



# STATE OF NORTH CAROLINA

**JAMES SPRUNT COMMUNITY COLLEGE**

**KENANSVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**JAMES SPRUNT COMMUNITY COLLEGE**

**KENANSVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2009**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

**BOARD OF TRUSTEES**

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**JOHN HARDISON, III, VICE PRESIDENT OF ADMINISTRATIVE AND FISCAL SERVICES**



**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, James Sprunt Community College

We have completed a financial statement audit of James Sprunt Community College for the year ended June 30, 2009, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
BASIC 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> .....	31
ORDERING INFORMATION .....	33



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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, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 James Sprunt Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our 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 James Sprunt Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of James Sprunt Community College and its discretely presented component unit as of June 30, 2009, 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.

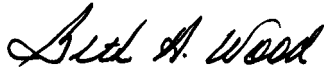
As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA  
State Auditor

May 25, 2010

## **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, 2009. 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 Net Assets includes all assets and liabilities which can be classified as either current or noncurrent. 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 statement presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. 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.

### **Financial Highlights**

The College reverted 4% of the total allocation of \$7,588,369 to the NC Community College System Office this fiscal year. These reversions totaled \$303,535.

Due to the worsening economic slowdown, Governor Perdue issued Executive Order #6 on January 13, 2009 that directed the Office of State Budget & Management (OSBM) to take additional steps to ensure that the budget was balanced on June 30, 2009. These steps included strict hiring, travel, and purchasing restrictions. Although hiring, travel, and purchasing related to direct classroom instruction were allowed, cash to cover these expenses was not guaranteed.

On April 28, 2009, Governor Perdue issued Executive Order #11 which mandated that all employees paid in whole or in part from funds appropriated by the 2008 Appropriations Act (Session Law 2008-107) shall participate in a flexible furlough program. Employee compensation supported by funds that flow through State accounts shall be reduced by an annualized amount equivalent to 0.5% over the remainder of the fiscal year. In return, full-time employees will be credited with 10 hours flexible time off; part-time employees will receive a pro-rated portion of flexible time off.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College received \$319,062 from the Federal American Recovery and Reinvestment Act (ARRA) of 2009. This was the College's allocation of the \$42,213,454 in North Carolina Community College System allotments.

### Financial Analysis

#### Condensed Statement of Net Assets

For the Years Ended, June 30, As Indicated

	<u>2009</u>	<u>2008 Restated</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
<b>Assets</b>				
Current Assets	\$ 1,941,866.67	\$ 1,945,177.01	\$ (3,310.34)	-0.2%
Capital Assets	9,518,900.07	9,887,529.91	(368,629.84)	-3.7%
Noncurrent Assets	<u>526,863.84</u>	<u>548,831.36</u>	<u>(21,967.52)</u>	-4.0%
<b>Total Assets</b>	<u>11,987,630.58</u>	<u>12,381,538.28</u>	<u>(393,907.70)</u>	-3.2%
<b>Liabilities</b>				
Current Liabilities	458,389.53	314,360.31	144,029.22	45.8%
Long-Term Liabilities	<u>740,104.07</u>	<u>691,196.23</u>	<u>48,907.84</u>	7.1%
<b>Total Liabilities</b>	<u>1,198,493.60</u>	<u>1,005,556.54</u>	<u>192,937.06</u>	19.2%
<b>Net Assets</b>				
Invested in Capital Assets	9,518,900.07	9,887,529.91	(368,629.84)	-3.7%
Restricted	669,582.43	624,470.80	45,111.63	7.2%
Unrestricted	<u>600,654.48</u>	<u>863,981.03</u>	<u>(263,326.55)</u>	-30.5%
<b>Total Net Assets</b>	<u>\$ 10,789,136.98</u>	<u>\$ 11,375,981.74</u>	<u>\$ (586,844.76)</u>	-5.2%

The College had a 19.2% increase in overall liabilities. Increases in current liabilities were substantial due to overall increases in accounts payable. Accounts payable increased by \$55,000 due to a chiller replacement installed in June but paid in July. The McGowen building renovations increased current liabilities by \$35,000. Loans in funds held for others increased current liabilities by \$40,000 and Summer 2009 unearned revenue increased by \$14,000. The College's 2008 ending net assets were restated due to an error in the recognition of Fall 2008 tuition revenue and the related receivable.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

