



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Southeastern Community College

This report presents the results of our financial statement audit of Southeastern Community College, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Southeastern Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Southeastern Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Southeastern Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting.

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 black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southeastern Community College
Whiteville, North Carolina

We have audited the accompanying basic financial statements of Southeastern Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Campbell, Jr.
State Auditor

December 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Southeastern Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal years ended June 30, 2002, and June 30, 2001. Since 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 footnotes. Responsibility for the completeness and fairness of this information rests with the College.

The Southeastern Community College Management's Discussion and Analysis (MD&A) provides a discussion and analysis of Southeastern Community College's financial performance during the fiscal year that ended June 30, 2002. Please read this MD&A in conjunction with the College's financial statements that follow.

Overview of the Financial Statements

The new financial statement (implemented in the fiscal year ended June 30, 2002) focuses on the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the College. This statement, for the first time, combines and consolidates, current financial resources (short-term consumable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of College activities which are supported mainly by State, local, federal, and other revenues. This approach is intended to summarize and simplify the user's analysis of costs of various College services to students and the public.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Net Assets

Table A-1
Southeastern Community College
Net Assets
(in millions of dollars)

	2002	2001	Total Percentage Change
Assets			
Current Assets	\$ 2.60	\$ 2.05	26.8%
Capital Assets	5.16	5.43	(5.0)%
Other Assets	1.12	1.02	9.8%
 Total Assets	 6.28	 6.45	 (2.6)%
 Liabilities			
Current Liabilities	0.97	1.14	(14.9)%
Long-Term Liabilities	0.02	0.00	0.0%
 Total Liabilities	 0.99	 1.14	 (13.5)%
 Net Assets			
Invested in Capital Assets, Net of Related Debt	5.16	5.36	(3.7)%
Restricted	0.95	0.58	63.8%
Unrestricted	1.62	1.42	14.1%
 Total Net Assets	 \$ 7.7	 \$ 7.4	 5.0%

As of June 30, 2002, the College's net assets have increased slightly to \$7.73 million from \$7.36 million at June 30, 2001. This increase is due in part to a 25.9 percent decrease in current liabilities, and a 28.9 percent increase in capital projects related to the bond issuance.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Changes in Net Assets

Table A-2
Southeastern Community College
Changes in Net Assets
(in millions of dollars)

	2002	2001	Total Percentage Change
Operating Revenues:			
Student Tuition and Fees	\$ 0.57	\$ 0.82	(30.5)%
Federal Grants and Contracts	5.83	4.74	23.0%
State and Local Grants and Contracts	1.21	1.56	(22.4)%
Sales and Services	1.16	1.07	8.4%
Total Operating Revenues	8.77	8.19	7.1%
Nonoperating Revenues:			
State Aid	7.97	9.41	(15.3)%
County Appropriations	1.04	1.18	(11.9)%
Noncapital Grants	0.06	0.00	0.0
Noncapital Gifts, Net	0.20	0.23	(13.0)%
Investment Income, Net	0.02	0.05	(60.0)%
Other Nonoperating Revenues	(0.01)	0.01	(200.0)%
State Capital Aid	0.51	0.00	0.0%
Capital Gifts, Net	0.50	0.20	150.0%
Total Nonoperating Revenues	10.29	11.08	(7.1)%
Total Revenues	19.06	19.27	(1.1)%
Operating Expenses	19.34	18.79	2.9%
Change in Net Assets	\$ (0.3)	\$ 0.5	(158.3)%

Operating expenses at June 30, 2002, increased over the same period in fiscal year 2001. This increase was caused primarily by a \$0.57 million increase in scholarships. The increase in scholarships was due to a higher number of Pell recipients, resulting from increased plant closings in the area.

Operating revenue increased \$0.58 million, which includes a \$0.25 million decrease in tuition and fees, and a \$0.17 million increase in Federal Grants and Contracts.

