STATE OF NORTH CAROLINA

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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, 2011, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following the finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
James Sprunt Community College
Kenansville, North Carolina

We have audited the accompanying financial statements of James Sprunt Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, 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 the Foundation are based on the report of 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2012 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

Beth A. Wood, CPA
State Auditor

May 22, 2012

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, 2011. 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 2% of the total allocation of $7,733,471 to the NC Community College System Office this fiscal year. This reversion totaled $154,669. For this fiscal year, the General Assembly enacted a $29 million management flexibility reduction to the State Aid budget. It also authorized the Director of the Budget to implement additional management flexibility cuts to ensure the State budget remains in balance if certain federal funds are not appropriated by Congress. The Office of State Budget and Management implemented an additional $10 million in management flexibility cuts to all colleges. The College had to implement the management flexibility reduction as a budget cut. The management flexibility reduction totaled $292,550.

Financial Analysis

Condensed Statement of Net Assets

For the Year Ended, June 30, as Indicated

	2011	Unaudited 2010	Increase (Decrease)	Percent Change
Assets				
Current Assets	$ 2,726,278.23	$ 2,194,852.43	$ 531,425.80	24.21%
Capital Assets	9,152,913.94	9,230,891.22	(77,977.28)	-0.84%
Noncurrent Assets	434,149.51	570,733.16	(136,583.65)	-23.93%
Total Assets	12,313,341.68	11,996,476.81	316,864.87	2.64%
Liabilities				
Current Liabilities	878,181.53	526,372.70	351,808.83	66.84%
Long-Term Liabilities	653,843.85	705,585.93	(51,742.08)	-7.33%
Total Liabilities	1,532,025.38	1,231,958.63	300,066.75	24.36%
Net Assets				
Invested in Capital Assets	9,152,913.94	9,230,891.22	(77,977.28)	-0.84%
Restricted	866,479.25	825,153.94	41,325.31	5.01%
Unrestricted	761,923.11	708,473.02	53,450.09	7.54%
Total Net Assets	$ 10,781,316.30	$ 10,764,518.18	$ 16,798.12	0.16%

The College had a 24.21% increase in current assets. Cash and Cash Equivalents increased current assets by $486,298.99 while receivables decreased it by $313,411.49. An increase in Bookstore sales led to a $96,721.58 increase in cash-on-hand at year-end. The College also effectively managed federal reimbursement requests by reducing amounts due from the federal government by $279,040.45. Furthermore, inventories increased by $372,538.30, primarily due to the College ordering and receiving textbooks before the fiscal year-end, whereas last year they were received after the fiscal year-end. This was also the primary reason for the increase in current liabilities as payment had not been made for the textbooks at the end of the fiscal year.

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

For the Year Ended, June 30, as Indicated

	2011	Unaudited 2010	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 774,553.98	$ 831,240.09	$ (56,686.11)	-6.82%
State and Local Grants and Contracts	58,197.09	76,015.08	(17,817.99)	-23.44%
Sales and Services and Other, Net	348,679.00	467,211.97	(118,532.97)	-25.37%
Total Operating Revenues	1,181,430.07	1,374,467.14	(193,037.07)	-14.04%
Total Operating Expenses	16,583,768.51	15,309,670.91	1,274,097.60	8.32%
Operating Loss	(15,402,338.44)	(13,935,203.77)	(1,467,134.67)	10.53%
Nonoperating Revenues:				
State Aid	6,790,182.20	6,790,623.84	(441.64)	-0.01%
County Appropriations	1,362,585.00	1,362,585.00	-	0.00%
Noncapital Grants - Student Financial Aid	4,823,454.11	3,767,057.84	1,056,396.27	28.04%
Noncapital Grants	1,178,324.46	1,369,455.38	(191,130.92)	-13.96%
Investment Income	8,289.74	12,109.46	(3,819.72)	-31.54%
Other Nonoperating Revenues	9,781.02	14,526.00	(4,744.98)	-32.67%
Nonoperating Revenues	14,172,616.53	13,316,357.52	856,259.01	6.43%
Other Revenues:				
State Capital Aid	847,061.03	222,268.79	624,792.24	281.10%
County Capital Aid	243,000.00	243,000.00	-	0.00%
Capital Grants	156,459.00	128,958.66	27,500.34	21.32%
Total Nonoperating and Other Revenues	15,419,136.56	13,910,584.97	1,508,551.59	10.84%
Increase (Decrease) in Net Assets	16,798.12	(24,618.80)	41,416.92	168.23%
Net Assets - July 1, 2010	10,764,518.18	10,789,136.98	(24,618.80)	-0.23%
Net Assets - June 30, 2011	$ 10,781,316.30	$ 10,764,518.18	$ 16,798.12	0.16%