For the Years Ended, June 30, As Indicated

	<u>2009</u>	<u>2008 Restated</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Revenues:				
Student Tuition and Fees	\$ 657,615.57	\$ 798,530.33	\$ (140,914.76)	-17.6%
Federal Grants and Contracts	995,830.00	1,063,154.69	(67,324.69)	-6.3%
State and Local Grants and Contracts	169,583.27	163,395.00	6,188.27	3.8%
Sales and Services and Other	365,127.04	326,003.27	39,123.77	12.0%
Total Operating Revenues	<u>2,188,155.88</u>	<u>2,351,083.29</u>	<u>(162,927.41)</u>	-6.9%
Total Operating Expenses	<u>14,378,534.50</u>	<u>13,889,281.00</u>	<u>489,253.50</u>	3.5%
Operating Loss	<u>(12,190,378.62)</u>	<u>(11,538,197.71)</u>	<u>(652,180.91)</u>	5.7%
Nonoperating Revenues:				
State Aid	6,883,781.97	7,581,905.19	(698,123.22)	-9.2%
State Aid - Federal Recovery Funds	319,061.72		319,061.72	
County Appropriations	1,368,132.00	1,260,125.00	108,007.00	8.6%
Noncapital Grants - Federal Student Financial Aid	1,910,964.04	1,472,239.00	438,725.04	29.8%
Noncapital Grants	560,059.80	338,969.00	221,090.80	65.2%
Investment Income	27,507.73	48,537.25	(21,029.52)	-43.3%
Other Nonoperating Revenues (Expenses)	14,526.00	(14,848.23)	29,374.23	-197.8%
Net Nonoperating Revenues	<u>11,084,033.26</u>	<u>10,686,927.21</u>	<u>397,106.05</u>	3.7%
Other Revenues:				
State Capital Aid	259,774.05	390,142.04	(130,367.99)	-33.4%
County Capital Aid	245,265.00	276,442.00	(31,177.00)	-11.3%
Capital Grants	14,461.55	22,729.16	(8,267.61)	-36.4%
Total Nonoperating and Other Revenues	<u>11,603,533.86</u>	<u>11,376,240.41</u>	<u>227,293.45</u>	2.0%
Decrease in Net Assets	(586,844.76)	(161,957.30)	(424,887.46)	262.3%
Net Assets, July 1, 2008 as Restated	<u>11,375,981.74</u>	<u>11,537,939.04</u>	<u>(161,957.30)</u>	-1.4%
Net Assets, June 30, 2009	<u>\$ 10,789,136.98</u>	<u>\$ 11,375,981.74</u>	<u>\$ (586,844.76)</u>	-5.2%

Noncapital Grants - Federal Student Financial Aid increased from the prior year due to an increase in students receiving financial aid, as well as an increase in the maximum Pell Grant award. The decrease in student tuition and fees was partially due to an increase in the scholarship discount of \$120,000, which was also due to the increase in students receiving financial aid and the maximum Pell award. Due to State spending and cash restrictions, State aid and State Capital Aid was substantially less than the prior fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Statement of Expenses

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Personal Services	\$ 9,402,197.02	\$ 9,310,368.55	\$ 91,828.47	1.0%
Supplies and Materials	1,602,753.25	1,573,904.36	28,848.89	1.8%
Services	1,309,013.16	1,471,648.44	(162,635.28)	-11.1%
Scholarships and Fellowships	1,394,506.98	918,339.39	476,167.59	51.9%
Utilities	289,922.82	247,896.08	42,026.74	17.0%
Depreciation	380,141.27	367,124.60	13,016.67	3.5%
Total Expenses	<u>\$ 14,378,534.50</u>	<u>\$ 13,889,281.42</u>	<u>\$ 489,253.08</u>	3.5%

The College experienced a 3.5% overall increase in expenditures from the prior fiscal year. Personal services comprise the largest category of expenditures. This category includes salary and benefit expenses, retirement contributions, and employer tax amounts. The North Carolina government's retirement rate was set at 8.14% as compared to the previous year of 7.83%. Services had a decrease by 11.1% this year due to State restrictions of travel, contracted services and cash availability uncertainty. Scholarship and fellowships show a major increase of 51.9% due mainly to the significant increase in student aid funds received from federal and State grants.