Nonoperating revenue decreased 14.73 percent due primarily to a decrease in investment income of \$0.03 million and a decrease of \$1.43 million in State aid funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Nonoperating income decreased \$0.51 million primarily from a \$0.03 million decline in investment income, a \$0.01 million decrease in local funding and a \$0.47 million decrease in State aid funding.

Capital Assets

Table A-3
Southeastern Community College
Capital Assets
(net of depreciation, in millions of dollars)

	2002	2001	Total Percentage Change
Land	\$ 0.11	\$ 0.11	0.0%
Construction in Progress	0.02	0.02	0.0%
Buildings	4.14	4.35	(4.9)%
Machinery and Equipment	0.89	0.96	(6.8)%
General Infrastructure	0.00	0.00	0.0
Total	<u>\$ 5.16</u>	<u>\$ 5.43</u>	<u>(5.1)%</u>

As of June 30, 2002, the College had recorded \$11.22 million invested in capital assets, \$6.06 million in accumulated depreciation and \$5.16 million in net capital assets. Due to a change in accounting reporting standards, the College wrote off library books valued at \$1.43 million. This change was shown for comparability effective July 1, 2000.

The College had long-term debt of \$0.38 million as of June 30, 2002. This balance consists of a note payable of \$0.055 million in which \$0.02 million is classified as current. Long-term debt also includes accrued vacation of \$0.34 million of which \$0.32 million is shown as current.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2002, the College had not received any official information on the 2002-2003 budget. However, the State of North Carolina is encountering a budget crisis and the College anticipates further decreases in revenue in the upcoming year.

<i>Southeastern Community College</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2002</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	759,286.32
Restricted Cash and Cash Equivalents		98,130.65
Short-Term Investments		356,055.28
Receivables, Net (Note 3)		1,118,282.81
Inventories		264,441.05
Total Current Assets		2,596,196.11
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		101,043.67
Restricted Due from Primary Government		747,302.53
Notes Receivable, Net (Note 3)		111,846.66
Capital Assets, Net (Note 4)		5,162,671.22
Total Noncurrent Assets		6,122,864.08
Total Assets		8,719,060.19
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		468,935.82
Due to State of North Carolina Component Units		71,539.34
Funds Held for Others		68,949.95
Long-Term Liabilities - Current Portion (Note 6)		360,740.77
Total Current Liabilities		970,165.88
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		15,577.87
Total Liabilities		985,743.75
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		5,162,671.22
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		5,000.00
Expendable:		
Scholarships and Fellowships		130,682.40
Loans		272,687.08
Capital Projects		545,244.18
Unrestricted		1,617,031.56
Total Net Assets	\$	7,733,316.44
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Southeastern Community College</i>		
<i>Statement of Revenues, Expenses, and Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 7)	\$	565,385.16
Federal Grants and Contracts		5,832,817.40
State and Local Grants and Contracts		1,213,945.50
Sales and Services, Net (Note 7)		1,163,339.13
Other Operating Revenues		37,592.86
Total Operating Revenues		8,813,080.05
EXPENSES		
Operating Expenses:		
Personal Services		11,390,710.03
Supplies and Materials		2,541,147.10
Services		1,942,968.65
Scholarships and Fellowships		2,851,312.87
Utilities		257,881.51
Depreciation		360,202.20
Total Operating Expenses		19,344,222.36
Operating Loss		(10,531,142.31)
NONOPERATING REVENUES (EXPENSES)		
State Aid		7,970,627.44
County Appropriations		1,036,804.37
Noncapital Grants		57,499.32
Noncapital Gifts, Net (Note 8)		198,537.15
Investment Income, Net		20,947.50
Other Nonoperating Expenses		(10,366.25)
Net Nonoperating Revenues		9,274,049.53
Loss Before Other Revenues, Expenses, Gains, and Losses		(1,257,092.78)
State Capital Aid		511,220.63
Decrease in Net Assets		(745,872.15)
NET ASSETS		
Net Assets, July 1, 2001 as Restated		8,479,188.59
Net Assets, June 30, 2002	\$	7,733,316.44
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Southeastern Community College</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	\$	8,842,054.27
Payments to Employees and Fringe Benefits		(11,374,981.52)
Payments to Vendors and Suppliers		(4,926,410.57)
Payments for Scholarships and Fellowships		(2,851,512.87)
Loans Issued to Students		(99,218.00)
Collection of Loans to Students		160,883.52
Other Payments		(44,572.84)
Net Cash Used by Operating Activities		(10,293,758.01)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,970,627.44
County Appropriations		1,036,804.37
Noncapital Grants Received		(413,884.83)
Noncapital Gifts and Endowments Received		198,537.15
Net Cash Provided by Noncapital Financing Activities		8,792,084.13
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		343,794.44
Capital Grants Received		1,163,903.56
Principal Paid on Capital Debt and Leases		(22,277.23)
Net Cash Provided by Capital and Related Financing Activities		1,485,420.77
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		20,947.50
Purchase of Investments and Related Fees		(100,000.00)
Net Cash Used by Investing Activities		(79,052.50)
Net Decrease in Cash and Cash Equivalents		(95,305.61)
Cash and Cash Equivalents, July 1, 2001		1,053,766.25
Cash and Cash Equivalents, June 30, 2002	\$	958,460.64

