



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**SOUTHEASTERN COMMUNITY COLLEGE**

**WHITEVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2004**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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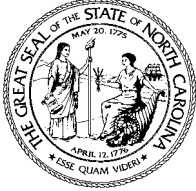
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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## AUDITOR'S TRANSMITTAL

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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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina 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)

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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 Internal Control over Financial Reporting and on Compliance and Other Matters.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	3
FINANCIAL STATEMENTS	
Exhibits	
A-1 Statement of Net Assets .....	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets .....	9
A-3 Statement of Cash Flows .....	10
B-1 Statement of Financial Position.....	12
B-2 Statement of Activities.....	13
Notes to the Financial Statements .....	15
SUPPLEMENTARY INFORMATION	
Schedule	
1 Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.....	31
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	33
DISTRIBUTION OF AUDIT REPORT .....	35



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Southeastern Community College  
Whiteville, North Carolina

We have audited the accompanying financial statements of Southeastern 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, 2004, which collectively comprise Southeastern Community College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Southeastern Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Southeastern Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southeastern Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004 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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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.



Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

December 16, 2004

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 year ended June 30, 2004. Management's discussion and analysis is designed to focus on current year results in comparison with the prior year and note any significant transactions that impact the financial condition of the College. The MD&A should be read in conjunction with the College's basic financial statements and notes. Responsibility for the completeness and fairness of this information rests with the College.

### **Financial Statement Presentation**

The Statement of Net Assets reports current and noncurrent assets and liabilities in a format similar to that used by corporations. The Statement of Revenues, Expenses, and Changes in Net Assets reports revenues earned and expenses incurred during the fiscal year. State appropriations and gifts are required to be reported as nonoperating revenues even though these revenue sources are used to cover operating expenses. The Statement of Cash Flows presents information detailing the sources and uses of cash from both operating activities and financing activities.

As of June 30, 2004, the College was required to implement GASB Statement No. 39. This statement amended Statement 14 to require that the financial information of the College's foundation be presented in a separate column in the financial statement report due to the nature and significance of its relationship with the College.

### **Statement of Net Assets**

The following condensed statement of net assets compares the current year information with the prior year and indicates the percentage increase or decrease between years.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets

	2004	2003	Total Percentage Change
<b>Assets</b>			
Current Assets	\$ 2,429,467	\$ 2,374,007	2.34%
Capital Assets	4,946,478	5,094,308	(2.90%)
Other Assets	1,027,904	663,086	55.02%
Total Assets	8,403,849	8,131,401	3.35%
<b>Liabilities</b>			
Current Liabilities	486,963	301,500	61.51%
Long-Term Liabilities	1,578,333	516,006	205.87%
Total Liabilities	2,065,296	817,506	152.63%
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,939,932	5,062,562	(2.42%)
Restricted	1,499,023	1,299,095	15.39%
Unrestricted	(100,402)	952,238	(110.54%)
Total Net Assets	\$ 6,338,553	\$ 7,313,895	(13.34%)

During the current fiscal year the College's net assets decreased by \$975,342. This large decrease was a direct result of the cost related to an agreement that the College entered into with Ameresco, Inc. for them to provide comprehensive energy services and campus-wide infrastructure improvements. These improvements included lighting system upgrades, lighting controls, energy management system upgrades, HVAC upgrades, plug load controls and domestic hot water heater replacements. These improvements were valued at \$1,044,048 and were financed according to legislative guidelines over a twelve-year term at an annual interest rate of 4.65%. Combined principal and interest payments of \$1,415,047 over the life of the agreement are to be funded by operational and energy savings guaranteed by Ameresco, Inc. The cost of these improvements was charged to utilities expense since the resulting savings in future years will reduce this expenditure.

