



# STATE OF NORTH CAROLINA

**JAMES SPRUNT COMMUNITY COLLEGE**

**KENANSVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**JAMES SPRUNT COMMUNITY COLLEGE**

**KENANSVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2007**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**H. MARTIN LANCASTER, PRESIDENT**

**BOARD OF TRUSTEES**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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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 and compliance audit of James Sprunt Community College for the year ended June 30, 2007, 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 and our consideration of the College's administration of the Student Financial Assistance programs in accordance with applicable laws, regulations, contracts and grants 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

February 18, 2008

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Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT**

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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, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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., the College's discretely presented component unit. Those financial statements were audited by another auditor 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 auditor.

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 the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.*

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

January 31, 2008

**JAMES SPRUNT COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of James Sprunt Community College's Financial Statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2007. 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 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 a snapshot of financial condition at a point in time. 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, financing activities, and investing activities.

**Statement of Net Assets**

**Condensed Statement of Net Assets  
For the Year Ended, June 30, as Indicated**

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Assets</b>				
Current Assets	\$ 1,816,131	\$ 1,692,545	\$ 123,586	7 %
Capital Assets	10,096,827	8,462,843	1,633,984	19 %
Other Assets	697,730	385,639	312,091	81 %
<b>Total Assets</b>	<u>12,610,688</u>	<u>10,541,027</u>	<u>2,069,661</u>	<u>20 %</u>
<b>Liabilities</b>				
Current Liabilities	272,388	300,833	(28,445)	(9) %
Long-Term Liabilities	800,361	740,932	59,429	8 %
<b>Total Liabilities</b>	<u>1,072,749</u>	<u>1,041,765</u>	<u>30,984</u>	<u>3 %</u>
<b>Net Assets</b>				
Invested in Capital Assets	10,096,826	8,462,843	1,633,983	19 %
Restricted	838,362	567,963	270,399	48 %
Unrestricted	602,751	468,456	134,295	29 %
<b>Total Net Assets</b>	<u>\$ 11,537,939</u>	<u>\$ 9,499,262</u>	<u>\$ 2,038,677</u>	<u>21 %</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the current fiscal year the College's net assets increased \$2,038,677. The majority of this increase was caused by an increase in capital assets of \$1,633,984. This increase was due to a prior period adjustment to accumulated depreciation of \$1,887,285. This adjustment was made to correct inadequate estimates in useful lives of our assets. During the implementation of GASB Statements No. 34 & 35, we had no historical useful life experience upon which to base our original establishment of useful lives. Therefore, after careful revaluation of our assets, a restatement was done to correct the error.

Other assets increased by \$312,091. The majority of this increase was due to an increase of \$284,095 in County Capital cash. This funding was for projects that were budgeted during this fiscal year, but due to time constraints, were not started. These projects will carry over to the next fiscal year. Due from Primary Government also increased by \$23,339 over last year.

### Statement of Revenues, Expenses, and Changes in Net Assets

#### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended, June 30, as Indicated

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Total Operating Revenues	\$ 3,787,210	\$ 4,906,153	\$ (1,118,943)	(23) %
Operating Expenses:				
Total Operating Expenses	13,011,636	13,704,127	(692,491)	(5) %
Operating Loss	(9,224,426)	(8,797,974)	(426,452)	5 %
Nonoperating Revenues:				
Total Nonoperating Revenues	9,375,818	8,526,505	849,313	10 %
Change in Net Assets	151,392	(271,469)	422,861	(156) %
Net Assets - Beginning of Year	9,499,262	9,770,731	(271,469)	(3) %
Restatements	1,887,285		1,887,285	
Net Assets - End of Year	<u>\$ 11,537,939</u>	<u>\$ 9,499,262</u>	<u>\$ 2,038,677</u>	21 %

Student tuition and fees decreased \$165,320 over the prior year due to a decrease in student enrollment. This was caused by a decrease of \$191,052 in curriculum tuition and a decrease of \$18,485 in occupational tuition receipts. Federal grants and contracts decreased by \$807,379. The loss of \$542,354 from the WIA program is a large portion of this decrease. Our PELL, College Work Study and SEOG grants also saw a decrease of \$283,857.

