



STATE OF NORTH CAROLINA

SAMPSON COMMUNITY COLLEGE

CLINTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

SAMPSON COMMUNITY COLLEGE

CLINTON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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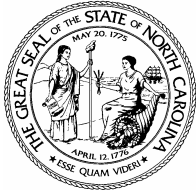
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STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Sampson Community College for the year ended June 30, 2006, 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.

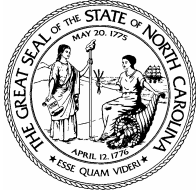
Leslie W. Merritt, Jr.

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

July 11, 2007

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	9
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Component Unit Exhibits	
B-1 Statement of Financial Position	13
B-2 Statement of Activities	14
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>	29
ORDERING INFORMATION	31



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sampson Community College
Clinton, North Carolina

We have audited the accompanying financial statements of Sampson 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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Sampson 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 Sampson Community College Foundation, Inc. which represent 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are 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 Sampson Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our 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 Sampson Community College and its discretely presented component unit as of June 30, 2006, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2007, 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

July 6, 2007

**SAMPSON COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Purpose

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information. The Sampson Community College Foundation, Inc., is discretely presented as part of this year's financial statements. However, this discussion does not include the Foundation's activities. For more information, please contact the Division of Finance at 910-592-8081.

Institutional Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash, short-term certificates of deposit, receivables, inventories, and notes receivable.

<u>Current Assets</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Cash	\$ 543,332.49	\$ 458,151.08	\$ 85,181.41	18.59 %
Restricted Cash and Cash Equivalents	63,753.11	212,424.02	(148,670.91)	(69.99) %
Certificates of Deposit	65,829.73	64,243.98	1,585.75	2.47 %
Restricted Short-Term Investments	19,297.89	18,815.63	482.26	2.56 %
Receivables, Net	122,191.22	488,825.16	(366,633.94)	(75.00) %
Due from State	40,000.00	40,000.00	0.00	0.00 %
Inventories	165,079.78	188,380.76	(23,300.98)	(12.37) %
Notes Receivable, Net	1,769.45	2,872.96	(1,103.51)	(38.41) %
Total Current Assets	<u>\$ 1,021,253.67</u>	<u>\$ 1,473,713.59</u>	<u>\$ (452,459.92)</u>	<u>(30.70) %</u>

Since Construction Project 1133 is almost closed out, receivables for the project have decreased by \$351,658.33. Golden Leaf Funds (\$160,000) were received in fiscal year 2004-2005, to purchase equipment for Garland Shirt Company. The majority of the equipment was purchased in this fiscal year 2005-2006, which resulted in a decrease of restricted cash and cash equivalents of \$152,936.70.

Noncurrent assets include cash, receivables due from the State for construction projects, land, construction in progress, buildings, equipment, and general infrastructure.

<u>Noncurrent Assets</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Restricted Cash and Cash Equivalents	\$ 9,545.50	\$ 8,749.01	\$ 796.49	9.10 %
Endowment Investments	85,120.89	84,971.29	149.60	0.18 %
Restricted Due from Primary Government	128,360.27	650,844.97	(522,484.70)	(80.28) %
Capital Assets, Net	13,342,109.61	12,697,216.88	644,892.73	5.08 %
Total Noncurrent Assets	<u>\$ 13,565,136.27</u>	<u>\$ 13,441,782.15</u>	<u>\$ 123,354.12</u>	<u>0.92 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Restricted Due from Primary Government decreased by \$522,484.70 since Construction Project 1133 (Occupational Building) is almost closed out. The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased item costs more than \$5,000 at the date of purchase and has a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, general infrastructure is depreciated over a 15-24 year period, buildings are depreciated over a 15-40 year period, and equipment is depreciated in 5-15 years, depending upon the expected useful life of the asset.

Institutional Liabilities

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the Institution's leave policies. The current and long-term portion is also made up of a \$619,908.90 note payable from BB&T for a Guaranteed Energy Savings Contract.