<i>Southeastern Community College</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2002</i>		<i>Page 2</i>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	\$	(10,531,142.31)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		360,202.20
Provision for Uncollectible Loans and Writeoffs		5,874.63
Miscellaneous Nonoperating Income		(10,366.25)
Changes in Assets and Liabilities:		
Receivables, Net		63,205.59
Inventories		23,132.98
Notes Receivable, Net		24,072.66
Accounts Payable and Accrued Liabilities		(289,097.60)
Due to Primary Government		71,539.34
Deferred Revenue		53,682.91
Funds Held for Others		(31,045.10)
Compensated Absences		(33,817.06)
Net Cash Used by Operating Activities	\$	(10,293,758.01)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in Fair Value of Investments	\$	(35,861.08)
Increase in Receivables Related to Nonoperating Income		638,810.34
The accompanying notes to the financial statements are an integral part of this statement.		

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Southeastern 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. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts, savings accounts, and money market accounts.
- E. Investments** - This classification includes mutual funds, money market funds, and certificates of deposit. Except for money market funds and certificates of deposit not held by a governmental external investment pool, investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market funds and certificates of deposit not held by a governmental external investment pool are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 40 years for buildings, and 5 to 15 years for equipment.

- I. Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.
- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- K. 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 July 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- L. Net Assets** – The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and State appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.
- O. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments as well as to its customers. These institutional auxiliary operations include activities such as Bookstore and Food Service. In addition, the College has other miscellaneous sales and service units that operated either on a

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

- P. Funds Held in Trust by Others** - Funds held in trust by others are resources neither in the possession nor the control of the College, but held and administered by an outside organization, with the College deriving income from such funds. Such funds established under irrevocable trusts where the College has legally enforceable rights or claims in the future have not been recorded on the accompanying financial statements. These amounts are recorded as an asset and revenue when received by the College. At year end the amount held in irrevocable trusts by others for the College was \$1,281.70. Funds established under revocable trusts or where the trustees have discretionary power over distributions are recorded as revenue when distributions are received and resource provider conditions are satisfied.
- Q. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicles and maintenance equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,430.00. The carrying amount of cash on deposit was \$1,056,030.64 and the bank balance was \$1,281,895.55. All of the cash was on deposit with private financial institutions.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, \$405,092.60 of the bank balance was covered by federal depository insurance, and \$874,610.62 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – The College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 non-guaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: Obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

