

STATE OF NORTH CAROLINA

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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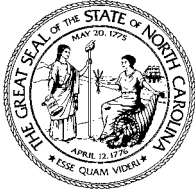
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, 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, 2013, 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.

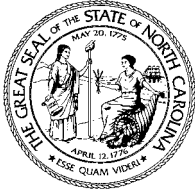
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
James Sprunt Community College
Kenansville, North Carolina

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for James Sprunt Foundation, Inc., is based solely 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 from material misstatement. The financial statements of James Sprunt Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of James Sprunt Community College, and its discretely presented component unit as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

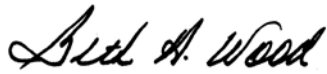
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 24, 2014

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JAMES SPRUNT COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of James Sprunt Community College's (College) financial statements presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2013. 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 Position 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 Position includes all assets and liabilities which can be classified as either current or noncurrent. The Statement of Revenues, Expenses, and Changes in Net Position 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. The James Sprunt Foundation, Inc. (Foundation) is discretely presented as part of this year's financial statements. However, this discussion does not include the Foundation's activities.

Financial Highlights

For the 2012-2013 fiscal year, the General Assembly enacted an \$83.2 million management flexibility reduction to the state aid budget for all colleges. College management had the flexibility to determine what budget line items to cut within certain parameters. Although state aid increased \$242,599.29, the College had to implement the management flexibility reduction as a budget cut. The management flexibility reduction totaled \$610,041 for the College.

During the 2012-2013 fiscal year, due to an increased interest from local business and industry leaders, the College began offering a Diesel Mechanics Program. In May 2013, the College was awarded a \$1,000,000 grant by the Golden Leaf Foundation to fund the construction of a diesel mechanics building. This building will be used to provide customized training for businesses and industries interested in increasing employee skills in this particular area.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Analysis

Condensed Statement of Net Position

For Year Ended June 30, as Indicated

Assets	2013	2012	Increase (Decrease)	Percent Change
Current Assets	\$ 2,378,384.48	\$ 2,631,553.77	\$ (253,169.29)	-9.62%
Capital Assets, Net	8,783,142.13	9,107,431.11	(324,288.98)	-3.56%
Noncurrent Assets	<u>1,409,881.77</u>	<u>265,119.11</u>	<u>1,144,762.66</u>	431.79%
Total Assets	<u>12,571,408.38</u>	<u>12,004,103.99</u>	<u>567,304.39</u>	4.73%
Liabilities				
Current Liabilities	531,449.20	685,069.35	(153,620.15)	-22.42%
Long-Term Liabilities	<u>606,823.09</u>	<u>609,980.89</u>	<u>(3,157.80)</u>	-0.52%
Total Liabilities	<u>1,138,272.29</u>	<u>1,295,050.24</u>	<u>(156,777.95)</u>	-12.11%
Net Position				
Net Investment in Capital Assets	8,783,142.13	9,107,431.11	(324,288.98)	-3.56%
Restricted	2,197,737.55	1,011,214.76	1,186,522.79	117.34%
Unrestricted	<u>452,256.41</u>	<u>590,407.88</u>	<u>(138,151.47)</u>	-23.40%
Total Net Position	<u>\$ 11,433,136.09</u>	<u>\$ 10,709,053.75</u>	<u>\$ 724,082.34</u>	6.76%

The 431.79% increase in noncurrent assets and the 117.34% increase in restricted net position are primarily due to a \$1,000,000 grant awarded to the College by the Golden Leaf Foundation in May 2013 to fund the construction of a new building for the Diesel Mechanic Program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