Operating revenues had an overall 14.04% decrease. Student tuition and fees decreased due to an increase in the allowance for uncollectible accounts and an increase in scholarship discount. The College has not chosen to write-off student receivables in several years and collectability decreases with each year. The increase in scholarship discount is due to a higher percentage of students utilizing financial aid and an increase in the Pell award rate for the fiscal year. Sales and Services also decreased from an increase in the scholarship discount to Bookstore sales. Nonoperating revenues were increased by a major source of funding, Federal Student Financial Aid, increasing by $1 million. The increase occurred due to increased enrollment of financial aid eligible students and the increase in financial aid rates.

Statement of Expenses

	June 30, 2011	Unaudited June 30, 2010	Increase (Decrease)	Percent Change
Salaries and Benefits	$ 9,498,929.75	$ 9,404,842.73	$ 94,087.02	1.00%
Supplies and Materials	2,177,123.10	1,685,460.01	491,663.09	29.17%
Services	1,620,548.82	1,366,155.91	254,392.91	18.62%
Scholarships and Fellowships	2,656,802.62	2,247,489.41	409,313.21	18.21%
Utilities	305,303.34	292,680.56	12,622.78	4.31%
Depreciation	325,060.88	313,042.29	12,018.59	3.84%
Total Expenses	$ 16,583,768.51	$ 15,309,670.91	$ 1,274,097.60	8.32%

The College experienced an 8.32% overall increase in expenditures from the prior fiscal year. Salaries and Benefits comprise the largest category of expenditures. This category includes salary and benefit expenses, which include retirement contributions and employer tax amounts. The North Carolina government's retirement rate was set as 10.51% as compared to the previous year of 8.75%, increasing benefit expenses. Scholarships and fellowships show an increase of 18.21% due to an increase in student aid funds received from federal and State grants. Supplies and Materials had a significant increase of 29.17% mainly from purchasing equipment that was below the College's capitalization threshold.

Capital Assets

At June 30, 2011 the College reported $14,294,672.36 invested in capital assets less $5,141,758.42 in accumulated depreciation for net capital assets of $9,152,913.94. There was no significant activity during the year except for the purchasing of equipment which utilized increased State Capital Aid revenues. The equipment purchases were primarily for data processing and other educational equipment and did not meet the capitalization threshold of $5,000.

	June 30, 2011	June 30, 2010	Increase (Decrease)	Percent Change
Land	$ 172,764.05	$ 172,764.05	$ -	0.00%
Buildings	7,000,285.50	7,230,265.04	(229,979.54)	-3.18%
Machinery and Equipment	599,297.22	416,442.54	182,854.68	43.91%
General Infrastructure	1,380,567.17	1,411,419.59	(30,852.42)	-2.19%
Capital Assets, Net	$ 9,152,913.94	$ 9,230,891.22	$ (77,977.28)	-0.84%

Economic Factors

For the 2011-2012 fiscal year, the College should receive approximately 54% 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 is expected to increase in fiscal year 2011-2012 despite an increase in tuition and fees rates. Occupational Extension enrollment is projected to increase due to programs being reclassified from curriculum to occupational extension to continue to educate inmates.

The continued economic downturn has forced the NC Community College System to continue a legislatively mandated management flexibility reduction. Despite the challenges, the College's administrative staff has established that they can continue to meet most of the needs of planning and monitoring 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.