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

The following comparative statement for fiscal years ending 2004 and 2003 reflects the percentage increase or decrease in reported revenues and expenses between years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	2004	2003	Total Percentage Change
<b>Operating Revenues:</b>			
Student Tuition and Fees	\$ 532,241	\$ 648,390	(17.91%)
Federal Grants and Contracts	5,706,667	6,338,272	(9.96%)
State and Local Grants and Contracts	495,330	1,115,188	(55.58%)
Sales and Services	1,160,043	1,327,417	(12.61%)
Other Operating Revenues	1,603		
<b>Total Operating Revenues</b>	<b>7,895,884</b>	<b>9,429,267</b>	<b>(16.26%)</b>
<b>Operating Expenses:</b>			
Personal Services	11,540,722	11,765,841	(1.91%)
Supplies and Materials	2,575,274	2,821,286	(8.72%)
Services	1,862,015	2,103,544	(11.48%)
Scholarships and Fellowships	2,592,273	3,357,407	(22.79%)
Utilities	1,299,975	254,745	410.30%
Depreciation	372,406	358,155	3.98%
<b>Total Operating Expenses</b>	<b>20,242,665</b>	<b>20,660,978</b>	<b>(2.02%)</b>
<b>Operating Loss</b>	<b>(12,346,781)</b>	<b>(11,231,711)</b>	<b>9.93%</b>
<b>Nonoperating Revenues:</b>			
State Aid	8,324,971	8,035,793	3.60%
County Appropriations	1,043,408	910,891	14.55%
Noncapital Grants	363,154	551,077	(34.10%)
Noncapital Gifts	372,169	443,687	(16.12%)
Investment Income	19,061	27,075	(29.60%)
Other Nonoperating Revenues	26,998	21,475	25.72%
<b>Other Revenues:</b>			
State Capital Aid	1,200,986	915,023	31.25%
County Capital Aid	20,692	6,349	225.91%
<b>Total Nonoperating Revenues</b>	<b>11,371,439</b>	<b>10,911,370</b>	<b>4.22%</b>
<b>Change in Net Assets</b>	<b>\$ (975,342)</b>	<b>\$ (320,341)</b>	<b>204.47%</b>
Net Assets - Beginning of Year	7,313,895	7,733,316	
Restatements		(99,080)	
<b>Net Assets - End of Year</b>	<b>\$ 6,338,553</b>	<b>\$ 7,313,895</b>	<b>(13.34%)</b>

Federal grants and contracts (\$5.71 million) and sales and services derived from bookstore and food services operations (\$1.16 million) account for 87% of the College's operating revenue. The decline in federal grants and contracts of \$631,605 resulted from the ending of the Welfare-to-Work federal grant. Although State appropriations are used to cover operating expenses, GASB Statement No. 35 requires that they be reported as nonoperating revenue. With adherence to this standard, the College will always report an operating loss.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating revenue increased by \$460,068, or 4.2%, mainly due to increase in State aid.

The majority of operating expenses consists of salary and benefit expenses of \$11.5 million and payments for services and goods of \$4.4 million. These two categories of expenses represent approximately 80% of total operating costs.

The decrease in operating expenses of \$418,313 is due to a combination of factors. The Welfare-to-Work federal grant program ended in October 2003 resulting in a decline in expenses of \$840,087. The Child Care Resource and Referral Partnership Subsidy grant was not received for the current fiscal year which resulted in a reduction of \$695,884 in scholarships and fellowships. This decrease in operating expenses was partially offset by the one-time expense of \$1.04 million incurred for the implementation of the energy savings program as discussed previously.

### Cash Flow

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

	<u>2004</u>	<u>2003</u>
Cash Provided (Used) by:		
Operating Activities	\$ (11,637,560)	\$ (10,654,282)
Noncapital Financing Activities	10,334,188	9,941,448
Capital Financing Activities	1,643,205	745,240
Investing Activities	<u>3,369</u>	<u>9,098</u>
Net Change in Cash and Cash Equivalents	343,202	41,504
Cash and Cash Equivalents, Beginning of Year	<u>999,964</u>	<u>958,460</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,343,166</u>	<u>\$ 999,964</u>

The major funding sources from operating activities included contracts and grants (\$6.20 million), auxiliary enterprises (\$1.16 million) and student tuition and fees (\$532,241).