For the Year Ended, June 30, as Indicated

	2013	2012	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	\$ 785,700.48	\$ 829,286.01	\$ (43,585.53)	-5.26%
State and Local Grants and Contracts	50,578.67	74,266.93	(23,688.26)	-31.90%
Sales and Services and Other, Net	366,191.69	349,851.81	16,339.88	4.67%
Total Operating Revenues	1,202,470.84	1,253,404.75	(50,933.91)	-4.06%
Total Operating Expenses	16,388,175.83	16,231,761.27	156,414.56	0.96%
Operating Loss	(15,185,704.99)	(14,978,356.52)	(207,348.47)	1.38%
Nonoperating Revenues:				
State Aid	6,818,801.69	6,576,202.40	242,599.29	3.69%
County Appropriations	1,362,585.00	1,362,585.00		0.00%
Noncapital Grants	6,189,507.78	5,953,031.85	236,475.93	3.97%
Investment Income	3,609.63	6,139.26	(2,529.63)	-41.20%
Other Nonoperating Revenues	3,560.94	13,706.93	(10,145.99)	-74.02%
Nonoperating Revenues	14,378,065.04	13,911,665.44	466,399.60	3.35%
Other Revenues:				
State Capital Aid	179,599.09	468,573.99	(288,974.90)	-61.67%
County Capital Aid	243,000.00	243,000.00		0.00%
Capital Grants	1,109,123.20	282,854.54	826,268.66	292.12%
Total Nonoperating and Other Revenues	15,909,787.33	14,906,093.97	1,003,693.36	6.73%
Increase (Decrease) in Net Position	724,082.34	(72,262.55)	796,344.89	1102.02%
Net Position - July 1, 2012	10,709,053.75	10,781,316.30	(72,262.55)	-0.67%
Net Position - June 30, 2013	\$ 11,433,136.09	\$ 10,709,053.75	\$ 724,082.34	6.76%

State capital aid decreased 61.67% due to the state budget cuts which impacted the total amount of allocations given to each college. Noncapital grants increased 3.97% due to an increase in the number of Pell recipients for fiscal year 2012-2013. Capital grants had a significant increase because of the \$1,000,000 grant awarded by the Golden Leaf Foundation for the construction of the diesel mechanics building.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Salaries and Benefits	\$ 9,618,242.78	\$ 9,542,616.76	\$ 75,626.02	0.79%
Supplies and Materials	1,989,103.41	1,801,302.45	187,800.96	10.43%
Services	1,928,097.04	1,672,142.65	255,954.39	15.31%
Scholarships and Fellowships	2,215,905.21	2,577,544.53	(361,639.32)	-14.03%
Utilities	251,502.05	263,506.54	(12,004.49)	-4.56%
Depreciation	385,325.34	374,648.34	10,677.00	2.85%
Total Expenses	\$ 16,388,175.83	\$ 16,231,761.27	\$ 156,414.56	0.96%

Salaries and benefits 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 14.23%, an increase of 1.12%, compared to the previous year of 13.12%. Also, the employer portion of the health insurance for each employee increased from \$410.94 to \$432.66 per month. Supplies and materials had an increase of 10.43% and services had an increase of 15.31% mainly from work performed on multiple building roofs and HVAC units. Scholarships and fellowships decreased 14.03% from the prior year. This decrease is mainly attributed to an increase in students using financial aid to satisfy their tuition and fee charges, as well as books and bookstore supply charges, which resulted in a higher scholarship discounts assessment for the year.

Capital Assets

At June 30, 2013, the College reported \$14,372,003.95 invested in capital assets less \$5,588,861.82 in accumulated depreciation for net investment in capital assets of \$8,783,142.13.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Land	\$ 172,764.05	\$ 172,764.05	\$ 0.00	0.00%
Buildings	6,573,932.36	6,770,305.96	(196,373.60)	-2.90%
Machinery and Equipment	750,973.51	814,646.35	(63,672.84)	-7.82%
General Infrastructure	1,285,472.21	1,349,714.75	(64,242.54)	-4.76%
Capital Assets, Net	\$ 8,783,142.13	\$ 9,107,431.11	\$ (324,288.98)	-3.56%

Economic Factors

For the 2013-2014 fiscal year, the College should receive approximately 50% 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The College experienced a slight decline in curriculum enrollment which is consistent with many of the community colleges within the North Carolina Community College System. Also, effective Fall 2013, the waivers that allowed senior citizens to take up to six credit hours of curriculum classes free of charge were eliminated. There may also be a slight decrease in enrollment due to the closing of the local prison in which the College provided instruction for such programs as food service and masonry.

The College is expected to serve many of the community's business and industry leaders once the diesel mechanics building is erected. The building will include space for classroom and hands-on experience for students enrolled in the program.