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James Sprunt Community College
Statement of Net Assets
June 30, 2011 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,205,903.64
Restricted Cash and Cash Equivalents		570,765.41
Receivables, Net (Note 3)		288,670.62
Inventories		660,938.56
Total Current Assets		2,726,278.23
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		414,694.51
Restricted Due from Primary Government		19,455.00
Capital Assets - Nondepreciable (Note 4)		172,764.05
Capital Assets - Depreciable, Net (Note 4)		8,980,149.89
Total Noncurrent Assets		9,587,063.45
Total Assets		12,313,341.68
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		715,024.42
Unearned Revenue		28,731.86
Funds Held for Others		40,249.59
Long-Term Liabilities - Current Portion (Note 6)		94,175.66
Total Current Liabilities		878,181.53
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		653,843.85
Total Noncurrent Liabilities		653,843.85
Total Liabilities		1,532,025.38
NET ASSETS		
Invested in Capital Assets		9,152,913.94
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		17,582.21
Expendable:		
Scholarships and Fellowships		14,171.83
Loans		5,631.00
Capital Projects		374,678.43
Restricted for Specific Programs		361,091.63
Other		93,324.15
Unrestricted		761,923.11
Total Net Assets	$	10,781,316.30

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, 2011 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	774,553.98
Federal Grants and Contracts		399.00
State and Local Grants and Contracts		58,197.09
Sales and Services, Net (Note 8)		336,262.95
Other Operating Revenues		12,017.05
Total Operating Revenues		1,181,430.07
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,498,929.75
Supplies and Materials		2,177,123.10
Services		1,620,548.82
Scholarships and Fellowships		2,656,802.62
Utilities		305,303.34
Depreciation		325,060.88
Total Operating Expenses		16,583,768.51
Operating Loss		(15,402,338.44)
NONOPERATING REVENUES		
State Aid		6,790,182.20
County Appropriations		1,362,585.00
Noncapital Grants - Student Financial Aid		4,823,454.11
Noncapital Grants		1,178,324.46
Investment Income		8,289.74
Other Nonoperating Revenues		9,781.02
Net Nonoperating Revenues		14,172,616.53
Loss Before Other Revenues		(1,229,721.91)
State Capital Aid		847,061.03
County Capital Aid		243,000.00
Capital Grants		156,459.00
Increase in Net Assets		16,798.12
NET ASSETS		
Net Assets, July 1, 2010		10,764,518.18
Net Assets, June 30, 2011	$	10,781,316.30

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,303,745.76
Payments to Employees and Fringe Benefits	(9,511,239.91)
Payments to Vendors and Suppliers	(4,067,905.48)
Payments for Scholarships and Fellowships	(2,655,124.65)
Other Payments	(63,487.41)
Net Cash Used by Operating Activities	(14,994,011.69)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	6,790,182.20
County Appropriations	1,362,585.00
Noncapital Grants - Student Financial Aid	4,996,694.26
Noncapital Grants Received	1,192,324.46
Cash Provided by Noncapital Financing Activities	14,341,785.92
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	935,289.88
County Capital Aid	243,000.00
Capital Grants Received	156,459.00
Acquisition and Construction of Capital Assets	(253,039.08)
Net Cash Provided by Capital and Related Financing Activities	1,081,709.80
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	8,460.16
Cash Provided by Investing Activities	8,460.16
Net Increase in Cash and Cash Equivalents	437,944.19
Cash and Cash Equivalents, July 1, 2010	1,753,419.37
Cash and Cash Equivalents, June 30, 2011	$ 2,191,363.56

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(15,402,338.44)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		325,060.88
Miscellaneous Nonoperating Income		15,736.50
Changes in Assets and Liabilities:		
Receivables, Net		140,000.92
Inventories		(372,538.30)
Accounts Payable and Accrued Liabilities		407,608.08
Unearned Revenue		(16,007.26)
Funds Held for Others		(79,223.91)
Compensated Absences		(12,310.16)
Net Cash Used by Operating Activities	$	(14,994,011.69)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,205,903.64
Restricted Cash and Cash Equivalents		570,765.41
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		414,694.51
Total Cash and Cash Equivalents - June 30, 2011	$	2,191,363.56

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital Asset Write-Offs	$	(5,955.48)

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

James Sprunt Foundation, Inc.
Statement of Financial Position
June 30, 2011 ***Exhibit B-1***