Major uses of funds from operating activities included employee compensation (\$11.54 million), payment for goods and services (\$4.43 million), and scholarship payments (\$2.59 million.)

Cash provided by noncapital financing included State appropriations of \$8.32 million, county appropriations of \$1.04 million, and grants and gifts of \$735,323.

The major source of cash provided by capital financial activities was derived from the proceeds of a note payable for \$1.04 million which is being used to implement an Energy Savings Program as mentioned previously.

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

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### **Capital Assets**

At June 30, 2004 the College reported \$11.50 million invested in capital assets less \$6.55 million in accumulated depreciation for net capital assets of \$4.95 million. Funds from the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System were received during the year and were used to continue the repair and renovation work on several campus buildings and infrastructure. The final phase of this project is due to be completed by November 2004. Additional projects underway include an OSHA and ADA Compliance project and the construction of a new Technology Building. Four million dollars in general obligation bonds have been authorized for these projects. Two projects pending approval as of June 30, 2004 in the amount of \$1.48 million include renovations and expansions of two buildings on campus. These projects were approved in July 2004.

The following schedule reports capital assets for the fiscal years 2004 and 2003, net of accumulated depreciation.

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change</u>
Land	\$ 114,440	\$ 114,440	
Construction in Progress	16,402	16,402	
Buildings	3,773,107	3,985,371	(5.3%)
Machinery and Equipment	910,198	835,649	8.9%
General Infrastructure	<u>132,331</u>	<u>142,446</u>	(7.1%)
Totals	<u>\$ 4,946,478</u>	<u>\$ 5,094,308</u>	(2.9%)

### **Debt**

The College reported debt of \$1.68 million as of June 30, 2004. This balance consists of two notes payable and accrued vacation. Principal outstanding of \$6,546 for a note issued for the purchase of a telephone system in 1998 is due September 2004 and is reported as a current liability. A note payable in the amount of \$1,044,048 for the cost of the implementation of the energy savings program entered into with Ameresco, Inc., as mentioned previously, will mature in June 2016. The current portion reported for this note is \$49,450. The liability for accrued vacation is \$624,582 of which \$40,848 is reported as current.

### **Economic Factors and Next Year's Budget**

At fiscal year ended June 30, 2004, the College had not received any official information on the 2004-2005 budget. However, the State of North Carolina is continuing to encounter a budget crisis and the College anticipates further decreases in State appropriations in the upcoming year.

***Southeastern Community College***  
***Statement of Net Assets***  
***June 30, 2004***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 830,315.14
Restricted Cash and Cash Equivalents	479,472.16
Short-Term Investments	399,610.71
Receivables (Note 4)	390,214.09
Due from State of North Carolina Component Units	56,778.22
Inventories	273,076.61

Total Current Assets	2,429,466.93
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	33,378.77
Restricted Due from Primary Government	873,334.19
Notes Receivable, Net (Note 4)	121,191.33
Capital Assets - Nondepreciable (Note 5)	130,842.17
Capital Assets - Depreciable, Net (Note 5)	4,815,635.42

Total Noncurrent Assets	5,974,381.88
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Total Assets	8,403,848.81
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	324,340.03
Deferred Revenue	16,092.72
Funds Held for Others	49,686.72
Long-Term Liabilities - Current Portion (Note 7)	96,843.20

Total Current Liabilities	486,962.67
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,578,333.30
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Total Liabilities	2,065,295.97
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	4,939,931.52
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	5,462.83
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Expendable:

Scholarships and Fellowships	380,742.90
Loans	299,326.02
Capital Projects	813,491.67

Unrestricted	(100,402.10)
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Total Net Assets	\$ 6,338,552.84
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The accompanying notes to the financial statements are an integral part of this statement.