Total operating expenses decreased by \$692,491. However, there was an increase in personal services of \$300,524. The College is in the process of increasing faculty salaries to the national average, which accounts for a portion of this increase. Our part-time faculty costs also increased over the prior year. We also note the services account has decreased \$307,101 from the prior year. This decrease was mainly caused by a decrease of \$346,973 in services



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

provided by our WIA programs during the prior year. Other services were increased slightly. The Supplies and Material decreased by \$297,475 from the prior year. This is a direct result of a decrease in student enrollment.

Scholarships and fellowships expenses were down by \$238,527 due to a decrease in federal grants associated with a decline in student enrollment. Depreciation expense decreased \$167,909 due to the revaluation of our asset's useful lives.

State aid increased \$797,000 over the prior year, while State capital aid decreased \$160,500. 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, 2007, the College reported \$13,953,789 invested in capital assets less \$3,856,962 in accumulated depreciation for net capital assets of \$10,096,827. Net capital assets increased by \$1,633,983 over the prior year as restated. This increase was due to an adjustment of \$1,887,285 in accumulated depreciation to correct an error in the useful lives assigned to our assets during the implementation of GASB Statements No. 34 & 35.

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Land	\$ 172,764	\$ 172,764	\$ 0.00	0 %
Construction in Progress		236,907	(236,907)	(100) %
Buildings	7,620,034	7,576,135	43,899	1 %
Machinery and Equipment	499,882	524,451	(24,569)	(5) %
General Infrastructure	<u>1,804,147</u>	<u>1,839,871</u>	<u>(35,724)</u>	(2) %
Capital Assets, Net	<u>\$ 10,096,827</u>	<u>\$ 10,350,128</u>	<u>\$ (253,301)</u>	(2) %

### Cash Flow

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

	<u>2007</u>	<u>2006</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash Provided (Used) by:				
Operating Activities	\$ (8,828,748)	\$ (8,116,374)	\$ (712,374)	9%
Noncapital Financing Activities	8,550,813	7,687,068	863,745	11%
Capital Financing Activities	623,578	417,964	205,614	49%
Investing Activities	<u>53,097</u>	<u>35,719</u>	<u>17,378</u>	49%
Net Change in Cash and Cash Equivalents	398,740	24,377	374,363	1536%
Cash and Cash Equivalents, Beginning of Year	<u>1,643,983</u>	<u>1,619,606</u>	<u>24,377</u>	2%
Cash and Cash Equivalents, End of Year	<u>\$ 2,042,723</u>	<u>\$ 1,643,983</u>	<u>\$ 398,740</u>	24%

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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Major funding sources from operating activities were provided by federal contracts and grants totaling \$2.4 million, sales and services of \$432,627, and student tuition and fees totaling \$725,824.

Major uses of funds in operating activities were for employee compensation totaling \$9.02 million, payments for goods and services of \$2.78 million, and scholarships of \$868,033.

Cash provided by noncapital financing activities included State appropriations of \$7.14 million, county appropriations of \$1.27 million, and grants totaling \$140,702.

The major sources of cash provided by capital financing activities include State capital appropriations of \$300,227, and county capital appropriations of \$388,820. The major use of these funds was for acquisition of capital assets.

### **Economic Factors**

The College's enrollment levels are expected to remain close to three-year averages with some increase in occupational extension enrollment attributed to the expansion of contract training. Enrollment averaging and other protections available to institutions within the North Carolina Community College System funding formula are expected to continue to provide stability in State revenue. Similarly, if staffing remains at current levels, State funding increases for salaries and benefits should allow for stability in contract commitments.

The local economic conditions under which the College operated in fiscal year 2006-2007 are expected to continue. Most of our larger manufacturing industries have already closed and relocated suggesting further large scale displacements of workers has ended. The economy has moved to absorb those seeking employment in other jobs, principally those in agriculture or agriculture-related businesses. 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, 2007**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,229,277.50
Restricted Cash and Cash Equivalents	181,498.05
Receivables, Net (Note 3)	168,889.32
Due from State of North Carolina Component Units	25,000.00
Inventories	211,466.42
	<hr/>
Total Current Assets	1,816,131.29

Noncurrent Assets:

Restricted Cash and Cash Equivalents	631,946.82
Restricted Due from Primary Government	65,783.16
Capital Assets - Nondepreciable (Note 4)	172,764.05
Capital Assets - Depreciable, Net (Note 4)	9,924,062.73
	<hr/>
Total Noncurrent Assets	10,794,556.76