<u>Liabilities</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Current	\$ 327,311.58	\$ 463,944.79	\$ (136,633.21)	(29.45) %
Long-Term	<u>1,182,883.26</u>	<u>1,135,358.84</u>	<u>47,524.42</u>	<u>4.19 %</u>
Total Liabilities	<u>\$ 1,510,194.84</u>	<u>\$ 1,599,303.63</u>	<u>\$ (89,108.79)</u>	<u>(5.57) %</u>

Net Assets

Net assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. Invested in Capital Assets increased by \$644,892.73 and Restricted decreased by \$688,147.71 due to the reflection of expenditures in the fund balance associated with the near closing out of Construction Project 1133. The College's net assets decreased from \$13,316,192.11 for the fiscal year to \$13,076,195.10.

<u>Net Assets</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Invested in Capital Assets	\$ 13,342,109.61	\$ 12,697,216.88	\$ 644,892.73	5.08 %
Restricted	290,267.62	1,176,523.08	(886,255.46)	(75.33) %
Unrestricted	<u>(556,182.13)</u>	<u>(557,547.85)</u>	<u>1,365.72</u>	<u>(0.24) %</u>
Total Net Assets	<u>\$ 13,076,195.10</u>	<u>\$ 13,316,192.11</u>	<u>\$ (239,997.01)</u>	<u>(1.80) %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues

The College's revenues are classified as operating and nonoperating revenues. Operating revenues includes student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of the revenue received from the bookstore, vending, and the rental of the food service operation. The largest operating revenue (\$2,373,380.90) accrues from the College's participation in Federal Title IV financial aid programs, including Pell Grants. State and local grants and contracts had a decrease of \$147,461.22. The majority of this variance is due to the Golden Leaf – Bionetwork Grant. In 2005, we received \$160,116.21 in revenue for the grant. In 2006, we only recognized \$2,903.11 in revenue because the bulk of that grant was used in 2005. This resulted in a decrease of \$157,213.10 for that grant. Student tuition and fees increased and sales and services decreased by \$349,089.32 due to a reclassification. This reclassification was done to record the amount of bookstore purchases that students made with grant funds. Student tuition and fees had a decrease of \$465,849.34, which was done to decrease revenue for tuition waivers.

<u>Operating Revenues</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Student Tuition and Fees, Net	\$ 631,597.77	\$ 778,557.84	\$ (146,960.07)	(18.88) %
Federal Grants and Contracts	2,373,380.90	2,544,395.16	(171,014.26)	(6.72) %
State and Local Grants and Contracts	242,096.66	389,557.88	(147,461.22)	(37.85) %
Sales and Services, Net	448,892.24	705,384.62	(256,492.38)	(36.36) %
Other Operating Revenues	2,764.91		2,764.91	0.00 %
Total Operating Revenues	<u>\$ 3,698,732.48</u>	<u>\$ 4,417,895.50</u>	<u>\$ (719,163.02)</u>	<u>(16.28) %</u>

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements, as well as funds appropriated from the Sampson County Board of Commissioners. Noncapital gifts include contributions from the Sampson Community College Foundation, Inc.

<u>Nonoperating Revenues</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
State Aid	\$ 7,613,648.49	\$ 6,841,132.14	\$ 772,516.35	11.29 %
County Appropriations	1,018,007.00	895,490.00	122,517.00	13.68 %
Noncapital Grants	339,632.72	366,561.30	(26,928.58)	(7.35) %
Noncapital Gifts	82,558.63	76,017.10	6,541.53	8.61 %
Investment Income	24,038.04	13,052.61	10,985.43	84.16 %
Total Nonoperating Revenues	<u>\$ 9,077,884.88</u>	<u>\$ 8,192,253.15</u>	<u>\$ 885,631.73</u>	<u>10.81 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as "Salaries and Benefits". The Scholarships and Fellowships decreased by \$465,849.34, which was to reclassify the tuition waivers that were recognized as scholarship expense. These waivers are now recognized as contra-revenue; so expense was decreased, and revenue was increased.