<b><i>Southeastern Community College</i></b>		
<b><i>Statement of Revenues, Expenses, and</i></b>		
<b><i>Changes in Net Assets</i></b>		
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Exhibit A-2</i></b>
<b>REVENUES</b>		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	532,241.20
Federal Grants and Contracts		5,706,667.01
State and Local Grants and Contracts		495,329.76
Sales and Services		1,160,043.05
Other Operating Revenues		1,602.95
Total Operating Revenues		7,895,883.97
<b>EXPENSES</b>		
Operating Expenses:		
Personal Services		11,540,721.82
Supplies and Materials		2,575,273.72
Services		1,862,015.07
Scholarships and Fellowships		2,592,273.10
Utilities		1,299,974.77
Depreciation		372,406.06
Total Operating Expenses		20,242,664.54
Operating Loss		(12,346,780.57)
<b>NONOPERATING REVENUES</b>		
State Aid		8,324,970.30
County Appropriations		1,043,408.20
Noncapital Grants		363,154.00
Noncapital Gifts		372,168.78
Investment Income		19,061.29
Other Nonoperating Revenues		26,997.73
Net Nonoperating Revenues		10,149,760.30
Loss Before Other Revenues, Expenses, Gains, and Losses		(2,197,020.27)
State Capital Aid		1,200,986.17
County Capital Appropriations		20,692.11
Decrease in Net Assets		(975,341.99)
<b>NET ASSETS</b>		
Net Assets, July 1, 2003		7,313,894.83
Net Assets, June 30, 2004	\$	6,338,552.84
The accompanying notes to the financial statements are an integral part of this statement.		

**Southeastern Community College****Statement of Cash Flows****For the Fiscal Year Ended June 30, 2004****Exhibit A-3**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from Customers	\$ 7,901,458.42
Payments to Employees and Fringe Benefits	(11,446,384.87)
Payments to Vendors and Suppliers	(5,576,001.98)
Payments for Scholarships and Fellowships	(2,592,273.10)
Loans Issued to Students	(151,723.00)
Collection of Loans to Students	154,125.75
Other Receipts	73,238.83
Net Cash Used by Operating Activities	(11,637,559.95)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State Aid Received	8,324,970.30
County Appropriations	1,043,408.20
Noncapital Grants Received	650,419.16
Noncapital Gifts and Endowments Received	315,390.56
Net Cash Provided by Noncapital Financing Activities	10,334,188.22
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
State Capital Aid Received	828,636.42
County Capital Appropriations	20,692.11
Proceeds from Capital Debt	1,044,048.12
Acquisition and Construction of Capital Assets	(224,971.56)
Principal Paid on Capital Debt and Leases	(25,200.11)
Net Cash Provided by Capital and Related Financing Activities	1,643,204.98
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	1,822.42
Investment Income	16,411.66
Purchase of Investments and Related Fees	(14,865.49)
Net Cash Provided by Investing Activities	3,368.59
Net Increase in Cash and Cash Equivalents	343,201.84
Cash and Cash Equivalents, July 1, 2003	999,964.23
Cash and Cash Equivalents, June 30, 2004	\$ 1,343,166.07

<b><i>Southeastern Community College</i></b>		
<b><i>Statement of Cash Flows</i></b>		<b><i>Exhibit A-3</i></b>
<b><i>For the Fiscal Year Ended June 30, 2004</i></b>		<b><i>Page 2</i></b>
<b>RECONCILIATION OF OPERATING LOSS</b>		
<b>TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss		\$ (12,346,780.57)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		372,406.06
Provision for Uncollectible Loans and Write-Offs		4,951.97
Miscellaneous Nonoperating Income		27,789.35
Changes in Assets and Liabilities:		
Receivables		16,610.80
Due from Community College Component Units		57,721.03
Notes Receivable, Net		799.80
Accounts Payable and Accrued Liabilities		98,192.77
Deferred Revenue		(10,732.21)
Funds Held for Others		47,144.10
Compensated Absences		94,336.95
Net Cash Used by Operating Activities		\$ (11,637,559.95)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
Current Assets:		
Cash and Cash Equivalents		\$ 830,315.14
Restricted Cash and Cash Equivalents		479,472.16
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		33,378.77
Total Cash and Cash Equivalents - June 30, 2004		\$ 1,343,166.07
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in Fair Value of Investments		827.21
Capital Asset Write-Offs		23,707.54
The accompanying notes to the financial statements are an integral part of this statement.		



