STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

JAMES SPRUNT COMMUNITY COLLEGE

KENANSVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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, 2015, 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 a deficiency that is 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 ways listed in the back of this report.

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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, 2015, 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 opinions, insofar as they relate to the amounts included for James Sprunt Foundation, Inc., are 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 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 respective financial position of James Sprunt Community College, and its discretely presented component unit, as of June 30, 2015, and the respective 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2015, James Sprunt Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68. – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 May 5, 2016 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 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

May 5, 2016

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, 2015. 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 basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The focus of the Statement of Net Position is designed to be a snapshot of financial condition at a point in time. The Statement of Net Position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) of the College as of the end of the fiscal year. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. This statement provides the user knowledge of the increases and/or decreases in net position which can be used to measure the financial position of the College at the end of the current year.

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.

Financial Analysis

Condensed Statement of Net Position

For the Year Ended, June 30, as Indicated

	2015	2014 (as restated)	Increase (Decrease)	Percent Change
Assets:				
Current Assets	$ 2,752,650.66	$ 2,722,380.30	$ 30,270.36	1.1%
Capital Assets, Net	9,056,874.81	8,847,502.45	209,372.36	2.4%
Noncurrent Assets	1,155,989.32	1,105,647.04	50,342.28	4.6%
Total Assets	12,965,514.79	12,675,529.79	289,985.00	2.3%
Deferred Outflows of Resources:	586,054.00	572,260.00	13,794.00	2.4%
Liabilities:				
Current Liabilities	895,398.79	811,709.01	83,689.78	10.3%
Noncurrent Liabilities	1,126,744.83	3,445,650.48	(2,318,905.65)	-67.3%
Total Liabilities	2,022,143.62	4,257,359.49	(2,235,215.87)	-52.5%
Deferred Inflows of Resources:	1,987,260.00		1,987,260.00	100.0%
Net Position:				
Net Investment in Capital Assets	9,033,549.07	8,847,462.45	186,086.62	2.1%
Restricted	1,877,254.67	1,807,193.62	70,061.05	3.9%
Unrestricted	(1,368,638.57)	(1,664,265.77)	295,627.20	17.8%
Total Net Position	$ 9,542,165.17	$ 8,990,390.30	$ 551,774.87	6.1%

Noncurrent liabilities decreased by $2,318,905.65 (67.3%), which was substantially attributable to the change of the College's proportionate share of the collective net pension liability for the Teachers' and State Employees' Retirement System.

With the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributors Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, the College recorded deferred outflows related to pensions of $586,054.00, a net pension liability of $541,190.00, and deferred inflows related to pensions of $1,987,260.00 at June 30, 2015. The College's unrestricted net position at June 30, 2014 was $641,137.23. After restating for GASB 68, unrestricted net position was ($1,664,265.77) as of July 1, 2014 - a decrease of $2,305,403.00. Unrestricted net position at June 30, 2015 was ($1,368,638.57) - an increase of $295,627.20 from the restated July 1, 2014 balance.