<u>Operating Expenses</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
Salaries and Benefits	\$ 9,110,504.79	\$ 8,410,409.91	\$ 700,094.88	8.32 %
Supplies and Materials	1,431,890.89	2,087,229.76	(655,338.87)	(31.40) %
Services	962,109.80	954,270.46	7,839.34	0.82 %
Scholarships and Fellowships	1,334,187.65	2,047,523.41	(713,335.76)	(34.85) %
Utilities	237,185.19	202,697.40	34,487.79	17.01 %
Depreciation	492,843.69	552,611.30	(59,767.61)	(10.82) %
Total Expenses	<u>\$ 13,568,722.01</u>	<u>\$ 14,254,742.24</u>	<u>\$ (686,020.23)</u>	<u>(4.81) %</u>

Nonoperating Expenses

Nonoperating expenses are comprised of \$27,270.49 from the interest expense on the BB&T Guaranteed Energy Savings Contract. Prior year nonoperating expenses total \$203,077.18, a variance of (\$175,806.69). The additional expenses in fiscal year 2005, were associated with the sale of capital assets.

Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provides construction funds as part of the 2000 Higher Education Bond Referendum and a previous legislative action providing funds for renovation and repairs. Sampson County provides capital contributions for maintenance equipment and small construction items. Capital gifts are provided through annual contributions of the Sampson Community College Foundation, Inc.

<u>Capital Contributions</u>	<u>6/30/2006</u>	<u>6/30/2005</u>	<u>Variance</u>	<u>Variance %</u>
State Capital Aid	\$ 474,322.30	\$ 489,615.70	\$ (15,293.40)	(3.12) %
County Capital Appropriations	56,371.72	35,999.13	20,372.59	56.59 %
Capital Grants	5,229.11	2,213.00	3,016.11	136.29 %
Capital Gifts	43,455.00	2,000.00	41,455.00	2072.75 %
Total Capital Contributions	<u>\$ 579,378.13</u>	<u>\$ 529,827.83</u>	<u>\$ 49,550.30</u>	<u>9.35 %</u>

The State Capital Aid decreased by \$15,293.40 since Construction Project 1133 is almost closed out.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant Effects on Financial Position

The following actions and general conditions are expected to have significant effect on the operation of the College:

1. The College's enrollment has experienced annual fluctuations. (Budget year 2003-2004, curriculum/total enrollment of 1158/1750; budget year 2004-2005, of 1105/1653, budget year 2005-2006, of 1120/1752.) The NCCCS practice of using three-year averaging of curriculum enrollments to determine institutional formula funding has contributed to funding stability; however, annual fluctuations in extension enrollments contribute to shortfalls in funding for continuing education programs.
2. The College has completed the first full year of a 12-year energy savings contract (March 2005 to March 2006) with Energy Systems Group which provided for a comprehensive lighting retrofit of the North, East, Kitchin, Warren, and Industrial buildings, the replacement of heat pumps in Kitchin, the conversion of electric boilers in Kitchin and Warren Buildings to gas, and the upgrade of control systems across the campus. In FY 2005-06, the debt service for the contract totaling \$59,991.24 for principal was expected to be offset with savings in operational cost. Engineering survey information provided by ESG indicates that lighting retrofits provided \$27,249 in savings and heat pump replacements provided \$9,094 in savings. Other savings for fuel conversions, digital controls, and operational costs brought the estimated savings to \$63,247. These savings, however, appear to be overstated and are based on fuel costs that rapidly accelerated after the contract was signed resulting in shortfalls in cash savings relative to debt service.
3. The College began use of the 41,000 square foot Occupational Building in the Fall 2005 term resulting in immediate increases in utility costs. First-year warranties on building systems (elevator, mechanical systems, life, and safety systems) will expire in the Fall 2006 term which must be reflected in increases in maintenance contract budgets in the FY 2006-2007 budget.
4. During FY 2005-2006, the College implemented most of the Colleague Student systems resulting in increases in operational costs and demands on staffing. Annual maintenance charges for application software have increased operational costs for central computer services, financial services, and student services. The pending implementation of POS software for the bookstore in FY 2006-2007 will increase operational costs to both state and proprietary fund sources.
5. The annual increases in local funding from the County of Sampson have not adequately provided for increases in the personnel and operational costs for plant operations resulting in reductions in budgets appropriated for building repairs and increasing the amount of deferred maintenance.
6. The General Assembly continued tuition raises with rates for full-time status for in-State students increasing by almost 4% from \$608 to \$632 each semester. Such increases continue to present further economic hardship to over one half of the College's students who attend without financial aid.