Total Assets	<hr/> <hr/> 12,610,688.05
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	151,719.31
Unearned Revenue	26,336.01
Funds Held for Others	5,106.74
Long-Term Liabilities - Current Portion (Note 6)	89,225.53
	<hr/>
Total Current Liabilities	272,387.59

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	800,361.03
	<hr/>

Total Liabilities	<hr/> <hr/> 1,072,748.62
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**NET ASSETS**

Invested in Capital Assets	10,096,826.78
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	17,220.60
Expendable:	
Scholarships and Fellowships	13,891.36
Loans	5,800.72
Capital Projects	678,041.79
Restricted for Specific Programs	123,407.52

Unrestricted	<hr/> 602,750.66
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Total Net Assets	<hr/> <hr/> <hr/> \$ 11,537,939.43
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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, 2007***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 725,823.82
Federal Grants and Contracts	2,428,874.91
State and Local Grants and Contracts	197,792.50
Sales and Services, Net (Note 9)	432,626.79
Other Operating Revenues	2,091.79
	<hr/>
Total Operating Revenues	3,787,209.81
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	9,061,939.92
Supplies and Materials	1,155,692.35
Services	1,342,054.97
Scholarships and Fellowships	868,032.77
Utilities	246,359.68
Depreciation	337,556.21
	<hr/>
Total Operating Expenses	13,011,635.90
	<hr/>
Operating Loss	(9,224,426.09)
	<hr/>

**NONOPERATING REVENUES**

State Aid	7,140,240.24
County Appropriations	1,269,871.00
Noncapital Grants	165,701.92
Investment Income	53,096.88
Other Nonoperating Revenues	15,766.50
	<hr/>
Net Nonoperating Revenues	8,644,676.54
	<hr/>
Loss Before Other Revenues	(579,749.55)
	<hr/>
State Capital Aid	323,566.06
County Capital Aid	388,820.00
Capital Grants	18,755.67
	<hr/>
Increase in Net Assets	151,392.18

**NET ASSETS**

Net Assets, July 1, 2006 as Restated (Note 15)	11,386,547.25
	<hr/>
Net Assets, June 30, 2007	\$ 11,537,939.43
	<hr/> <hr/>

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, 2007***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,817,479.01
Payments to Employees and Fringe Benefits	(9,019,645.15)
Payments to Vendors and Suppliers	(2,777,188.45)
Payments for Scholarships and Fellowships	(868,032.77)
Other Receipts	18,639.07
	<hr/>
Net Cash Used by Operating Activities	(8,828,748.29)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	7,140,240.24
County Appropriations	1,269,871.00
Noncapital Grants Received	140,701.92
	<hr/>
Cash Provided by Noncapital Financing Activities	8,550,813.16

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

State Capital Aid Received	300,227.41
County Capital Aid	388,820.00
Capital Grants Received	18,755.67
Proceeds from Sale of Capital Assets	30.00
Acquisition and Construction of Capital Assets	(84,255.26)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	623,577.82

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	53,096.88
	<hr/>
Net Increase in Cash and Cash Equivalents	398,739.57
Cash and Cash Equivalents, July 1, 2006	1,643,982.80
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 2,042,722.37

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

Operating Loss	\$ (9,224,426.09)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	337,556.21
Miscellaneous Nonoperating Income	15,736.50
Changes in Assets and Liabilities:	
Receivables, Net	46,845.63
Inventories	(35,444.72)
Accounts Payable and Accrued Liabilities	2,363.27
Unearned Revenue	(16,576.43)
Funds Held for Others	2,902.57
Compensated Absences	42,294.77
	<hr/>
Net Cash Used by Operating Activities	\$ (8,828,748.29)

***James Sprunt Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3***  
***Page 2***

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,229,277.50
Restricted Cash and Cash Equivalents	181,498.05
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>631,946.82</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 2,042,722.37</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase in Receivables Related to Nonoperating Income	\$ 48,338.65
Capital Asset Write-Offs	17,343.87

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

***James Sprunt Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2007***

***Exhibit B-1***

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	43,306.00
Investments		235,720.00
Interest Receivables		379.00
Loans Receivable, Less Allowance for Doubtful Accounts of \$22,084		9,762.00
		<hr/>
Total Current Assets		289,167.00

**ENDOWMENT INVESTMENTS**

Cash and Cash Equivalents		277,237.00
Investments		488,228.00
		<hr/>
Total Endowment Investments		765,465.00