**Southeastern Community College Foundation, Inc.****Statement of Financial Position****June 30, 2004****Exhibit B-1****ASSETS**

Investments	\$	1,989,810.00
Receivables, Net		34,979.00
Property and Equipment, Net		3,734,750.00
Total Assets		5,759,539.00

**LIABILITIES**

Accounts Payable and Accrued Expenses		31,880.00
Due to Southeastern Community College		56,778.00
Total Liabilities		88,658.00

**NET ASSETS**

Unrestricted		470,505.00
Temporarily Restricted		2,500,000.00
Permanently Restricted		2,700,376.00
Total Net Assets		5,670,881.00

See Note 1 in the Notes to the Financial Statements

**Southeastern Community College Foundation, Inc.****Statement of Activities****For the Fiscal Year Ended June 30, 2004****Exhibit B-2****CHANGES IN UNRESTRICTED NET ASSETS**

## Revenues and Gains:

Contributions	\$	130,465.00
Income on Long-Term Investments		2,973.00
Other Investment Income		197.00
Net Unrealized and Realized Gains on Long-Term Investments		12,129.00

Total Unrestricted Revenues and Gains		145,764.00
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## Expenses:

Program Services		159,092.00
Management and General		71,989.00
Fund Raising		10,026.00

Total Expenses		241,107.00
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Decrease in Unrestricted Net Assets		(95,343.00)
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**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions		2,500,000.00
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**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions		900,504.00
Income on Long-Term Investments		(10,160.00)
Net Unrealized and Realized Gains on Long-Term Investments		155,249.00

Increase in Permanently Restricted Net Assets		1,045,593.00
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Increase in Net Assets		3,450,250.00
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Net Assets at Beginning of Year		2,220,631.00
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Net Assets at End of Year	\$	5,670,881.00
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See Note 1 in the Notes to the Financial Statements

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**SOUTHEASTERN COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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 of the College and the component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the 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** – Southeastern Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Southeastern Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2004, the Foundation distributed \$195,815.68 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Leon M. Fox, Jr., Treasurer, Southeastern Community College Foundation, Inc., PO Box 151, Whiteville, NC 27472.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and savings accounts.
- E. Investments** - This classification includes mutual funds, money market funds, and certificates of deposit. Except for money market funds and certificates of deposit, 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 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, and private sources in connection with reimbursement of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Current receivables are recorded at book value with no provision for doubtful accounts considered necessary. Notes receivables are recorded net of estimated uncollectible amounts.

- G. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale are valued at cost 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 years for general infrastructure, 25 to 40 years for buildings, and 5 to 15 years for equipment.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- 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. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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of September 30, 2002 and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. 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 two separate irrevocable trusts by others for the College and other beneficiaries was \$669,530.19. The value of one trust fund at December 31st, 2003 was \$196,414.90. The College receives 6/10ths of 1% of the value of the fund as of each December 31st. The value of the other trust fund was \$481,304.28 as of March 31, 2004. The College receives 15% of the net income of the trust annually for each of two scholarships. 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.
- P. 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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maintenance of 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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$2,230.00. The carrying amount of cash on deposit was \$1,446,674.45 and the bank balance was \$1,687,125.58. 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 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 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, 2004, \$417,664.62 of the bank balance was covered by federal depository insurance and \$1,269,460.96 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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; 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.

Investments of the College's component unit, Southeastern Community College Foundation, Inc., are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