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

James Sprunt Community College
Statement of Net Position
June 30, 2013

Exhibit A-1

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 961,886.53
Restricted Cash and Cash Equivalents	966,807.04
Receivables, Net (Note 3)	356,491.51
Inventories	93,199.40
	<hr/>
Total Current Assets	2,378,384.48
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	390,426.77
Restricted Due from Primary Government	19,455.00
Restricted Due from State of North Carolina Component Units	1,000,000.00
Capital Assets - Nondepreciable (Note 4)	172,764.05
Capital Assets - Depreciable, Net (Note 4)	8,610,378.08
	<hr/>
Total Noncurrent Assets	10,193,023.90
	<hr/>
Total Assets	12,571,408.38

DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	<hr/> 0.00
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LIABILITIES

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	216,573.06
Unearned Revenue	62,136.41
Funds Held for Others	125,978.12
Long-Term Liabilities - Current Portion (Note 6)	126,761.61
	<hr/>
Total Current Liabilities	531,449.20
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	606,823.09
	<hr/>
Total Liabilities	1,138,272.29

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<hr/> 0.00
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NET POSITION

Investment in Capital Assets	8,783,142.13
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	17,620.30
Expendable:	
Scholarships and Fellowships	59,007.41
Loans	5,631.00
Capital Projects	1,401,821.45
Restricted for Specific Programs	450,558.51
Other	263,098.88
	<hr/>
Unrestricted	452,256.41
	<hr/>
Total Net Position	\$ 11,433,136.09

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 Position
For the Fiscal Year Ended June 30, 2013***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 785,700.48
Federal Grants and Contracts	914.00
State and Local Grants and Contracts	50,578.67
Sales and Services, Net (Note 8)	342,807.73
Other Operating Revenues	22,469.96
	<hr/>
Total Operating Revenues	1,202,470.84
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	9,618,242.78
Supplies and Materials	1,989,103.41
Services	1,928,097.04
Scholarships and Fellowships	2,215,905.21
Utilities	251,502.05
Depreciation	385,325.34
	<hr/>
Total Operating Expenses	16,388,175.83
	<hr/>
Operating Loss	(15,185,704.99)
	<hr/>

NONOPERATING REVENUES

State Aid	6,818,801.69
County Appropriations	1,362,585.00
Noncapital Grants - Student Financial Aid	5,083,230.45
Noncapital Grants	1,106,277.33
Investment Income	3,609.63
Other Nonoperating Revenues	3,560.94
	<hr/>
Total Nonoperating Revenues	14,378,065.04
	<hr/>
Loss Before Other Revenues	(807,639.95)

State Capital Aid	179,599.09
County Capital Aid	243,000.00
Capital Grants	1,109,123.20
	<hr/>
Increase in Net Position	724,082.34

NET POSITION

Net Position, July 1, 2012	10,709,053.75
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Net Position, June 30, 2013	\$ 11,433,136.09
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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, 2013

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,312,144.03
Payments to Employees and Fringe Benefits	(9,633,151.32)
Payments to Vendors and Suppliers	(4,386,036.30)
Payments for Scholarships and Fellowships	(2,215,905.21)
Other Receipts	109,577.90
	<hr/>
Net Cash Used by Operating Activities	(14,813,370.90)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	6,818,801.69
County Appropriations	1,362,585.00
Noncapital Grants - Student Financial Aid	5,467,635.78
Noncapital Grants Received	1,106,277.33
William D. Ford Direct Lending Receipts	3,424,926.00
William D. Ford Direct Lending Disbursements	(3,424,926.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	14,755,299.80

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	179,599.09
County Capital Aid	243,000.00
Capital Grants Received	109,123.20
Acquisition and Construction of Capital Assets	(66,287.95)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	465,434.34

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	4,118.91
	<hr/>
Cash Provided by Investing Activities	4,118.91

Net Increase in Cash and Cash Equivalents	411,482.15
Cash and Cash Equivalents, July 1, 2012	1,907,638.19
	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 2,319,120.34

James Sprunt Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (15,185,704.99)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	385,325.34
Miscellaneous Nonoperating Income	8,812.53
Changes in Assets and Liabilities:	
Receivables, Net	108,013.73
Inventories	26,960.44
Accounts Payable and Accrued Liabilities	(270,061.31)
Unearned Revenue	3,643.33
Funds Held for Others	98,781.50
Compensated Absences	10,858.53
	<hr/>
Net Cash Used by Operating Activities	\$ (14,813,370.90)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 961,886.53
Restricted Cash and Cash Equivalents	966,807.04
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	390,426.77
	<hr/>
Total Cash and Cash Equivalents - June 30, 2013	\$ 2,319,120.34