Total Assets		<hr/>
		1,054,632.00

**NET ASSETS**

Unrestricted		
Designated by Board of Directors		6,400.00
Undesignated		442,636.00
Permanently Restricted		605,596.00
		<hr/>

Total Net Assets	\$	<hr/> <hr/>
		1,054,632.00

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

***James Sprunt Foundation, Inc.***  
***Statement of Activities***  
***For the Fiscal Year Ended June 30, 2007***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Support:	
Contributions	\$ 6,505.00
Scholarship Income	5,754.00
Special Events	25,610.00
	<hr/>
Total Unrestricted Support	37,869.00
	<hr/>
Revenue:	
Endowment and Other Investment Income	24,079.00
Net Gain on Investments	58,029.00
	<hr/>
Total Unrestricted Revenue	82,108.00
	<hr/>
Total Unrestricted Support and Revenue	119,977.00
	<hr/>
Expenses:	
Program Services	
Financial Aid	34,140.00
Communications and Development	7,887.00
Bad Debt Expense	617.00
	<hr/>
Total Program Services	42,644.00
	<hr/>
Supporting Activities	
General Administration	13,355.00
Special Event Expense	17,667.00
	<hr/>
Total Supporting Activities	31,022.00
	<hr/>
Total Expenses	73,666.00
	<hr/>
Increase in Net Assets	46,311.00
	<hr/>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>	
Endowment Contributions	14,376.00
	<hr/>
Increase in Net Assets	60,687.00
	<hr/>
Net Assets at Beginning of Year	993,945.00
	<hr/>
Net Assets at End of Year	<u><u>\$ 1,054,632.00</u></u>

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



**JAMES SPRUNT COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. Discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its 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 features are different from Governmental Accounting Standards Board

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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(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, 2007, the Foundation did not distribute any funds to the College; however, they did provide scholarships to students of the College. 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 fund. The short-term investment fund 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)

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- 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 at the lower of cost or market 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 75 years for general infrastructure, 25 to 50 years for buildings, and 5 to 25 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 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 include the accumulated unused portion of the special annual leave

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

**K. 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. The College's endowment assets are pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

**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 investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

**N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current 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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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totaling \$600.00, and deposits in private financial institutions with a carrying value of \$1,466,304.31 and a bank balance of \$1,659,203.04.

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, 2007, 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, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$575,818.06, 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 1.6 years as of June 30, 2007. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**Component Unit** - Investments of the College's component unit, James Sprunt 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.

Investments of the foundation are stated at fair value and are summarized as follows as of June 30, 2007:

	Fair Value
General Funds	
Stocks and Mutual Funds	\$ 235,720.00
Endowment Funds	
Stocks and Mutual Funds	385,498.00
Bonds and U.S. Treasury Securities	102,730.00
Total Endowment Funds	488,228.00
Total Fair Market Value of Investments	\$ 723,948.00

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 133,355.41	\$ 111,884.00	\$ 21,471.41
Intergovernmental Accounts	52,169.06		52,169.06
Other	93,550.43		93,550.43
	1,698.42		1,698.42
<b>Total Current Receivables</b>	\$ 280,773.32	\$ 111,884.00	\$ 168,889.32
<b>Notes Receivables:</b>			
Institutional Student Loan Programs	\$ 1,456.83	\$ 1,456.83	\$ 0.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as Restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 172,764.05	\$ 0.00	\$ 0.00	\$ 172,764.05
Construction in Progress	236,906.68	16,607.05	253,513.73	172,764.05
<b>Total Capital Assets, Nondepreciable</b>	<b>409,670.73</b>	<b>16,607.05</b>	<b>253,513.73</b>	<b>172,764.05</b>
Capital Assets, Depreciable:				
Buildings	10,390,608.68	253,513.73		10,644,122.41
Machinery and Equipment	1,067,623.86	67,648.21	17,343.87	1,117,928.20
General Infrastructure	2,018,973.97			2,018,973.97
<b>Total Capital Assets, Depreciable</b>	<b>13,477,206.51</b>	<b>321,161.94</b>	<b>17,343.87</b>	<b>13,781,024.58</b>
Less Accumulated Depreciation:				
Buildings	2,814,473.94	209,614.43		3,024,088.37
Machinery and Equipment	543,173.09	92,216.76	17,343.87	618,045.98
General Infrastructure	179,102.48	35,725.02		214,827.50
<b>Total Accumulated Depreciation</b>	<b>3,536,749.51</b>	<b>337,556.21</b>	<b>17,343.87</b>	<b>3,856,961.85</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>9,940,457.00</b>	<b>(16,394.27)</b>		<b>9,924,062.73</b>
<b>Capital Assets, Net</b>	<b>\$ 10,350,127.73</b>	<b>\$ 212.78</b>	<b>\$ 253,513.73</b>	<b>\$ 10,096,826.78</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 74,673.60
Accrued Payroll	38,718.97
Other	38,326.74
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 151,719.31</b>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 847,291.79	\$ 384,196.23	\$ 341,901.46	\$ 889,586.56	\$ 89,225.53