### Capital Assets

At June 30, 2009 the College reported \$14,060,865 invested in capital assets less \$4,541,965 in accumulated depreciation for net capital assets of \$9,518,900. There was no significant activity during the year.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Land	\$ 172,764.05	\$ 172,764.05	\$ 0.00	
Buildings	7,169,820.16	7,394,927.10	(225,106.94)	-3.0%
Machinery and Equipment	443,619.43	551,417.31	(107,797.88)	-19.5%
General Infrastructure	1,732,696.43	1,768,421.45	(35,725.02)	-2.0%
Capital Assets, Net	<u>\$ 9,518,900.07</u>	<u>\$ 9,887,529.91</u>	<u>\$ (368,629.84)</u>	-3.7%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Cash Flow

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

	June 30, 2009	June 30, 2008 (as restated)	Increase (Decrease)	Percent Change
Cash Provided (Used) by:				
Operating Activities	\$ (11,512,469.20)	\$ (11,038,552.25)	\$ (473,916.95)	4.3%
Noncapital Financing Activities	11,006,212.66	10,409,511.05	596,701.61	5.7%
Capital Financing Activities	417,145.17	563,076.33	(145,931.16)	-25.9%
Investing Activities	26,607.41	48,537.25	(21,929.84)	-45.2%
Net Change in Cash and Cash Equivalents	(62,503.96)	(17,427.62)	(45,076.34)	258.6%
Cash and Cash Equivalents, Beginning of Year	2,025,294.75	2,042,722.37	(17,427.62)	-0.9%
Cash and Cash Equivalents, End of Year	\$ 1,962,790.79	\$ 2,025,294.75	\$ (62,503.96)	-3%

Major funding sources from operating activities were provided by federal contracts and grants totaling \$995,830, sales and services of \$361,834 and student tuition and fees totaling \$657,616. Major uses of funds in operating activities were for employee compensation totaling \$9.4 million, payments for goods and services of \$3.2 million, and scholarships of \$1.4 million. The 2008 amounts presented above have been restated to report the federal student financial aid cash received under the Noncapital Financial Activities caption. Beginning with the year ended June 30, 2009, the College now reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB Comprehensive Implementation Guide.

Cash provided by noncapital financing activities included State appropriations of \$7.20 million, county appropriations of \$1.37 million, and grants totaling \$2.43 million.

The major sources of cash provided by capital financing activities include State capital appropriations of \$259,774 and county capital appropriations of \$245,265. The major use of these funds was for acquisition and improvements of capital assets.

### Economic Factors

For the 2009-2010 fiscal year, the College should receive approximately 62% of its total revenue from the State of North Carolina. The NC Community College System funding formula is expected to continue to provide stability in State revenue.

Enrollment growth in Curriculum and Occupational Extension are expected to increase in the fiscal year 2009-2010. However, Occupational Extension could experience a decline in enrollment due to system wide mandated increases in tuition fees that were effective July 1, 2009. Even though curriculum tuition fees increased effective in the fall 2009, curriculum fall enrollment projections reflect an increase.

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

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The continued economic downturn has forced the NC Community College System to implement a five percent (5%) State budget reversion and a legislative mandated management flexibility reduction. The challenge remains in meeting and identifying needs of service area while having less funding. Some staff and instructional positions will not be filled during the 2009-2010 fiscal year. Despite the challenges, the College's administrative staff has proven that they can continue to meet most of the needs of planning and monitoring of budgets. James Sprunt Community College will seek to aid this economic forecast 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, 2009**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 1,178,310.07
Restricted Cash and Cash Equivalents	354,489.45
Receivables, Net (Note 3)	261,584.51
Due from State of North Carolina Component Units	14,000.00
Inventories	133,482.64

Total Current Assets	1,941,866.67
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	429,991.27
Restricted Due from Primary Government	96,872.57
Capital Assets - Nondepreciable (Note 4)	172,764.05
Capital Assets - Depreciable, Net (Note 4)	9,346,136.02

Total Noncurrent Assets	10,045,763.91
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Total Assets	11,987,630.58
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	312,907.47
Unearned Revenue	39,620.02
Funds Held for Others	61,042.92
Long-Term Liabilities - Current Portion (Note 6)	44,819.12

Total Current Liabilities	458,389.53
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	740,104.07
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Total Liabilities	1,198,493.60
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**NET ASSETS**