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

For the Year Ended, June 30, as Indicated

	2015	2014*	Increase (Decrease)	Percent Change
Operating Revenues:				
Student Tuition and Fees, Net	$ 590,336.63	$ 647,432.52	$ (57,095.89)	-8.8%
Sales and Services and Other, Net	375,354.85	333,873.24	41,481.61	12.4%
Total Operating Revenues	965,691.48	981,305.76	(15,614.28)	-1.6%
Total Operating Expenses	14,862,532.20	16,272,349.79	(1,409,817.59)	-8.7%
Operating Loss	(13,896,840.72)	(15,291,044.03)	1,394,203.31	9.1%
Nonoperating Revenues (Expenses):				
State Aid	7,497,026.82	7,381,421.67	115,605.15	1.6%
County Appropriations	1,621,168.00	1,543,970.00	77,198.00	5.0%
Noncapital Grants	4,541,843.30	5,146,564.01	(604,720.71)	-11.7%
Investment Income	3,491.62	3,607.06	(115.44)	-3.2%
Other Nonoperating Revenues (Expenses)	11,833.80	(27,043.46)	(38,877.26)	-143.8%
Net Nonoperating Revenues	13,675,363.54	14,048,519.28	(373,155.74)	-2.7%
Other Revenues:				
State Capital Aid	448,673.22	805,195.22	(356,522.00)	-44.3%
County Capital Aid	267,907.00	255,150.00	12,757.00	5.0%
Capital Grants	56,671.83	44,836.74	11,835.09	26.4%
Total Other Revenues	773,252.05	1,105,181.96	(331,929.91)	-30.0%
Increase (Decrease) in Net Assets	551,774.87	(137,342.79)	$ 689,117.66	501.8%
Net Position - Beginning of Year	11,295,793.30	11,433,136.09		
Restatement	(2,305,403.00)			
Net Position - End of Year	$ 9,542,165.17	$ 11,295,793.30		
Reconciliation of Changes in Net Position				
Total Revenues	$ 15,414,307.07	$ 16,162,050.46	$ (747,743.39)	-4.6%
Less: Total Expenses	14,862,532.20	16,299,393.25	(1,436,861.05)	-8.8%
Increase in Net Position	$ 551,774.87	$ (137,342.79)	$ 689,117.66	501.8%

**Note: The year-end June 30,2014, column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.*

Noncapital grants decreased $604,720.71 (11.7%) mainly due to the decrease in the number of Pell grant recipients for fiscal year 2014-2015 as well as more students having met their lifetime eligibility requirement to qualify for Pell grants. State capital aid decreased $356,522.00 (44.3%) due to state budget cuts which impacted the total amount of allocations given to each college.

Operating Expenses

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent Change
Salaries and Benefits	$ 9,414,351.44	$ 10,032,182.70	$ (617,831.26)	-6.2%
Supplies and Materials	1,734,620.42	2,128,150.00	(393,529.58)	-18.5%
Services	1,669,213.61	1,818,882.59	(149,668.98)	-8.2%
Scholarships and Fellowships	1,350,759.29	1,724,883.85	(374,124.56)	-21.7%
Utilities	252,527.55	288,072.84	(35,545.29)	-12.3%
Depreciation	441,059.89	295,548.78	145,511.11	49.2%
Total Expenses	$ 14,862,532.20	$ 16,287,720.76	$ (1,425,188.56)	-8.8%

The College experienced an 8.8% overall decrease in expenditures from the prior fiscal year. Salaries and benefits comprise the largest category of expenditures. This category includes salary and benefit expenses, retirement contribution, and employer tax amounts. The North Carolina government's retirement rate was set as 15.21% as compared to the previous year of 14.69%. There was a 6.2% decrease in this category due to the retirement of several long time employees during the 2014-2015 fiscal year. Supplies and materials showed an 18.5% decrease due to efforts to reduce campus wide spending. The 21.7% decrease in scholarships and fellowships was mainly due to a decrease in Pell grant awards as well as decreases in some state grants including North Carolina Community College Grants and North Carolina Educational Lottery Scholarships. The 49.2% increase in depreciation expense was caused by an extension of the useful lives during the prior period of certain fully depreciated assets still in use.

Capital Assets

At June 30, 2015, the College reported $14,456,695.90 invested in depreciable capital assets less $6,154,305.45 in accumulated depreciation for net depreciable capital assets of $8,302,390.45. There was significant activity in construction in progress due to the building of the new diesel mechanics facility.

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent Change
Land	$ 172,764.05	$ 172,764.05	$ 0.00	0%
Construction in Progress	581,720.31	84,858.00	496,862.31	586%
Buildings	6,147,481.81	6,343,737.05	(196,255.24)	-3%
Machinery and Equipment	928,894.03	991,296.49	(62,402.46)	-6%
General Infrastructure	1,226,014.61	1,254,806.86	(28,792.25)	-2%
Capital Assets, Net	$ 9,056,874.81	$ 8,847,462.45	$ 209,412.36	2%

Economic Factors

For the 2015-2016 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.

Enrollment growth in curriculum and occupational extension courses are expected to increase in the fiscal year 2015-2016 as the College continues to revamp the recruitment and marketing efforts within the community. Occupational extension enrollment is projected to increase due to addition of the Certified Nursing Assistant, Manicurist, and Certified Production Technician training classes being added to the continuing education schedule. Also, the continuing education barber school classes continue to maintain steady enrollment with each new semester.