Economic Forecast

The College's enrollment levels are expected to remain close to three-year averages with some increase in occupational extension enrollment expected attributed to the expansion of contract training. The Early College High School enrollment may increase to approximately 300 students by FY 2008-2009, resulting in a modest increase in curriculum program enrollment. Enrollment averaging and other protections available to institutions within the NCCCS funding formula are expected to continue to provide stability in State revenue. Similarly, if staffing remains at the current levels, State funding increases for salaries and benefits should allow for stability in contract commitments.

Local funding, however, is expected to grow modestly with increases in operational and personnel costs exceeding increases in county appropriations. Energy cost increases are often experienced with county funding increases lagging resulting in further pressure on funding budgeted for facility repairs or maintenance. While residential development continues to grow, the county continues to experience a net loss in manufacturing. (2001: 157 residential building permits at an average cost of \$105,000; 2005: 182 permits at an average cost of \$139,900.) County budget planners project annual tax base to grow no more than 3% annually.

The local economic conditions under which the College operated in FY 2005-2006 are expected to continue. Most of the larger manufacturing industries have already closed and relocated suggesting further large scale displacements of workers has ended and the economy has moved to absorb those seeking employment in other jobs principally those in agriculture or agriculture-related businesses.

Sampson Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 543,332.49
Restricted Cash and Cash Equivalents	63,753.11
Short-Term Investments	65,829.73
Restricted Short-Term Investments	19,297.89
Receivables (Note 4)	122,191.22
Due from State of North Carolina Component Units	40,000.00
Inventories	165,079.78
Notes Receivable, Net (Note 4)	1,769.45

Total Current Assets	1,021,253.67
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	9,545.50
Endowment Investments (Note 3)	85,120.89
Restricted Due from Primary Government	128,360.27
Capital Assets - Nondepreciable (Note 5)	5,401,903.03
Capital Assets - Depreciable, Net (Note 5)	7,940,206.58

Total Noncurrent Assets	13,565,136.27
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Total Assets	14,586,389.94
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	156,281.12
Due to Primary Government	3,468.73
Unearned Revenue	31,793.11
Funds Held for Others	9,545.50
Long-Term Liabilities - Current Portion (Note 7)	126,223.12

Total Current Liabilities	327,311.58
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,182,883.26
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Total Noncurrent Liabilities	1,182,883.26
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Total Liabilities	1,510,194.84
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NET ASSETS

Invested in Capital Assets	13,342,109.61
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	85,120.89
Expendable:	
Scholarships and Fellowships	62,305.39
Loans	8,305.12
Capital Projects	134,536.22

Unrestricted	(556,182.13)
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Total Net Assets	\$ 13,076,195.10
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The accompanying notes to the financial statements are an integral part of this statement

***Sampson Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 631,597.77
Federal Grants and Contracts	2,373,380.90
State and Local Grants and Contracts	242,096.66
Sales and Services, Net (Note 8)	448,892.24
Other Operating Revenues	2,764.91

Total Operating Revenues	3,698,732.48
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EXPENSES

Operating Expenses:

Personal Services	9,110,504.79
Supplies and Materials	1,431,890.89
Services	962,109.80
Scholarships and Fellowships	1,334,187.65
Utilities	237,185.19
Depreciation	492,843.69

Total Operating Expenses	13,568,722.01
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Operating Loss	(9,869,989.53)
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NONOPERATING REVENUES (EXPENSES)