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	1,000,000.00
Loss on Disposal of Capital Assets	(5,251.59)

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

James Sprunt Foundation, Inc.
Statement of Financial Position
June 30, 2013

Exhibit B-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 177,308
Accounts Receivable	2,870
Unconditional Promises to Give, Current	8,500
Investments	5,684
Prepaid Expenses and Other Assets	28

Total Current Assets	194,390
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Endowment Assets	1,037,262
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Total Assets	1,231,652
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	8,895
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Total Current Liabilities and Total Liabilities	8,895
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Net Assets:

Unrestricted:

Designated by Board of Directors	6,400
Undesignated	72,727

Total Unrestricted	79,127
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Temporarily Restricted	277,404
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Permanently Restricted	866,226
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Total Net Assets	1,222,757
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Total Liabilities and Net Assets	\$ 1,231,652
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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, 2013

Exhibit B-2

UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT

Contributions	\$ 29,140
Scholarship Income	7,250
Special Event Revenue	41,185
Interest and Dividend Income	672
Net Realized and Unrealized Gain on Investments	81
Net Assets Released from Restrictions	29,215
Other	772
	<hr/>
Total Unrestricted Revenue, Gains and Other Support	108,315

EXPENSES

Program Services	
Financial Aid	21,900
Educational Assistance	16,759
Communications and Development	11,284
	<hr/>
Total Program Services	49,943
Supporting activities	
Management and General	30,174
Cost of Direct Benefits to Donors	26,115
	<hr/>
Total Supporting Activities	56,289
	<hr/>
Total Expenses	106,232
	<hr/>
Increase in Unrestricted Net Assets	2,083

TEMPORARILY RESTRICTED NET ASSETS

Contributions	100,846
Scholarship Income	4,302
Interest and Dividend Income	31,751
Net Realized and Unrealized Loss on Investments	(26,000)
Net Assets Released from Restrictions:	(29,215)
	<hr/>
Increase in Temporarily Restricted Net Assets	81,684

PERMANENTLY RESTRICTED NET ASSETS

Endowment Contributions	79,050
	<hr/>
Increase in Permanently Restricted Net Assets	79,050
	<hr/>
Increase in Net Assets	162,817
Net Assets, Beginning of Year	1,059,940
	<hr/>
Net Assets, End of Year	<u>\$ 1,222,757</u>

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

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**JAMES SPRUNT COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

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 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 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 is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 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 the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2013, 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 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.

- 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, include 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 (STIF). The STIF 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Nonexpendable - Nonexpendable restricted net position includes 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 Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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 Position. 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 nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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 Position as cash and cash equivalents includes cash on hand totaling \$600

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and deposits in private financial institutions with a carrying value of \$1,703,651.87 and a bank balance of \$1,856,765.05.

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, 2013, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings; 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 of custodian.

At June 30, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$614,868.47 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) 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) 707-0500.

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 and includes cash and money market accounts with financial institutions as well as other endowment assets:

Endowment Cash and Cash Equivalents

Southern Bank-Checking Account	\$ 85,085
UBS-Money Market Account	183,316
	268,401
Total Endowment Cash and Cash Equivalents	268,401

Endowment Investments

Stocks and Bonds	109,652
Certificates of Deposit	655,373
Other	3,836
	768,861
Total Endowment Investments	768,861
Total Endowment Assets	\$ 1,037,262

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 504,739.30	\$ 404,851.50	\$ 99,887.80
Accounts	182,578.31		182,578.31
Intergovernmental	58,467.49		58,467.49
Other	15,557.91		15,557.91
Total Current Receivables	\$ 761,343.01	\$ 404,851.50	\$ 356,491.51