The College expects to finish the construction of the diesel mechanics building during the 2015-2016 fiscal year. This construction project is being funded mainly from a grant received from the Golden Leaf Foundation.

During the 2014-2015 fiscal year, the College also received two additional grant awards. The Duke Energy Community College Grant Program approved a $128,000 grant to the College for the Certified Production Technician Training Program, which is operated under the

Continuing Education Division. The program provides skilled training and education to the local employers and their employees to equip students with skills needed to be productive technicians. Secondly, the College received an $18,000 grant award from the Charles Koch Foundation to be used for educational, scientific, and literary purposes for the Male Mentoring Program.

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.

FINANCIAL STATEMENTS

James Sprunt Community College
Statement of Net Position
June 30, 2015

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,056,071.89
Restricted Cash and Cash Equivalents	1,212,235.93
Receivables, Net (Note 3)	313,908.24
Inventories	170,434.60
Total Current Assets	2,752,650.66
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	336,534.32
Restricted Due from Primary Government	19,455.00
Restricted Due from State of NC Component Units	800,000.00
Capital Assets - Nondepreciable (Note 4)	754,484.36
Capital Assets - Depreciable, Net (Note 4)	8,302,390.45
Total Noncurrent Assets	10,212,864.13
Total Assets	12,965,514.79
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	586,054.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	718,160.77
Unearned Revenue	24,643.58
Funds Held for Others	19,677.05
Long-Term Liabilities - Current Portion (Note 6)	132,917.39
Total Current Liabilities	895,398.79
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	1,126,744.83
Total Liabilities	2,022,143.62
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	1,987,260.00

NET POSITION

Net Investment in Capital Assets	9,033,549.07
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	17,653.16
Expendable:	
Loans	5,631.00
Capital Projects	1,026,585.01
Restricted for Specific Programs	641,319.86
Other	186,065.64
Unrestricted	(1,368,638.57)
Total Net Position	$ 9,542,165.17

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, 2015

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	$ 590,336.63
Sales and Services, Net (Note 8)	352,195.40
Other Operating Revenues	23,159.45
Total Operating Revenues	965,691.48
EXPENSES	
Operating Expenses:	
Salaries and Benefits	9,414,351.44
Supplies and Materials	1,734,620.42
Services	1,669,213.61
Scholarships and Fellowships	1,350,759.29
Utilities	252,527.55
Depreciation	441,059.89
Total Operating Expenses	14,862,532.20
Operating Loss	(13,896,840.72)
NONOPERATING REVENUES	
State Aid	7,497,026.82
County Appropriations	1,621,168.00
Noncapital Grants - Student Financial Aid	3,052,632.02
Noncapital Grants	1,489,211.28
Investment Income	3,491.62
Other Nonoperating Revenues	11,833.80
Total Nonoperating Revenues	13,675,363.54
Loss Before Other Revenues	(221,477.18)
State Capital Aid	448,673.22
County Capital Aid	267,907.00
Capital Grants	56,671.83
Increase in Net Position	551,774.87
NET POSITION	
Net Position, July 1, 2014 as Restated (Note 14)	8,990,390.30
Net Position, June 30, 2015	$ 9,542,165.17

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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 935,384.43
Payments to Employees and Fringe Benefits	(9,748,885.54)
Payments to Vendors and Suppliers	(3,585,672.30)
Payments for Scholarships and Fellowships	(1,350,759.29)
Other Payments	(6,080.78)
Net Cash Used by Operating Activities	(13,756,013.48)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,497,026.82
County Appropriations	1,621,168.00
Noncapital Grants - Student Financial Aid	3,074,531.75
Noncapital Grants	1,489,211.28
Noncapital Gifts	12,108.00
Cash Provided by Noncapital Financing Activities	13,694,045.85
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	448,673.22
County Capital Aid	267,907.00
Capital Grants	256,671.83
Proceeds from Sale of Capital Assets	656.05
Acquisition and Construction of Capital Assets	(630,031.20)
Net Cash Provided by Capital and Related Financing Activities	343,876.90
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	3,491.62
Cash Provided by Investing Activities	3,491.62
Net Increase in Cash and Cash Equivalents	285,400.89
Cash and Cash Equivalents, July 1, 2014	2,319,441.25
Cash and Cash Equivalents, June 30, 2015	$ 2,604,842.14