The College's investments at June 30, 2002 consist of \$248,787.18 in mutual funds and \$7,268.10 in money market funds which are not subject to categorization of custodial risk.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 11,216.50	\$ 0.00	\$ 11,216.50
Accounts	1,107,066.31		1,107,066.31
Total Current Receivables	<u>\$ 1,118,282.81</u>	<u>\$ 0.00</u>	<u>\$ 1,118,282.81</u>
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 55,080.08	\$ 18,024.00	\$ 37,056.08
Institutional Student Loan Programs	93,779.54	18,988.96	74,790.58
Total Notes Receivable - Noncurrent	<u>\$ 148,859.62</u>	<u>\$ 37,012.96</u>	<u>\$ 111,846.66</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	\$ 114,440.00	\$ 0.00	\$ 0.00	\$ 114,440.00
Construction in Progress	16,402.17			16,402.17
Total Capital Assets, Non-Depreciable	130,842.17			130,842.17
Capital Assets, Depreciable:				
Buildings	8,491,769.82			8,491,769.82
Machinery and Equipment	2,155,963.14	114,572.10	36,276.96	2,234,258.28
General Infrastructure	370,311.77			370,311.77
Total Capital Assets, Depreciable	11,018,044.73	114,572.10	36,276.96	11,096,339.87
Less Accumulated Depreciation:				
Buildings	4,142,390.28	212,294.28		4,354,684.56
Machinery and Equipment	1,203,953.65	147,907.92	12,347.08	1,339,514.49
General Infrastructure	370,311.77			370,311.77
Total Accumulated Depreciation	5,716,655.70	360,202.20	12,347.08	6,064,510.82
Total Capital Assets, Depreciable, Net	5,301,389.03	(245,630.10)	23,929.88	5,031,829.05
Capital Assets, Net	\$ 5,432,231.20	\$ (245,630.10)	\$ 23,929.88	\$ 5,162,671.22

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	\$ 287,218.37
Accrued Payroll	131,564.36
Other	50,153.09
Total Accounts Payable and Accrued Liabilities	\$ 468,935.82

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Note Payable	\$ 77,717.04	\$ 0.00	\$ 22,277.23	\$ 55,439.81	\$ 23,693.63
Compensated Absences	354,695.89	350,927.57	384,744.63	320,878.83	337,047.14
Total Long-Term Liabilities	\$ 432,412.93	\$ 350,927.57	\$ 407,021.86	\$ 376,318.64	\$ 360,740.77

B. Note Payable - The College was indebted for note payable for the purpose shown in the following table:

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through 6/30/2002	Principal Outstanding 6/30/2002
Telephone System	BB&T	6.18%	9/24/2004	\$ 150,029.00	\$ 94,589.19	\$ 55,439.81

The annual requirements to pay principal and interest on the note payable at June 30, 2002 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2003	\$ 23,694.00	\$ 2,763.00
2004	25,200.00	1,256.00
2005	6,546.00	68.00
Total Requirements	\$ 55,440.00	\$ 4,087.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	<u>\$ 1,556,232.00</u>	<u>\$ 990,846.84</u>	<u>\$ 565,385.16</u>
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Student Union Services	\$ 143,413.02	\$ 0.00	\$ 143,413.02
Bookstore	914,069.22		914,069.22
Parking	15,952.00		15,952.00
Other	<u>89,904.89</u>		<u>89,904.89</u>
Total Sales and Services	<u>\$ 1,163,339.13</u>	<u>\$ 0.00</u>	<u>\$ 1,163,339.13</u>
Nonoperating - Noncapital Gifts	<u>\$ 198,537.15</u>	<u>\$ 0.00</u>	<u>\$ 198,537.15</u>