ASSETS		
Current Assets		
Cash and Cash Equivalents	$	121,845
Accounts Receivable		300
Unconditional Promises to Give, Current		8,750
Investments		5,652
Prepaid Expenses and Other Assets		286
Total Current Assets		136,833
Endowment Assets		
Cash and Cash Equivalents		407,589
Investments		492,569
Other Assets		1,259
		901,417
Noncurrent Portion of Unconditional Promises to Give		8,313
Total Assets	$	1,046,563
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$	12,586
Total Current Liabilities and Total Liabilities		12,586
Net Assets		
Unrestricted		
Designated by Board of Directors		6,400
Undesignated		102,887
Total Unrestricted		109,287
Temporarily Restricted		167,793
Permanently Restricted		756,897
Total Net Assets		1,033,977
Total Liabilities and Net Assets	$	1,046,563

See accompanying notes to the financial statements

James Sprunt Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011 — *Exhibit B-2*

UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT		
Contributions	$	9,820
Scholarship Income		9,300
Special Event Revenue		22,518
Interest and Dividend Income		702
Net Realized and Unrealized Gain on Investments		389
Net Assets Released from Restrictions		20,979
Other		1,942
Total Unrestricted Revenue, Gains, and Other Support		65,650
EXPENSES		
Program Services		
Financial Aid		15,803
Communications and Development		14,413
Total Program Services		30,216
Supporting Activities		
Management and General		26,757
Cost of Direct Benefits to Donors		8,708
Total Supporting Activities		35,465
Total Expenses		65,681
Decrease in Unrestricted Net Assets		(31)
TEMPORARILY RESTRICTED NET ASSETS		
Scholarship Income		6,210
Interest and Dividend Income		16,983
Net Realized and Unrealized Loss on Investments		(778)
Net Assets Released from Restrictions		(20,979)
Increase in Temporarily Restricted Net Assets		1,436
PERMANENTLY RESTRICTED NET ASSETS		
Endowment Contributions		28,645
Increase in Permanently Restricted Net Assets		28,645
Increase in Net Assets		30,050
Net Assets, Beginning of Year		1,003,927
Net Assets, End of Year	$	1,033,977

See accompanying notes to the financial statements

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 College's financial statements. The discretely presented component unit's financial data are reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit - James Sprunt Foundation, Inc. (Foundation) is a 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 21 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation 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 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, 2011, the Foundation did not distribute any funds to 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, 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 of $5,000 or greater 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 50 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 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 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 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.

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 $1,545,929.38 and a bank balance of $1,608,772.45.

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, 2011, 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; specified bills of exchange; certain savings certificates; 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, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $644,834.18 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 1.9 years as of June 30, 2011. 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.osc.nc.gov/ and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Component Unit – Investments of the College's discretely presented 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. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

	Fair Value
Investments	
Stocks and Mutual Funds	$ 5,652
Certificates of Deposit	492,569
Total Fair Market Value of Investments	$ 498,221

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Change in Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 363,032.91	$ 230,789.60	$ 132,243.31
Accounts	48,450.93		48,450.93
Intergovernmental	93,461.24		93,461.24
Other	14,515.14		14,515.14
Total Current Receivables	$ 519,460.22	$ 230,789.60	$ 288,670.62

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	$ 172,764.05	$ 0.00	$ 0.00	$ 172,764.05
Total Capital Assets, Nondepreciable	172,764.05	0.00	0.00	172,764.05
Capital Assets, Depreciable:				
Buildings	10,992,706.21			10,992,706.21
Machinery and Equipment	1,222,158.37	253,039.08	16,385.52	1,458,811.93
General Infrastructure	1,670,390.17			1,670,390.17
Total Capital Assets, Depreciable	13,885,254.75	253,039.08	16,385.52	14,121,908.31
Less Accumulated Depreciation for:				
Buildings	3,762,441.17	229,979.54		3,992,420.71
Machinery and Equipment	805,715.83	64,228.92	10,430.04	859,514.71
General Infrastructure	258,970.58	30,852.42		289,823.00
Total Accumulated Depreciation	4,827,127.58	325,060.88	10,430.04	5,141,758.42
Total Capital Assets, Depreciable, Net	9,058,127.17	(72,021.80)	5,955.48	8,980,149.89
Capital Assets, Net	$ 9,230,891.22	$ (72,021.80)	$ 5,955.48	$ 9,152,913.94