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(13,896,840.72)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		441,059.89
Pension Expense		223,047.00
Nonoperating Other Income		14,062.44
Changes in Assets, Liabilities, and Deferred Outflows of Resources:		
Receivables, Net		(19,667.09)
Inventories		(9,552.39)
Accounts Payable and Accrued Liabilities		75,059.66
Unearned Revenue		(15,279.09)
Funds Held for Others		(15,504.09)
Deferred Outflows - Contributions After the Measurement Date		(586,054.00)
Compensated Absences		33,654.91
Net Cash Used by Operating Activities	$	(13,756,013.48)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,056,071.89
Restricted Cash and Cash Equivalents		1,212,235.93
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		336,534.32
Total Cash and Cash Equivalents - June 30, 2015	$	2,604,842.14

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	23,325.74
Loss on Disposal of Capital Assets		(2,228.64)

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

James Sprunt Foundation, Inc.
Statement of Financial Position
June 30, 2015 ***Exhibit B-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	226,554
Accounts Receivable		7,965
Unconditional Promises to Give Due in One Year, Net		84,296
Investments		5,636
Other Assets		27
Total Current Assets		324,478
Other Assets:		
Unconditional Promises to Give Due After One Year, Net		131,817
Endowment Assets		1,177,927
Total Other Assets		1,309,744
Total Assets	$	1,634,222
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	$	539
Total Current Liabilities and Total Liabilities		539
Net Assets:		
Unrestricted:		
Designated by Board of Directors		6,400
Undesignated		68,228
Total Unrestricted		74,628
Temporarily Restricted		488,420
Permanently Restricted		1,070,635
Total Net Assets		1,633,683
Total Liabilities and Net Assets	$	1,634,222

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, 2015 — *Exhibit B-2*

UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT		
Contributions	$	27,311
Scholarship Income		9,020
Special Event Revenue		43,900
Interest and Dividend Income		734
Net Realized and Unrealized Loss on Investments		(291)
Net Assets Released from Restrictions		56,657
Total Unrestricted Revenue, Gains, and Other Support		137,331
EXPENSES		
Program Services:		
Financial Aid		15,946
Educational Assistance		13,769
Communications and Development		10,920
Total Program Services		40,635
Supporting Activities:		
Management and General		30,441
Cost of Direct Benefits to Donors		20,736
Provision for Uncollectible Promises to Give		14,531
Total Supporting Activities		65,708
Total Expenses		106,343
Increase in Unrestricted Net Assets		30,988
TEMPORARILY RESTRICTED NET ASSETS		
Contributions		67,574
Scholarship Income		117,009
Interest and Dividend Income		35,858
Net Realized and Unrealized Loss on Investments		(29,049)
Transfer to Permanently Restricted Net Assets		(654)
Net Assets Released from Restrictions		(55,037)
Increase in Temporarily Restricted Net Assets		135,701
PERMANENTLY RESTRICTED NET ASSETS		
Endowment Contributions		179,236
Transfer from Temporarily Restricted Net Assets		654
Net Assets Released from Restrictions		(1,620)
Increase in Permanently Restricted Net Assets		178,270
Increase in Net Assets		344,959
Net Assets, Beginning of Year		1,288,724
Net Assets, End of Year	$	1,633,683

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

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 (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 is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – James Sprunt Foundation, Inc. (Foundation) is a legally separate, tax-exempt, nonprofit 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 13 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 nonprofit 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 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, 2015, the Foundation distributed $24,600 to the College for both restricted and unrestricted purposes. 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 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.

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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

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 includes net pension liability and compensated absences payable that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 10 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

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 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. Both restricted and unrestricted net position include consideration of deferred outflows and inflows of resources.

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 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 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 $600.00, and deposits in private financial institutions with a carrying value of $1,995,527.50 and a bank balance of $2,097,358.83.