Invested in Capital Assets	9,518,900.07
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	17,493.90
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Expendable:

Loans	5,631.00
Capital Projects	446,395.23
Restricted for Specific Programs	103,655.75
Other	96,406.55

Unrestricted	600,654.48
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Total Net Assets	\$ 10,789,136.98
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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, 2009***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 657,615.57
Federal Grants and Contracts	995,830.00
State and Local Grants and Contracts	169,583.27
Sales and Services, Net (Note 8)	361,833.62
Other Operating Revenues	3,293.42
	<hr/>
Total Operating Revenues	2,188,155.88
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**EXPENSES**

Operating Expenses:	
Personal Services	9,402,197.02
Supplies and Materials	1,602,753.25
Services	1,309,013.16
Scholarships and Fellowships	1,394,506.98
Utilities	289,922.82
Depreciation	380,141.27
	<hr/>
Total Operating Expenses	14,378,534.50
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Operating Loss	(12,190,378.62)
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**NONOPERATING REVENUES**

State Aid	6,883,781.97
State Aid - Federal Recovery Funds	319,061.72
County Appropriations	1,368,132.00
Noncapital Grants - Federal Student Financial Aid	1,910,964.04
Noncapital Grants	560,059.80
Investment Income	27,507.73
Other Nonoperating Revenues	14,526.00
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Net Nonoperating Revenues	11,084,033.26
	<hr/>
Loss Before Other Revenues	(1,106,345.36)
	<hr/>
State Capital Aid	259,774.05
County Capital Aid	245,265.00
Capital Grants	14,461.55
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Decrease in Net Assets	(586,844.76)
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**NET ASSETS**

Net Assets, July 1, 2008 as Restated (Note 14)	11,375,981.74
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Net Assets, June 30, 2009	\$ 10,789,136.98
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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, 2009***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,232,077.67
Payments to Employees and Fringe Benefits	(9,358,741.57)
Payments to Vendors and Suppliers	(3,044,450.70)
Payments for Scholarships and Fellowships	(1,396,825.09)
Other Receipts	55,470.49

Net Cash Used by Operating Activities	(11,512,469.20)
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**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	6,883,781.97
State Aid - Federal Recovery Funds	319,061.72
County Appropriations	1,368,132.00
Noncapital Grants - Federal Student Financial Aid	1,875,177.17
Noncapital Grants Received	560,059.80

Cash Provided by Noncapital Financing Activities	11,006,212.66
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	168,930.05
County Capital Aid	245,265.00
Capital Grants Received	14,461.55
Acquisition and Construction of Capital Assets	(11,511.43)

Net Cash Provided by Capital and Related Financing Activities	417,145.17
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	26,607.41
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Net Decrease in Cash and Cash Equivalents	(62,503.96)
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Cash and Cash Equivalents, July 1, 2008	2,025,294.75
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Cash and Cash Equivalents, June 30, 2009	\$ 1,962,790.79
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***James Sprunt Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2009***

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

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

Operating Loss	\$ (12,190,378.62)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	380,141.27
Miscellaneous Nonoperating Income	14,526.00
Changes in Assets and Liabilities:	
Receivables, Net	27,003.92
Inventories	63,301.17
Accounts Payable and Accrued Liabilities	93,937.36
Unearned Revenue	14,599.76
Funds Held for Others	40,944.49
Compensated Absences	43,455.45
Net Cash Used by Operating Activities	<u><u>\$ (11,512,469.20)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,178,310.07
Restricted Cash and Cash Equivalents	354,489.45
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>429,991.27</u>
Total Cash and Cash Equivalents - June 30, 2009	<u><u>\$ 1,962,790.79</u></u>

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

Increase in Receivables Related to Nonoperating Income	\$ 90,844.00
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The accompanying notes to the financial statements are an integral part of this statement.