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Capital Assets, Nondepreciable:				
Land	\$ 172,764.05	\$ 0.00	\$ 0.00	\$ 172,764.05
Total Capital Assets, Nondepreciable	<u>172,764.05</u>			<u>172,764.05</u>
Capital Assets, Depreciable:				
Buildings	10,992,706.21			10,992,706.21
Machinery and Equipment	1,488,853.70	66,287.95	18,998.13	1,536,143.52
General Infrastructure	1,670,390.17			1,670,390.17
Total Capital Assets, Depreciable	<u>14,151,950.08</u>	<u>66,287.95</u>	<u>18,998.13</u>	<u>14,199,239.90</u>
Less Accumulated Depreciation for:				
Buildings	4,222,400.25	196,373.60		4,418,773.85
Machinery and Equipment	674,207.35	124,709.20	13,746.54	785,170.01
General Infrastructure	320,675.42	64,242.54		384,917.96
Total Accumulated Depreciation	<u>5,217,283.02</u>	<u>385,325.34</u>	<u>13,746.54</u>	<u>5,588,861.82</u>
Total Capital Assets, Depreciable, Net	<u>8,934,667.06</u>	<u>(319,037.39)</u>	<u>5,251.59</u>	<u>8,610,378.08</u>
Capital Assets, Net	<u>\$ 9,107,431.11</u>	<u>\$ (319,037.39)</u>	<u>\$ 5,251.59</u>	<u>\$ 8,783,142.13</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 164,171.08
Accrued Payroll	<u>52,401.98</u>
Total	<u>\$ 216,573.06</u>

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated Absences	\$ 722,726.17	\$ 401,516.28	\$ 390,657.75	\$ 733,584.70	\$ 126,761.61

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease revenue under noncancelable operating leases related to wireless broadband services is recorded when received. These minimum future lease revenues consist of the following as of June 30, 2013:

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 14,526.00
2015	14,526.00
2016	14,526.00
2017	14,526.00
2018	14,526.00
2019-2023	72,630.00
2024-2028	72,630.00
2029-2033	72,630.00
2034-2036	43,578.00
Total Minimum Lease Revenues	\$ 334,098.00

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>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,584,030.71</u>	<u>\$ 1,697,300.52</u>	<u>\$ 101,029.71</u>	<u>\$ 785,700.48</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,285,608.91	\$ 988,200.00	\$ 0.00	\$ 297,408.91
Other	45,398.82			45,398.82
Total Sales and Services	<u>\$ 1,331,007.73</u>	<u>\$ 988,200.00</u>	<u>\$ 0.00</u>	<u>\$ 342,807.73</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:

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 5,097,177.51	\$ 348,453.42	\$ 194,441.41	\$ 4,337.63	\$ 0.00	\$ 0.00	\$ 5,644,409.97
Academic Support	854,297.87	58,380.10	15,513.24				928,191.21
Student Services	1,352,439.34	37,858.08	405,225.68	44,947.85			1,840,470.95
Institutional Support	1,959,066.59	86,536.66	686,593.77	1,295.25			2,733,492.27
Operations and Maintenance of Plant	313,992.96	387,877.42	519,724.03		251,502.05		1,473,096.46
Student Financial Aid			6,544.65	2,165,324.48			2,171,869.13
Auxiliary Enterprises	41,268.51	1,069,997.73	100,054.26				1,211,320.50
Depreciation						385,325.34	385,325.34
Total Operating Expenses	\$ 9,618,242.78	\$ 1,989,103.41	\$ 1,928,097.04	\$ 2,215,905.21	\$ 251,502.05	\$ 385,325.34	\$ 16,388,175.83

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$7,510,559.43, of which \$6,352,792.23 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$529,187.59 and \$381,167.53, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$529,187.59, \$475,484.71, and \$321,658.91, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The TSERS 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) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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 \$18,350 for the year ended June 30, 2013.

Internal Revenue Code 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 \$77,629.04 for the year ended June 30, 2013.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$336,697.99, \$319,546.17, and \$319,701.55, 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) 707-0500.

- 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year ended June 30, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$27,952.29, \$33,232.80, and \$33,927.51, 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 a 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 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.

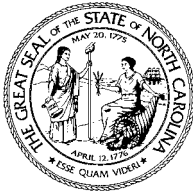
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries 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 \$43,696 at June 30, 2013.

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

Board of Trustees
James Sprunt Community College
Kenansville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2013, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated April 24, 2014. Our report includes a reference to other auditors who audited the financial statements of James Sprunt Foundation, Inc., as described in our report on the College's financial statements. The financial statements of James Sprunt Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with James Sprunt Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A *significant deficiency* is a deficiency,

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ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

April 24, 2014

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
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For additional information contact:

Bill Holmes
Director of External Affairs