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, 2015, 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, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes $608,714.64 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF 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 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:

Endowment Cash and Cash Equivalents	
Southern Bank-Checking Account	$ 157,386.00
UBS-Money Market Account	2,957.00
Total Endowment Cash and Cash Equivalents	$ 160,343.00
Endowment Investments	
Debt and Equity Securities	$ 1,017,584.00

Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (Level 1 measurements) and are comprised of primarily bonds, mutual funds, and exchange traded funds.

Investments are maintained in two accounts with one brokerage firm, UBS, with the exception of one small direct investment in a mutual fund. These balances are insured by the Securities Investor Protection Corporation (SIPC) up to $500,000 including $250,000 for claims for cash. In addition, UBS maintains supplemental insurance coverage in excess of the standard SIPC coverage. The supplemental coverage insures cash holdings for all accounts an entity holds up to a total of $1.9 million. The account protection applies when a firm fails financially and is unable to meet obligations to security clients, but it does not protect against losses from the rise and fall in the market value of investments.

Investment fees paid during the fiscal year ended June 30, 2015 were $4,907.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 676,485.21	$ 563,364.75	$ 113,120.46
Accounts	181,641.17		181,641.17
Other	19,146.61		19,146.61
Total Current Receivables	$ 877,272.99	$ 563,364.75	$ 313,908.24

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	$ 172,764.05	$ 0.00	$ 0.00	$ 172,764.05
Construction in Progress	84,858.00	501,395.31	4,533.00	581,720.31
Total Capital Assets, Nondepreciable	257,622.05	501,395.31	4,533.00	754,484.36
Capital Assets, Depreciable:				
Buildings	10,992,706.21	21,212.00		11,013,918.21
Machinery and Equipment	1,680,765.84	135,282.63	43,660.95	1,772,387.52
General Infrastructure	1,670,390.17			1,670,390.17
Total Capital Assets, Depreciable	14,343,862.22	156,494.63	43,660.95	14,456,695.90
Less Accumulated Depreciation for:				
Buildings	4,648,969.16	217,467.24		4,866,436.40
Machinery and Equipment	689,469.35	194,800.40	40,776.26	843,493.49
General Infrastructure	415,583.31	28,792.25		444,375.56
Total Accumulated Depreciation	5,754,021.82	441,059.89	40,776.26	6,154,305.45
Total Capital Assets, Depreciable, Net	8,589,840.40	(284,565.26)	2,884.69	8,302,390.45
Capital Assets, Net	$ 8,847,462.45	$ 216,830.05	$ 7,417.69	$ 9,056,874.81

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 440,988.65
Accrued Payroll	253,846.38
Contract Retainage	23,325.74
Total Current Accounts Payable and Accrued Liabilities	$ 718,160.77

NOTE 6 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	$ 2,877,663.00	$ 0.00	$ 2,336,473.00	$ 541,190.00	$ 0.00
Compensated Absences	684,817.31	539,157.13	505,502.22	718,472.22	132,917.39
Total Long-Term Liabilities	$ 3,562,480.31	$ 539,157.13	$ 2,841,975.22	$ 1,259,662.22	$ 132,917.39

Additional information regarding the net pension liability is included in Note 10.

NOTE 7 - OPERATING LEASE REVENUES

Future minimum lease revenues 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, 2015:

Fiscal Year	Amount
2016	$ 14,526.00
2017	14,526.00
2018	14,526.00
2019	14,526.00
2020	14,526.00
2021-2025	72,630.00
2026-2030	72,630.00
2031-2035	72,630.00
2036	14,526.00
Total Minimum Lease Revenue	$ 305,046.00

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:

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles*	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,667,018.40	$ 980,314.63	$ 96,367.14	$ 590,336.63
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 940,980.81	$ 615,387.60	$ 0.00	$ 325,593.21
Other	26,602.19			26,602.19
Total Sales and Services	$ 967,583.00	$ 615,387.60	$ 0.00	$ 352,195.40

** Note: The Allowance for Uncollectibles is equivalent to the change in the Allowance for Doubtful Accounts, excluding items such as direct write-offs.*