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 578,323.81
Accrued Payroll	68,134.47
Other	68,566.14
Total Accounts Payable and Accrued Liabilities	$ 715,024.42

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	$ 760.329.67	$ 396,047.69	$ 408,357.85	$ 748,019.51	$ 94,175.66

NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease payments under noncancelable operating leases related to wireless broadband services are recorded when received. These minimum future lease revenues consist of the following as of June 30, 2011:

Fiscal Year	Amount
2012	$ 14,526.00
2013	14,526.00
2014	14,526.00
2015	14,526.00
2016	14,526.00
2017-2021	72,632.00
2022-2026	72,632.00
2027-2031	72,632.00
2032-2036	72,632.00
Total Minimum Lease Payments	$ 363,158.00

Rental revenue for all operating leases during the year was $15,736.50.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,089,784.08	$ 1,274,982.14	$ 40,247.96	$ 774,553.98
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,009,881.77	$ 728,399.84	$ 0.00	$ 281,481.93
Other	54,781.02			54,781.02
Total Sales and Services	$ 1,064,662.79	$ 728,399.84	$ 0.00	$ 336,262.95

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 5,035,464.64	$ 886,812.15	$ 245,019.25	$ 3,185.00	$ 0.00	$ 0.00	$ 6,170,481.04
Academic Support	738,182.59	40,495.60	19,906.32				798,584.51
Student Services	1,392,115.95	34,192.29	314,578.38	43,050.58			1,783,937.20
Institutional Support	1,880,480.65	69,288.58	421,578.65	2,655.40			2,374,003.28
Operations and Maintenance of Plant	393,114.21	366,991.87	454,156.73		305,303.34		1,519,566.15
Student Financial Aid			6,862.95	2,607,911.64			2,614,774.59
Auxiliary Enterprises	59,571.71	779,342.61	158,446.54				997,360.86
Depreciation						325,060.88	325,060.88
Total Operating Expenses	$ 9,498,929.75	$ 2,177,123.10	$ 1,620,548.82	$ 2,656,802.62	$ 305,303.34	$ 325,060.88	$ 16,583,768.51

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $7,590,321.71, of which $6,524,521.50 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $321,658.91 and $391,471.29, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $321,658.91, $234,916.02, and $227,349.52, 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.nc.gov/ and clicking on "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 $17,300.00 for the year ended June 30, 2011.

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 $89,413.00 for the year ended June 30, 2011.

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.

For the current fiscal year the College contributed 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $319,701.55, $296,112.63, and $277,420.55, 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.osc.nc.gov/ and clicking on "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 by the General Assembly. For the fiscal year ended June 30, 2011, 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, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $33,927.51, $34,217.46, and $35,185.05, 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.

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

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 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 $20,000 to $25,000, 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (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.

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $31,750.00 at June 30, 2011.

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

Board of Trustees
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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 22, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency.

<u>Compliance and Other Matters</u>

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*.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the College 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

Beth A. Wood, CPA
State Auditor

May 22, 2012

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Misstatements noted during our audit included:

a. The College overstated federal grants and contracts operating revenues by $1,171,000 and understated nonoperating noncapital grants revenues by $1,024,434 and nonoperating capital grants by $146,566.

b. The College understated both inventories and accounts payables by $421,165. Invoices received after the fiscal year-end were not recorded in the appropriate period.

c. The College understated current restricted cash and cash equivalents and overstated current unrestricted cash and cash equivalents by $253,259. The College did not sufficiently review year-end cash components for financial statement presentation.

d. Unrestricted net assets were overstated by $247,358 and restricted expendable net assets were understated by the same amount. This misstatement was caused by an insufficient review of the financial statements.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and reviews over that process. The College should strengthen internal controls to ensure the completeness and accuracy of the financial statements.

Response: Your finding is accepted as well as your recommendation. The College will proof the year-end financial statements and have more business office staff involved in reviewing of reports to ensure completeness and accuracy of the financial statements. Reviews will be completed by the Senior Accountant and Vice President of Fiscal Administrative Services to strengthen our internal controls.

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