At June 30, 2004, the College held certificates of deposit in the amount of \$105,738.38, mutual funds in the amount of \$279,329.40 and \$14,542.93 in money market funds which are not subject to categorization of custodial credit risk. The aforementioned certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are in a savings account and are reported as restricted cash and cash equivalents – noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the assets of the endowment funds. Annual payouts from the College's endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2004 were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 74,431.94	\$ 0.00	\$ 74,431.94
Accounts	67,674.25		67,674.25
Intergovernmental	<u>248,107.90</u>		<u>248,107.90</u>
<b>Total Current Receivables</b>	<u>\$ 390,214.09</u>	<u>\$ 0.00</u>	<u>\$ 390,214.09</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 45,894.70	\$ 13,603.78	\$ 32,290.92
Institutional Student Loan Programs	<u>107,259.66</u>	<u>18,359.25</u>	<u>88,900.41</u>
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 153,154.36</u>	<u>\$ 31,963.03</u>	<u>\$ 121,191.33</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	\$ 114,440.00	\$ 0.00	\$ 0.00	\$ 114,440.00
Construction in Progress	16,402.17			16,402.17
<b>Total Capital Assets, Nondepreciable</b>	<b>130,842.17</b>			<b>130,842.17</b>
Capital Assets, Depreciable:				
Buildings	8,555,259.63			8,555,259.63
Machinery and Equipment	2,090,448.82	224,971.56	23,707.54	2,291,712.84
General Infrastructure	522,028.77			522,028.77
<b>Total Capital Assets, Depreciable</b>	<b>11,167,737.22</b>	<b>224,971.56</b>	<b>23,707.54</b>	<b>11,369,001.24</b>
Less Accumulated Depreciation:				
Buildings	4,569,888.78	212,264.28		4,782,153.06
Machinery and Equipment	1,254,799.37	150,027.34	23,311.73	1,381,514.98
General Infrastructure	379,583.34	10,114.44		389,697.78
<b>Total Accumulated Depreciation</b>	<b>6,204,271.49</b>	<b>372,406.06</b>	<b>23,311.73</b>	<b>6,553,365.82</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>4,963,465.73</b>	<b>(147,434.50)</b>	<b>395.81</b>	<b>4,815,635.42</b>
<b>Capital Assets, Net</b>	<b>\$ 5,094,307.90</b>	<b>\$ (147,434.50)</b>	<b>\$ 395.81</b>	<b>\$ 4,946,477.59</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004 were as follows:

	Amount
Accounts Payable	\$ 219,756.43
Accrued Payroll	101,266.19
Other	3,317.41
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 324,340.03</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - 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, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Notes Payable	\$ 31,746.18	\$ 1,044,048.12	\$ 25,200.11	\$ 1,050,594.19	\$ 55,995.52
Compensated Absences	530,245.36	569,742.00	475,405.05	624,582.31	40,847.68
<b>Total Long-Term Liabilities</b>	<b>\$ 561,991.54</b>	<b>\$ 1,613,790.12</b>	<b>\$ 500,605.16</b>	<b>\$ 1,675,176.50</b>	<b>\$ 96,843.20</b>

**B. Notes Payable** - The College was indebted for notes payable for the purposes shown in the following table:

Purpose	Financial Institution	Interest Rate/ Ranges	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2004	Principal Outstanding June 30, 2004
Telephone System	BB&T	6.18%	9/24/2004	\$ 150,029.00	\$ 143,482.93	\$ 6,546.07
Energy Savings Program	LaSalle National Leasing Corporation	4.65%	6/3/2016	1,044,048.12		1,044,048.12
Total Notes Payable				<u>\$ 1,194,077.12</u>	<u>\$ 143,482.93</u>	<u>\$ 1,050,594.19</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2004 are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2005	\$ 55,995.52	\$ 47,830.21
2006	55,812.94	45,284.98
2007	61,519.61	42,591.11
2008	67,588.27	39,625.65
2009	74,038.79	36,371.41
2010-2014	481,843.76	121,610.40
2015-2016	253,795.30	13,546.54
Total Requirements	<u>\$ 1,050,594.19</u>	<u>\$ 346,860.30</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 8 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 16,125.60
2006	16,125.60
2007	<u>12,094.20</u>
Total Minimum Lease Payments	<u>\$ 44,345.40</u>

Rental expense for all operating leases during the year was \$17,315.86.

### NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
Student Tuition and Fees	<u>\$ 1,911,025.83</u>	<u>\$ 1,378,784.63</u>	<u>\$ 532,241.20</u>

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 6,612,904.51	\$ 1,386,375.71	\$ 826,015.62	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,825,295.84
Public Service	935,902.22	65,356.38	237,352.92				1,238,611.52
Academic Support	1,145,879.19	16,563.20	66,463.61				1,228,906.00
Student Services	656,902.94	23,195.79	47,605.05				727,703.78
Institutional Support	1,681,713.40	105,456.97	281,711.89				2,068,882.26
Operations and Maintenance of Plant	376,560.31	88,409.68	232,952.61		1,299,974.77		1,997,897.37
Student Financial Aid			6,790.25	2,592,273.10			2,599,063.35
Auxiliary Enterprises	130,859.25	889,915.99	163,123.12				1,183,898.36
Depreciation						372,406.06	372,406.06
Total Operating Expenses	<u>\$ 11,540,721.82</u>	<u>\$ 2,575,273.72</u>	<u>\$ 1,862,015.07</u>	<u>\$ 2,592,273.10</u>	<u>\$ 1,299,974.77</u>	<u>\$ 372,406.06</u>	<u>\$ 20,242,664.54</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 11 - 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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$9,680,854.96, of which \$8,449,032.40 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$506,941.94 and \$18,587.87, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$18,587.87, \$0.00, and \$166,249.49, 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 \$206,357.00 for the year ended June 30, 2004.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$11,700.00 for the year ended June 30, 2004.

### NOTE 12 - 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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$270,369.04. 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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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*.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 13 - 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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 is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. There were no employer contributions required for the current fiscal year.

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

### NOTE 14 - 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 \$4,101,770.19 and on other purchases were \$654,170.52 at June 30, 2004.
- B. **Pending Litigation and Claims** – The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.
- C. **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 were authorized for issuance over a six-year period beginning in 2001 at a level

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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 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 \$4,853,651.00 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 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

***Southeastern Community College  
Schedule of General Obligation Bond Project Authorizations,  
Budgets, and Expenditures  
For Project-to-Date as of June 30, 2004***

***Schedule 1***

	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<b><i>Capital Improvement Projects</i></b>									
<b><i>Projects Approved by the State Board</i></b>									
Infrastructure Construction/Renovations #1173	Jan 2002	Jan 2002	\$ 1,229,868.00	\$ 0.00	\$ 1,229,868.00	\$ 1,151,198.25	93.60%	Nov 2003	Nov 2004
OSHA and ADA Compliance	Apr 2003	Apr 2003	315,000.00		315,000.00	13,620.56	4.32%	Feb 2004	Mar 2005
Technology Building #1274	Jan 2003	Jan 2004	3,721,721.00		3,721,721.00			May 2005	Sep 2006
<b><i>Projects Pending Approval by the State Board</i></b>									
Building "G" Renovations/Additions	Feb 2005	Nov 2004	725,215.00		725,215.00			Nov 2006	Aug 2006
Renovation/Expansion of "T" Building	Mar 2005	Nov 2004	750,000.00		750,000.00			Dec 2006	Aug 2006
Land Acquisition - Property Adjacent to Campus	Dec 2003	Dec 2003	150,000.00		150,000.00			Dec 2003	Dec 2004
<b>Total All Projects</b>			<b>\$ 6,891,804.00</b>	<b>\$ 0.00</b>	<b>\$ 6,891,804.00</b>	<b>\$ 1,164,818.81</b>			

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.

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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

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

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Board of Trustees  
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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Southeastern Community College's basic financial statements, and have issued our report thereon dated December 16, 2004. We did not audit the financial statements of Southeastern Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the component unit.

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 an opinion 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 reportable condition in which the

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This report is intended solely for the information and use of 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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

December 16, 2004

## DISTRIBUTION OF AUDIT REPORT

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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. Kathy Matlock	President, Southeastern Community College
Mr. Leon M. 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

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Richard T. Morgan, Co-Chair
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Senator R. C. Soles, Jr.	Representative Joe L. Kiser
Senator Scott Thomas	Representative Edd Nye
	Representative William C. Owens, Jr.
	Representative Wilma M. Sherrill
	Representative Thomas E. Wright

### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
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February 2, 2005



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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