory method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. 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 December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College’s principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$600.00, and deposits in private financial institutions with a carrying value of \$999,602.28 and a bank balance of \$1,043,200.57.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$619,403.36, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports",

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 161,990.93	\$ 126,449.12	\$ 35,541.81
Accounts	45,207.23		45,207.23
Other	309,531.83		309,531.83
Total Current Receivables	<u>\$ 516,729.99</u>	<u>\$ 126,449.12</u>	<u>\$ 390,280.87</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	<u>Balance July 1, 2004</u>	<u>Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2005</u>
Capital Assets, Nondepreciable:					
Land	\$ 106,360.00	\$ 0.00	\$ 66,404.05	\$ 0.00	\$ 172,764.05
Construction in Progress	126,372.47	(1,946,264.49)	1,841,994.80		22,102.78
Total Capital Assets, Nondepreciable	<u>232,732.47</u>	<u>(1,946,264.49)</u>	<u>1,908,398.85</u>	<u>0.00</u>	<u>194,866.83</u>
Capital Assets, Depreciable:					
Buildings	8,390,870.94	1,808,679.74			10,199,550.68
Machinery and Equipment	988,186.57	14,302.75	147,095.07	72,548.00	1,077,036.39
General Infrastructure	1,834,622.83	123,282.00			1,957,904.83
Total Capital Assets, Depreciable	<u>11,213,680.34</u>	<u>1,946,264.49</u>	<u>147,095.07</u>	<u>72,548.00</u>	<u>13,234,491.90</u>
Less Accumulated Depreciation:					
Buildings	3,521,525.70	(14,499.22)	250,091.52		3,757,118.00
Machinery and Equipment	536,052.59	164,675.62	98,001.09	72,548.00	726,181.30
General Infrastructure	344,462.54	15,712.76	106,314.60		466,489.90
Total Accumulated Depreciation	<u>4,402,040.83</u>	<u>165,889.16</u>	<u>454,407.21</u>	<u>72,548.00</u>	<u>4,949,789.20</u>
Total Capital Assets, Depreciable, Net	<u>6,811,639.51</u>	<u>1,780,375.33</u>	<u>(307,312.14)</u>		<u>8,284,702.70</u>
Capital Assets, Net	<u>\$ 7,044,371.98</u>	<u>\$ (165,889.16)</u>	<u>\$ 1,601,086.71</u>	<u>\$ 0.00</u>	<u>\$ 8,479,569.53</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 160,402.50
Accrued Payroll	46,047.30
Other	17,834.14
Total Accounts Payable and Accrued Liabilities	\$ 224,283.94

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities – A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Notes Payable	\$ 56,022.37	\$ 0.00	\$ 27,265.49	\$ 28,756.88	\$ 28,756.88
Compensated Absences	711,023.75	413,575.76	380,995.95	743,603.56	152,513.07
Total Long-Term Liabilities	\$ 767,046.12	\$ 413,575.76	\$ 408,261.44	\$ 772,360.44	\$ 181,269.95

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

Purpose	Financial Institution	Interest Rate/	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2005	Principal Outstanding 06/30/2005
Upgrade Electrical	BB&T	5.47%	09/04/2005	\$ 230,000.00	\$ 201,243.12	\$ 28,756.88

The annual requirements to pay principal and interest on the notes payable at June 30, 2005, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2006	\$ 28,756.88	\$ 1,573.03

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 60,438.96
2007	60,468.96
2008	<u>25,813.50</u>
Total Minimum Lease Payments	<u>\$ 146,721.42</u>

Rental expense for all operating leases during the year was \$62,230.35.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:			
Student Tuition and Fees	<u>\$ 1,131,249.04</u>	<u>\$ 354,798.14</u>	<u>\$ 776,450.90</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 580,155.40	\$ 152,056.34	\$ 428,099.06
Other	<u>23,608.25</u>	<u> </u>	<u>23,608.25</u>
Total Sales and Services	<u>\$ 603,763.65</u>	<u>\$ 152,056.34</u>	<u>\$ 451,707.31</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 4,172,986.02	\$ 444,187.27	\$ 213,127.98	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,830,301.27
Academic Support	684,211.99	49,217.63	29,898.07				763,327.69
Student Services	719,049.46	67,922.27	539,666.17	24,504.45			1,351,142.35
Institutional Support	1,448,702.81	53,440.67	497,950.47	1,929.38			2,002,023.33
Operations and Maintenance of Plant	399,632.42	208,910.11	280,698.61		193,971.83		1,083,212.97
Student Financial Aid	684,891.00	23,885.59	149,920.42	1,135,576.59			1,994,273.60
Auxiliary Enterprises	36,292.61	489,393.24	79,438.72				605,124.57
Depreciation						454,407.21	454,407.21
Total Operating Expenses	<u>\$ 8,145,766.31</u>	<u>\$ 1,336,956.78</u>	<u>\$ 1,790,700.44</u>	<u>\$ 1,162,010.42</u>	<u>\$ 193,971.83</u>	<u>\$ 454,407.21</u>	<u>\$ 13,083,812.99</u>

NOTE 10 - PENSION PLANS

- A. Retirement Plans** – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$6,750,973.93, of which \$6,021,893.70 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$361,314.02 and \$130,675.09, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$130,675.09, \$12,683.14, and \$0.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Deferred Compensation and Supplemental Retirement Income Plans – IRC Section 457 Plan – The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$14,082.00 for the year ended June 30, 2005.

IRC Section 401(k) Plan – All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$51,855.00 for the year ended June 30, 2005.

IRC Section 403(b) and 403(b)(7) Plans – Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$62,730.00 for the year ended June 30, 2005.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees –** The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was \$192,700.60. 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*.
- B. Long-Term Disability –** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$26,797.43. 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, and can include 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Losses from employee dishonesty and computer fraud by employees paid from county and institutional funds are covered by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. 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 \$49,062.43.

B. Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The

amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$265,000 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2004, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2004, Net Assets as Previously Reported	\$ 9,809,040.72
Restatement:	
Accumulated Depreciation Adjusted to Actual Balance	<u>(165,889.16)</u>
July 1, 2004, Net Assets as Restated	<u><u>\$ 9,643,151.56</u></u>

[This Page Left Blank Intentionally]



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<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
James Sprunt Community College
Kenansville, North Carolina

We have audited the financial statements of James Sprunt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 7, 2006. We did not audit the financial statements of the James Sprunt Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the James Sprunt Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation

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

of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

April 7, 2006

ORDERING INFORMATION

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

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

Telephone: 919/807-7500

Facsimile: 919/807-7647