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,846,494.75	$ 471,633.50	$ 137,837.49	$ 0.00	$ 0.00	$ 0.00	$ 5,455,965.74
Academic Support	753,319.73	50,587.94	16,479.96				820,387.63
Student Services	1,424,671.53	35,894.26	404,956.47	40,240.00			1,905,762.26
Institutional Support	1,689,376.73	129,789.54	518,336.08	1,397.14			2,338,899.49
Operations and Maintenance of Plant	434,613.75	305,449.24	465,097.12		252,527.55		1,457,687.66
Student Financial Aid			4,432.00	1,293,906.69			1,298,338.69
Auxiliary Enterprises	42,827.95	741,265.94	122,074.49	15,215.46			921,383.84
Depreciation/ Amortization						441,059.89	441,059.89
Pension Expense	223,047.00						223,047.00
Total Operating Expenses	$ 9,414,351.44	$ 1,734,620.42	$ 1,669,213.61	$ 1,350,759.29	$ 252,527.55	$ 441,059.89	$ 14,862,532.20

NOTE 10 - PENSION PLAN

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were $586,054.20, and employee contributions were $384,297.83 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2015, the College reported a liability of $541,190.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the College's proportion was 0.04616%, which was a decrease of 2.62% from its proportion measured as of June 30, 2013.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount	1% Increase (8.25%)
$ 3,885,033.00	$ 541,190.00	$ (2,282,199.00)

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2015, the College recognized pension expense of $223,047.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 126,148.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		1,828,482.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions		32,630.00
Contributions Subsequent to the Measurement Date	586,054.00	
Total	$ 586,054.00	$ 1,987,260.00

The amount of $586,054.00 of the amount reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year ended June 30:	Amount
2016	$ (499,016.00)
2017	(499,016.00)
2018	(499,016.00)
2019	(490,212.00)
Total	$ (1,987,260.00)

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

(TSERS). 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 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 TSERS 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 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were $351,632.52, $355,074.76, and $336,697.99, 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 TSERS. 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, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were $26,260.35, $28,932.02, and $27,952.29, 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.

A. Employee Benefit Plans

1. State Health Plan

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.

2. Death Benefit Plan of North Carolina

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.

B. Other Risk Management and Insurance Activities

1. Automobile, Fire, and Other Property Loss Insurance

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.

2. Public Officers' and Employees' Liability Insurance

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.

3. Employee Dishonesty and Computer Fraud

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 a separate policy with private insurance company.

4. Statewide Workers' Compensation Program

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.

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. There were no outstanding commitments on other purchases and outstanding commitments on construction contracts were $889,152.50 at June 30, 2015.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

		Amount
July 1, 2014 Net Position as Previously Reported	$	11,295,793.30
Restatement:		
Record the College's Net Pension Liability and Pension Related Deferred Outflows of Resources per GASB 68 Requirements		(2,305,403.00)
July 1, 2014 Net Position as Restated	$	8,990,390.30

REQUIRED SUPPLEMENTARY INFORMATION

James Sprunt Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Two Fiscal Years ***Exhibit C-1***

	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.04616%	0.04740%
Proportionate Share of TSERS Collective Net Pension Liability	$ 541,190.00	$ 2,877,663.00
Covered-Employee Payroll	$ 6,575,458.50	$ 6,352,792.23
Net Pension Liability as a Percentage of Covered-Employee Payroll	8.23%	45.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

James Sprunt Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years

Exhibit C-2

	2015	2014	2013	2012	2011
Contractually Required Contribution	$ 586,054.20	$ 571,407.34	$ 529,187.59	$ 475,484.71	$ 321,658.91
Contributions in Relation to the Contractually Determined Contribution	586,054.20	571,407.34	529,187.59	475,484.71	321,658.91
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 6,404,963.89	$ 6,575,458.50	$ 6,352,792.23	$ 6,390,923.46	$ 6,524,521.50
Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
Contractually Required Contribution	$ 234,916.02	$ 227,349.52	$ 213,457.03	$ 179,940.43	$ 148,659.80
Contributions in Relation to the Contractually Determined Contribution	234,916.02	227,349.52	213,457.03	179,940.43	148,659.80
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered-Employee Payroll	$ 6,580,280.77	$ 6,766,354.87	$ 6,998,591.04	$ 6,764,677.70	$ 6,352,982.79
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

James Sprunt Community College
Notes to Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
For the Fiscal Year Ended June 30, 2015

Changes of Benefit Terms:

Cost of Living Increase

2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA

Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

Beth A. Wood, CPA
State Auditor

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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 5, 2016. 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. 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 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.