State Aid	7,613,648.49
County Appropriations	1,018,007.00
Noncapital Grants	339,632.72
Noncapital Gifts	82,558.63
Investment Income	24,038.04
Interest on Debt	(27,270.49)

Net Nonoperating Revenues	9,050,614.39
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Loss Before Other Revenues, Expenses, Gains, and Losses	(819,375.14)
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State Capital Aid	474,322.30
County Capital Appropriations	56,371.72
Capital Grants	5,229.11
Capital Gifts	43,455.00

Decrease in Net Assets	(239,997.01)
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NET ASSETS

Net Assets, July 1, 2005	13,316,192.11
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Net Assets, June 30, 2006	\$ 13,076,195.10
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The accompanying notes to the financial statements are an integral part of this statement.

Sampson Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,694,334.45
Payments to Employees and Fringe Benefits	(8,980,011.10)
Payments to Vendors and Suppliers	(2,606,996.10)
Payments for Scholarships and Fellowships	(1,334,187.65)
Collection of Loans to Students	1,103.51
Other Receipts	796.49
	<hr/>
Net Cash Used by Operating Activities	(9,224,960.40)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,613,648.49
County Appropriations	1,018,007.00
Noncapital Grants Received	356,147.38
Noncapital Gifts and Endowments Received	82,558.63
Principal Paid on Noncapital Debt	(59,991.24)
Interest Paid on Noncapital Debt	(27,270.49)
	<hr/>
Cash Provided by Noncapital Financing Activities	8,983,099.77

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	996,807.00
County Capital Appropriations	56,371.72
Capital Grants Received	187,997.83
Capital Gifts Received	212,344.61
Acquisition and Construction of Capital Assets	(1,295,332.59)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	158,188.57

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	23,196.66
Purchase of Investments and Related Fees	(2,217.61)
	<hr/>
Net Cash Provided by Investing Activities	20,979.05

Decrease in Cash and Cash Equivalents	(62,693.01)
Cash and Cash Equivalents, July 1, 2005	679,324.11
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 616,631.10

Name of Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3

Page 2

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

Operating Loss	\$ (9,869,989.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	492,843.69
Changes in Assets and Liabilities:	
Receivables	(2,874.59)
Inventories	23,300.98
Notes Receivable, Net	1,103.51
Accounts Payable and Accrued Liabilities	(12,340.66)
Due to Primary Government	76.63
Unearned Revenue	(1,523.44)
Funds Held for Others	796.49
Compensated Absences	143,646.52
	<hr/>
Net Cash Used by Operating Activities	<u>\$ (9,224,960.40)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 543,332.49
Restricted Cash and Cash Equivalents	63,753.11
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<hr/> 9,545.50
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 616,631.10</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 841.38
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The accompanying notes to the financial statements are an integral part of this statement

Sampson Community College Foundation, Inc.
Statement of Financial Position
June 30, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	315,745
Certificates of Deposit		368,855
Investment Securities		297,641
Contributions Receivable		<u>146,370</u>
Total Assets		<u>1,128,611</u>

LIABILITIES

Notes Payable		<u>86,000</u>
Total Liabilities		<u>86,000</u>

NET ASSETS

Unrestricted		276,214
Temporarily Restricted		265,296
Permanently Restricted		<u>501,101</u>
Total Net Assets	\$	<u><u>1,042,611</u></u>

See Note 1 in the Notes to the Financial Statements

Sampson Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 48,288
Special Events	25,182
Interest and Dividends	124
Investment Gains	29,002
	<hr/>
Total Unrestricted Revenues and Gains	102,596
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	285,234
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	387,830
	<hr/>
Expenses and Losses:	
Program Expenditures	257,457
Administrative	32,999
Fund Raising	8,943
	<hr/>
Total Expenses	299,399
	<hr/>
Increase in Unrestricted Net Assets	88,431
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	102,934
Interest and Dividends	17,142
Investment Gains	2,822
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(285,234)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(162,336)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	13,966
Interest and Dividends	2,304
Net Investment Losses	(13,809)
	<hr/>
Increase in Permanently Restricted Net Assets	2,461
	<hr/>
Decrease in Net Assets	(71,444)
Net Assets at Beginning of Year	1,114,055
	<hr/>
Net Assets at End of Year	\$ 1,042,611
	<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