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases related to property and equipment consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	<u>\$ 25,807.50</u>

Rental expense for all operating leases during the year was \$71,085.84.

### NOTE 8 - OPERATING LEASE REVENUES

Future minimum lease revenues under noncancelable operating leases related to wireless broadband services consist of the following at June 30, 2007:

<u>Fiscal Year</u>	<u>Amount</u>
2008	\$ 14,526.00
2009	14,526.00
2010	14,526.00
2011	14,526.00
2012-2016	72,630.00
2017-2021	72,630.00
2022-2026	72,630.00
2027-2031	72,630.00
2032-2036	<u>72,630.00</u>
Total Minimum Lease Revenues	<u>\$ 421,254.00</u>

Rental revenue for all operating leases during the year were \$14,524.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 1,085,963.22	\$ 347,031.11	\$ 13,108.29	\$ 725,823.82
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 612,254.74	\$ 203,465.29	\$ 0.00	\$ 408,789.45
Other	23,837.34			23,837.34
<b>Total Sales and Services</b>	\$ 636,092.08	\$ 203,465.29	\$ 0.00	\$ 432,626.79

### NOTE 10 - 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	\$ 4,782,134.57	\$ 361,504.38	\$ 221,941.91	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,365,580.86
Academic Support	794,829.37	60,831.89	29,620.07				885,281.33
Student Services	652,771.45	19,846.17	164,687.28	29,203.00			866,507.90
Institutional Support	1,636,572.85	50,110.00	442,240.15	793.18			2,129,716.18
Operations and Maintenance of Plant	446,909.23	196,633.61	302,330.64		246,359.68		1,192,233.16
Student Financial Aid	704,444.31	29,869.17	138,239.01	838,036.59			1,710,589.08
Auxiliary Enterprises	44,278.14	436,897.13	42,995.91				524,171.18
Depreciation						337,556.21	337,556.21
<b>Total Operating Expenses</b>	\$ 9,061,939.92	\$ 1,155,692.35	\$ 1,342,054.97	\$ 868,032.77	\$ 246,359.68	\$ 337,556.21	\$ 13,011,635.90

### NOTE 11 - 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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actuarial valuations. For the year ended June 30, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$7,441,426.76, of which \$6,764,677.70 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$405,880.66 and \$179,940.43, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$179,940.43, \$148,659.80, and \$130,675.09, 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. 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 \$15,000.00 for the year ended June 30, 2007.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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by the College. The voluntary contributions by employees amounted to \$20,172.00 for the year ended June 30, 2007.

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 \$86,059.00 for the year ended June 30, 2007.

### NOTE 12 - 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$257,057.75. 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. Disability Income -** 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, 2007, the College's total

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contribution to the DIPNC was \$35,176.32. 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 13 - 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 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 \$75,000 deductible. Losses from employee dishonesty and computer fraud by employees paid from county and institutional funds are covered by contracts with private insurance companies.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

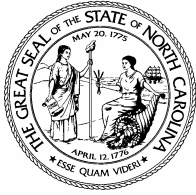
### NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$299,100.00 at June 30, 2007.

### NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 9,499,261.93
Restatements:	
Error in Establishing Useful Lives of Capital Assets When New Reporting Model Implemented	<u>1,887,285.32</u>
July 1, 2006, Net Assets as Restated	<u>\$ 11,386,547.25</u>



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Office of the 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**

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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, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 31, 2008. Our report was modified to include a reference to the other auditor.

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 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

**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)**

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generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 management of the College, the Board of Trustees, the State Board of Community Colleges, 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., CPA, CFP  
State Auditor

January 31, 2008



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