<u>Internal Control Over Financial Reporting</u>

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Audit Findings and Responses section, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Audit Findings and Responses section to be a material weakness.

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*.

College's Response to Findings

The College's response to the finding identified in our audit is described in the accompanying Audit Findings and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Beth A. Wood, CPA
State Auditor

May 5, 2016

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

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

FINANCIAL STATEMENTS CONTAINED SIGNIFICANT MISSTATEMENTS

Financial statements and notes prepared by the College and submitted for audit contained significant misstatements that were identified and corrected as a result of our audit.

The College did not ensure that controls over financial reporting were designed and implemented to prevent significant misstatements from occurring. The following misstatements resulted from the College's ineffective controls over financial reporting:

Account	Overstated/ (Understated)	Percentage*
Total Net Position	$ 506,083	5%
Unrestricted Net Position	(750,325)	55%
Restricted Expendable Scholarships and Fellowships	23,309	100%
Restricted Expendable Capital Projects	55,759	5%
Restricted Expendable Restricted for Specific Programs	(641,320)	100%
Restricted Expendable Other	336,002	181%
Net Investment in Capital Assets	(17,992)	0%
Cash and Cash Equivalents	(252,159)	24%
Restricted Cash and Cash Equivalents - Current	196,392	16%
Restricted Cash and Cash Equivalents - Noncurrent	55,767	17%
Receivables - Students	8,538	8%
Receivables - Accounts	97,950	54%
Receivables - Intergovernmental	217,308	100%
Receivables - Other	996,024	5202%
Restricted due from State of NC Component Units	(800,000)	100%
Inventories	146,303	86%
Construction in Progress	(70,490)	12%
Accounts Payable	60,377	14%
Contract Retainage	29,173	125%
Noncapital Grants - Student Financial Aid	225,846	7%
Noncapital Grants	196,024	13%
Supplies and Materials	(185,810)	11%
Services	101,597	6%

* Percentage of the overstatement or understatement to the final audited account balance.

Without these error corrections users of the financial statements could be misinformed about the College's financial condition, including sufficiency and flexibility of resources, asset performance and operating results.

The errors in financial reporting occurred and were not detected and corrected by the College, in part because:

- The College did not have an adequate year-end plan designed that would result in a complete and thorough review of the financial statements prior to submission for audit.
- The College did not fully understand the complexities associated with the financial reporting process and the need of inexperienced staff to have additional supervision during the preparation of the financial statements.

The College's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States of America.

Further, best practices require management to periodically review and analyze financial information. The Government Accountability Office (GAO) recommends that senior management should regularly review actual performance against prior period results. The GAO also recommends that "financial and program managers review and compare financial, budgetary, and operational performance to planned or expected results."

Recommendation:

The College should ensure that appropriate and adequate resources are provided to ensure:

- A year-end plan is designed and implemented that would allow for a knowledgeable individual, or group of individuals, to perform a complete and thorough review of the financial statements and related information to ensure accurate and complete year-end reporting,
- Accounting staff obtain additional training on financial reporting matters as deemed necessary, and
- Accounting staff have proper supervision that correlates with their level of experience and understanding of financial reporting.

College Response:

The College will place greater emphasis on the year-end financial reporting process. Year-end procedures will be implemented to ensure the accuracy of financial statements and related information. The College will also ensure that a detailed review of financial statements and supporting documentation be performed by a knowledgeable individual or group of individuals, other than the preparer. The College has contacted a consultant who has agreed to assist the Controller in additional training on financial reporting and the year-end process. The Controller will also attend any additional trainings (workshops, classes, webinars, etc.) related to the financial reporting process.

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477** or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

This audit required 500 audit hours at an approximate cost of $49,500.