SAMPSON COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

Discretely Presented Component Unit – The Sampson Community College Foundation, Inc. (the 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 is a legally separate, tax-exempt component unit of 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 the Chairman of the Board of Trustees of Sampson Community College or his/her designee, the President of the College, and the College's Resource Development Officer, pursuant to Section 2 of Article II of the by-laws of the Foundation. These members serve as ex-officio, non-voting members of the Foundation board. In addition, there are 31 voting 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 features are different from 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, 2006, the Foundation distributed \$227,168.34 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Resource Development Office, Sampson Community College, P.O. Box 318, Clinton, NC 28329.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** – This classification includes certificates of deposit. Certificates of deposit are reported at cost.
- F. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are shown at book value with no provision for doubtful accounts considered necessary. Notes receivable are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 15 to 24 years for general infrastructure, 15 to 40 years for buildings, and 5 to 15 years for equipment.
- I. 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.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable, and compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** – The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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 December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

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

Invested in Capital Assets – This represents the College’s total investment in capital assets.

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

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

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

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

M. Scholarship Discounts – Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

- 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 appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$630.00, and deposits in private financial institutions with a carrying value of \$616,001.10, and a bank balance of \$659,024.44. Also, the College has certificates of deposit of \$170,248.51.

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, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

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

At June 30, 2006, the College's investments consisted of certificates of deposit as discussed above.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$	630.00
Carrying Amount of Deposits with Private Financial Institutions		616,001.10
Investment in Certificates of Deposit		170,248.51
		<hr/>
Total Deposits and Investments	\$	786,879.61
		<hr/>
Current:		
Cash and Cash Equivalents	\$	543,332.49
Restricted Cash and Cash Equivalents		63,753.11
Short-Term Investments		65,829.73
Restricted Short-Term Investments		19,297.89
Noncurrent:		
Restricted Cash and Cash Equivalents		9,545.50
Endowment Investments		85,120.89
		<hr/>
Total	\$	786,879.61
		<hr/>

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested. If a donor has not provided specific instructions, State law permits the Board of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the L. M. Horne endowment fund and the R. E. Williams and Annie Lou Williams endowment fund are based on interest earned during the year. All interest earned is used for scholarships. No payments have been made from the Williamson endowment fund during the audit year. At June 30, 2006, net appreciation of \$1,638.14 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 37,489.63	\$ 0.00	\$ 37,489.63
Accounts	25,096.90		25,096.90
Intergovernmental	50,232.93		50,232.93
Investment Earnings	1,296.27		1,296.27
Other	8,075.49		8,075.49
Total Current Receivables	<u>\$ 122,191.22</u>	<u>\$ 0.00</u>	<u>\$ 122,191.22</u>
Notes Receivable:			
Notes Receivable - Current:			
State Loan Programs	\$ 481.33	\$ 481.33	\$ 0.00
Institutional Student Loan Programs	7,234.26	5,464.81	1,769.45
Total Notes Receivable - Current	<u>\$ 7,715.59</u>	<u>\$ 5,946.14</u>	<u>\$ 1,769.45</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Balance June 30, 2006
Capital Assets, Nondepreciable:			
Land	\$ 80,950.25	\$ 0.00	\$ 80,950.25
Construction in Progress	4,632,805.07	688,147.71	5,320,952.78
Total Capital Assets, Nondepreciable	4,713,755.32	688,147.71	5,401,903.03
Capital Assets, Depreciable:			
Buildings	10,795,714.40		10,795,714.40
Machinery and Equipment	1,843,307.55	437,997.19	2,281,304.74
General Infrastructure	899,150.19	11,591.52	910,741.71
Total Capital Assets, Depreciable	13,538,172.14	449,588.71	13,987,760.85
Less Accumulated Depreciation:			
Buildings	3,956,903.78	271,584.65	4,228,488.43
Machinery and Equipment	1,036,276.73	183,529.12	1,219,805.85
General Infrastructure	561,530.07	37,729.92	599,259.99
Total Accumulated Depreciation	5,554,710.58	492,843.69	6,047,554.27
Total Capital Assets, Depreciable, Net	7,983,461.56	(43,254.98)	7,940,206.58
Capital Assets, Net	\$ 12,697,216.88	\$ 644,892.73	\$ 13,342,109.61