NOTE 8 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,823,847.03	\$ 1,049,571.10	\$ 1,448,180.65	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,321,598.78
Public Service	901,668.00	118,170.00	11,193.00				1,031,031.00
Academic Support	829,652.00	14,651.00	52,707.00				897,010.00
Student Services	653,251.00	24,475.00	58,663.00				736,389.00
Institutional Support	1,678,375.00	275,831.00	249,287.00				2,203,493.00
Operations and Maintenance of Plant	407,595.00	148,944.00	72,949.00		257,881.51		887,369.51
Student Financial Aid			16,487.00	2,851,312.87			2,867,799.87
Auxiliary Enterprises	96,322.00	909,505.00	33,502.00				1,039,329.00
Depreciation						360,202.20	360,202.20
Total Operating Expenses	<u>\$ 11,390,710.03</u>	<u>\$ 2,541,147.10</u>	<u>\$ 1,942,968.65</u>	<u>\$ 2,851,312.87</u>	<u>\$ 257,881.51</u>	<u>\$ 360,202.20</u>	<u>\$ 19,344,222.36</u>

NOTE 9 - 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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of \$9,690,794.23 of which \$8,439,060.44 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$506,343.63 and \$166,249.49, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were \$166,249.49, \$441,054.28, and \$599,347.79, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Supplemental Retirement Income Plans - IRC Section 401(k) Plan -** All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$194,502.45 for the year ended June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$17,800.00 for the year ended June 30, 2002.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was \$198,317.92. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.
- B. Long-Term Disability -** The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was \$43,883.11. The College assumes no liability for long-term disability benefits under the plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 11 - RISK MANAGEMENT

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

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles are covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. In addition, the College is protected for losses from employee dishonesty and computer fraud for employees paid from County and Institutional Funds by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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 12 - COMMITMENTS AND CONTINGENCIES

- A. 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 \$1,604,711.15 and on other purchases were \$52,437.74 at June 30, 2002.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, the Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$5,661,936.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 13 - SOUTHEASTERN COMMUNITY COLLEGE FOUNDATION, INC.

The Southeastern Community College Foundation, Inc. is a separately incorporated non-profit Foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$195,408.43 for the year ended June 30, 2002.

NOTE 14 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt. New disclosures include variable debt interest information and the major components of receivable and payable balances.

NOTE 15 - NET ASSET RESTATEMENT

As referred to in Note 14, the College implemented 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*.

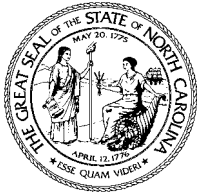
July 1, 2001 Net Assets as previously reported	\$ 14,915,815.72
Implementation of GASB 34/35	<u>(6,436,627.13)</u>
July 1, 2001 Net Assets as Restated	<u>\$ 8,479,188.59</u>

***Southeastern Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2002***

Schedule 1

	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Capital Improvement Projects							
<i>Projects Started</i>							
Infrastructure Construction/Renovations - #1173	Jan 2002	\$ 1,229,868.00	\$ 0.00	\$ 1,229,868.00	\$ 344,864.26	28.04%	Sep 2003
<i>Projects Approved by the State Board</i>							
OSHA and ADA Compliance - #1275	Nov 2002	315,000.00		315,000.00			Aug 2003
Technology Building - #1274	Jan 2003	3,721,721.00		3,721,721.00			Mar 2005
Building "G" Renovation/Addition	Feb 2005	725,215.00		725,215.00			Nov 2006
Renovation/Expansion of "T" Building	Mar 2005	750,000.00		750,000.00			Dec 2006
Land Acquisition - Property Adjacent to Campus	Jul 2003	150,000.00		150,000.00			Jul 2003
Total All Projects		\$ 6,891,804.00	\$ 0.00	\$ 6,891,804.00	\$ 344,864.26		
<p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.</p>							

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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Raleigh, NC 27699-0601
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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Southeastern Community College
Whiteville, North Carolina

We have audited the financial statements of Southeastern Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 4, 2002.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

December 4, 2002

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Brantley Briley	President, Southeastern Community College
Mr. Leon Fox, Jr.	Vice President for Operations and Finance Southeastern Community College
Mr. Rhone Sasser	Chairman, Board of Trustees Southeastern Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
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