***James Sprunt Foundation, Inc.***  
***Statement of Financial Position***  
***June 30, 2009***

***Exhibit B-1***

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 160,817.00
Unconditional Promises to Give	16,583.00
Prepaid Expenses and Other Assets	267.00

Total Current Assets 177,667.00

**ENDOWMENT INVESTMENTS**

Cash and Cash Equivalents	27,776.00
Investments	804,400.00
Interest Receivable	5,687.00

Total Endowment Investments 837,863.00

**NONCURRENT ASSETS**

Unconditional Promises to Give	<u>43,053.00</u>
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Total Assets 1,058,583.00

**CURRENT LIABILITIES**

Accounts Payable	<u>24,831.00</u>
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**NET ASSETS**

Unrestricted	
Designated by Board of Directors	6,400.00
Undesignated	138,669.00
Temporarily Restricted	152,382.00
Permanently Restricted	736,301.00

Total Net Assets \$ 1,033,752.00

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, 2009***

***Exhibit B-2***

**UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT**

Revenues, Gains, and Other Support:

Contributions	\$ 7,675.00
Scholarship Income	10,507.00
Special Event Revenue	16,925.00
Interest and Dividend Income	5,404.00
Net Realized and Unrealized Loss on Investments	(60,004.00)
Net Asset Released from Restrictions	13,950.00
Net Assets Reclassified Based on Change in Law	(156,544.00)
Other	3,811.00
	<hr/>
Total Revenues, Gains, and Other Support	(158,276.00)

**EXPENSES**

Program Services:

Financial Aid	25,749.00
Educational Assistance	1,902.00
Communications and Development	14,062.00
	<hr/>
Total Program Services	41,713.00

Supporting Activities:

Management and General	22,109.00
Cost of Direct Benefit to Donors	11,381.00
	<hr/>
Total Supporting Activities	33,490.00

Total Expenses	<hr/> 75,203.00
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Decrease in Unrestricted Net Assets	<hr/> (233,479.00)
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**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Interest and Dividend Income	13,007.00
Net Realized and Unrealized Loss on Investments	(3,219.00)
Net Assets Released from Restrictions	(13,950.00)
Net Assets Reclassified Based on Change in Law	156,544.00
	<hr/>
Increase in Temporarily Restricted Net Assets	152,382.00

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Endowment Contributions	<hr/> 107,807.00
Increase in Net Assets	26,710.00
Net Assets at Beginning of Year	<hr/> 1,007,042.00
Net Assets at End of Year	<hr/> <u>\$ 1,033,752.00</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, 2009**

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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 (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Unit** - 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 23 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)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2009, the Foundation did not distribute any funds to the College; however they did provide \$27,651 in scholarships to students of the College. Complete financial statements for the Foundation can be obtained from the Foundation's office, 133 James Sprunt Drive, Kenansville, NC 28349, or by calling (910) 296- 2417.

- 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated 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** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous 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 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.

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

**K. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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funding is transactional based within the departmental management system in place at the College.

- L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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 totaling \$600.00 and deposits in private financial institutions with a carrying value of \$1,334,531.06 and a bank balance of \$1,334,460.34.

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, 2009, 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$627,659.73 which represents the College's



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

Investments of the Foundation are stated at fair value and are summarized below as of June 30, 2009:

	Fair Value
Endowment Funds	
Stocks and Mutual Funds	\$ 4,502.00
Certificate of Deposits	799,898.00
<b>Total Fair Market Value of Investments</b>	<b>\$ 804,400.00</b>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 244,162.90	\$ 157,928.30	\$ 86,234.60
Accounts	103,434.40		103,434.40
Intergovernmental	53,341.98		53,341.98
Other	18,573.53		18,573.53
<b>Total Current Receivables</b>	<b>\$ 419,512.81</b>	<b>\$ 157,928.30</b>	<b>\$ 261,584.51</b>
<b>Notes Receivable:</b>			
Institutional Student Loan Programs	\$ 1,235.83	\$ 1,235.83	\$ 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, 2009, is presented as follows:

	Balance July 1, 2008	Increases	Balance June 30, 2009
Capital Assets, Nondepreciable:			
Land	\$ 172,764.05	\$ 0.00	\$ 172,764.05
<b>Total Capital Assets, Nondepreciable</b>	<u>172,764.05</u>		<u>172,764.05</u>
Capital Assets, Depreciable:			
Buildings	10,644,122.41		10,644,122.41
Machinery and Equipment	1,213,492.85	11,511.43	1,225,004.28
General Infrastructure	2,018,973.97		2,018,973.97
<b>Total Capital Assets, Depreciable</b>	<u>13,876,589.23</u>	<u>11,511.43</u>	<u>13,888,100.66</u>
Less Accumulated Depreciation/Amortization for:			
Buildings	3,249,195.31	225,106.94	3,474,302.25
Machinery and Equipment	662,075.54	119,309.31	781,384.85
General Infrastructure	250,552.52	35,725.02	286,277.54
<b>Total Accumulated Depreciation</b>	<u>4,161,823.37</u>	<u>380,141.27</u>	<u>4,541,964.64</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>9,714,765.86</u>	<u>(368,629.84)</u>	<u>9,346,136.02</u>
<b>Capital Assets, Net</b>	<u>\$ 9,887,529.91</u>	<u>\$ (368,629.84)</u>	<u>\$ 9,518,900.07</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 197,349.02
Accrued Payroll	57,818.45
Other	57,740.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 312,907.47</u>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 741,467.74	\$ 399,292.40	\$ 355,836.95	\$ 784,923.19	\$ 44,819.12

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease revenues under noncancelable operating leases related to wireless broadband services are recorded when earned. These minimum future lease revenues consist of the following as of June 30, 2009:

<u>Fiscal Year</u>	<u>Amount</u>
2010	\$ 14,526.00
2011	14,526.00
2012	14,526.00
2013	14,526.00
2014	14,526.00
2015-2016	<u>29,052.00</u>
Total Minimum Lease Revenues	<u>\$ 101,682.00</u>

Rental revenue for all operating leases during the year was \$14,526.00.

### NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 1,218,326.03</u>	<u>\$ 551,122.52</u>	<u>\$ 9,587.94</u>	<u>\$ 657,615.57</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 680,139.86	\$ 354,122.19	\$ 0.00	\$ 326,017.67
Other	35,815.95			35,815.95
<b>Total Sales and Services</b>	<u>\$ 715,955.81</u>	<u>\$ 354,122.19</u>	<u>\$ 0.00</u>	<u>\$ 361,833.62</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,209,226.50	\$ 371,877.86	\$ 168,828.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 5,749,932.38
Academic Support	686,426.97	54,141.93	33,838.55				774,407.45
Student Services	608,118.14	21,464.07	119,737.37	26,093.10			775,412.68
Institutional Support	1,644,005.69	42,955.18	399,845.84	1,867.84			2,088,674.55
Operations and Maintenance of Plant	462,848.97	479,166.29	429,947.48		289,922.82		1,661,885.56
Student Financial Aid	740,280.83	28,371.30	89,161.62	1,366,546.04			2,224,359.79
Auxiliary Enterprises	51,289.92	604,776.62	67,654.28				723,720.82
Depreciation						380,141.27	380,141.27
Total Operating Expenses	<u>\$ 9,402,197.02</u>	<u>\$ 1,602,753.25</u>	<u>\$ 1,309,013.16</u>	<u>\$ 1,394,506.98</u>	<u>\$ 289,922.82</u>	<u>\$ 380,141.27</u>	<u>\$ 14,378,534.50</u>

### NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$7,613,858.14, of which \$6,766,354.87 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$227,349.52 and \$405,981.38, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$227,349.52, \$213,457.03, and \$179,940.43, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 \$15,500.00 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$44,655.00 for the year ended June 30, 2009.

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 \$37,760.00 for the year ended June 30, 2009.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$277,420.55, \$286,942.23, and \$257,057.75, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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page,” then “Reports,” or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers’ and State Employees’ Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, the College made a statutory contribution of .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$35,185.05, \$36,392.67, and \$35,176.32, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers’ and employees’ liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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 (CONTINUED)

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

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$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.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance. This coverage includes student accident insurance with maximum lifetime benefit amount of \$15,000, and a general liability handgun policy for basic law enforcement training programs with a \$2,000,000 aggregate limit on coverage.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 College entirely from county or institutional funds.

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the *GASB Comprehensive Implementation Guide*.

### NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 11,544,536.04
Restatements:	
Correct Prior Year Error in Tuition and Fees	<u>(168,554.30)</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 11,375,981.74</u></u>

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**Beth A. Wood, CPA**  
State Auditor

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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, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 25, 2010. Our report was modified to include a reference to other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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.

**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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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 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.

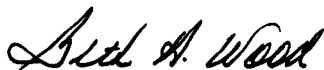
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

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, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

May 25, 2010

## ORDERING INFORMATION

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

Office of the State Auditor  
State of North Carolina  
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