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 14,607.68
Accrued Payroll	74,875.69
Contract Retainage	66,797.75
Total Accounts Payable and Accrued Liabilities	\$ 156,281.12

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - 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, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Notes Payable	\$ 679,900.14	\$ 0.00	\$ 59,991.24	\$ 619,908.90	\$ 59,991.24
Compensated Absences	545,550.96	489,049.54	345,403.02	689,197.48	66,231.88
Total Long-Term Liabilities	\$ 1,225,451.10	\$ 489,049.54	\$ 405,394.26	\$ 1,309,106.38	\$ 126,223.12

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

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through 06/30/2006	Principal Outstanding 06/30/2006
Guaranteed Energy Savings Contract	BB&T	4.18%	10/13/2016	\$ 689,898.68	\$ 69,989.78	\$ 619,908.90

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2007	\$ 59,991.24	\$ 24,762.86
2008	59,991.24	22,255.23
2009	59,991.24	19,747.60
2010	59,991.24	17,239.96
2011-2015	299,956.20	48,585.28
2016-2017	79,987.74	2,368.87
Total Requirements	\$ 619,908.90	\$ 134,959.80

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,753,639.69	\$ 1,122,041.92	\$ 631,597.77
Sales and Services	\$ 797,981.56	\$ 349,089.32	\$ 448,892.24

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	\$ 5,454,011.62	\$ 535,568.35	\$ 296,254.20	\$ 9,116.42	\$ 0.00	\$ 0.00	\$ 6,294,950.59
Academic Support	889,536.61	85,452.31	60,731.60				1,035,720.52
Student Services	797,827.05	28,967.51	81,103.81	36,881.50			944,779.87
Institutional Support	1,563,329.49	112,007.97	301,747.49	4,970.65			1,982,055.60
Operations and Maintenance of Plant	349,903.79	71,317.24	202,965.29		237,185.19		861,371.51
Student Financial Aid			7,035.00	1,276,564.70			1,283,599.70
Auxiliary Enterprises	55,896.23	598,577.51	12,272.41	6,654.38			673,400.53
Depreciation						492,843.69	492,843.69
Total Operating Expenses	\$ 9,110,504.79	\$ 1,431,890.89	\$ 962,109.80	\$ 1,334,187.65	\$ 237,185.19	\$ 492,843.69	\$ 13,568,722.01

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, 2006, these rates were

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$7,454,848.17, of which \$6,742,693.67 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$404,561.62 and \$157,779.03, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$157,779.03, \$136,890.74, and \$12,412.89, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans** – 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 \$104,396.00 for the year ended June 30, 2006.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$256,222.36. 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 .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2006, the College's total contribution to the DIPNC was \$35,062.01. 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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. The College is protected for losses from employees paid entirely from county and institutional funds by contracts with private insurance companies. This special extension of property coverage provides for protection with coverage of \$50,000 per occurrence with a \$250 deductible.

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.

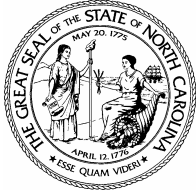
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$122,179.98 at June 30, 2006.



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

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

Board of Trustees
Sampson Community College
Clinton, North Carolina

We have audited the financial statements of Sampson 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, 2006, which collectively comprise the College's basic financial statements, and have issued our report thereon dated July 6, 2007. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Sampson Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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 opinions 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 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.

**INDEPENDENT AUDITOR'S REPORT
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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, and the General Assembly, 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

July 6, 2007

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:

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