



STATE OF NORTH CAROLINA

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2006

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Southeastern Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Leslie W. Merritt, Jr.

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

June 15, 2007

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INDEPENDENT AUDITOR'S REPORT

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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Southeastern Community 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 is the College's only discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southeastern Community College and its discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

June 1, 2006

SOUTHEASTERN COMMUNITY COLLEGE 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 year ended June 30, 2006. 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 Management's Discussion and Analysis should be read in conjunction with the College's basic financial statements and notes to the financial statements. 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 operating activities, financing activities, and investing activities.

For the fiscal year ended June 30, 2006, the College implemented Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs. The College had no impairments to report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

Condensed Statement of Net Assets

	2006	2005	Total Percentage Change
Current Assets	\$ 2,154,733.04	\$ 2,576,406.04	(16.37) %
Capital Assets	6,806,533.46	6,938,451.29	(1.90) %
Other Assets	260,541.69	499,399.79	(47.83) %
Total Assets	9,221,808.19	10,014,257.12	(7.91) %
Current liabilities	613,432.13	441,063.08	39.08 %
Long-Term liabilities	1,540,670.97	1,547,384.19	(0.43) %
Total Liabilities	2,154,103.10	1,988,447.27	8.33 %
Net Assets			
Invested in Capital Assets	6,806,533.46	6,938,451.29	(1.90) %
Restricted	889,917.76	1,191,561.97	(25.32) %
Unrestricted	(628,746.13)	(104,203.41)	503.38 %
Total Net Assets	\$ 7,067,705.09	\$ 8,025,809.85	(11.94) %

During the current fiscal year the College's net assets decreased by \$958,105. This large decrease was mainly due to the decrease in operating revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The following condensed statement for fiscal years ending 2006 and 2005 reflects the percentage increase or decrease in reported revenues and expenses between years.

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

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change</u>
Total Operating Revenues	\$ 7,145,158.15	\$ 7,888,426.73	(9.42) %
Total Operating Expenses	19,905,892.48	19,912,563.87	(0.03) %
Operating Loss	<u>(12,760,734.33)</u>	<u>(12,024,137.14)</u>	(6.13) %
Total Nonoperating Revenues (Expenses)	10,962,713.47	10,836,986.97	1.16 %
State Capital Aid	572,746.12	390,416.86	46.70 %
County Capital Appropriations	94,425.72	66,512.14	41.97 %
Capital Grants	58,575.26	26,956.80	117.29 %
Capital Gifts	<u>114,169.00</u>	<u>114,169.00</u>	100.00 %
Change in Net Assets	<u>(958,104.76)</u>	<u>(703,264.37)</u>	36.24 %
Net Assets - Beginning of Year	<u>8,025,809.85</u>	<u>8,729,074.22</u>	
Net Assets - End of Year	<u>\$ 7,067,705.09</u>	<u>\$ 8,025,809.85</u>	(11.94) %

Operating revenues have decreased due to a decline in enrollment. 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.

Capital Assets

At June 30, 2006, the College reported \$11.8 million invested in capital assets less \$5 million in accumulated depreciation for net capital assets of \$6.8 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 phases of these projects were completed except for several minor renovations totaling less than \$20,000. Approximately four million dollars in general obligation bonds have been authorized for a new technology building. Two additional renovation and expansion projects in the amount of \$1.48 million were approved in July 2004. One of these is in the design development stage and the other has not been started. Subsequent to June 30, 2006, a special appropriation of three million dollars granted by the NC General Assembly in 2005, was authorized by the State Board of Community Colleges for a new Health and Human Services building.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The following schedule reports capital assets for the fiscal years 2006 and 2005, net of accumulated depreciation.

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change</u>
Land	\$ 114,440.00	\$ 114,440.00	0.0 %
Construction-in-Progress	192,438.63	110,825.60	73.6 %
Buildings	5,098,819.56	5,243,896.56	(2.8) %
Machinery and Equipment	1,017,171.20	1,050,823.17	(3.2) %
General Infrastructure	383,664.07	418,465.96	(8.3) %
Totals	<u>\$ 6,806,533.46</u>	<u>\$ 6,938,451.29</u>	(1.9) %

Long-Term Liabilities

The College reported long-term liabilities of \$1.68 million as of June 30, 2006. This balance consists of a note payable and accrued vacation leave. A note payable with an outstanding balance of \$938,786 for the cost of the implementation of the energy savings program entered into with Ameresco, Inc., in 2004 will mature in June 2016. The current portion reported for this note is \$61,520. The liability for accrued vacation leave is \$739,005 of which \$75,600 is reported as current.

Growth/Economic Factors

The College is committed to providing high quality, accessible educational programs, training and services to enable Columbus County's current and future workforce to acquire knowledge and skills to obtain and maintain prosperous career opportunities which will enhance their quality of life. To meet these goals and to meet the diverse needs of local employers and employees, both the Curriculum Division and the Continuing Education Division strive to provide leading-edge programs of study and training.

In the Curriculum Division, the Agricultural Biotechnology program of study will be offered in Fall 2006, as an applied science degree program at the college and all classes for the Interpreter Education program (American Sign Language) through a partnership with Blue Ridge Community College who confers the degree.

The Continuing Education Division updates and expands its workforce development programs and services which currently include New and Expanding Industry Training (NEIT), that is designed to help build success for new businesses in Columbus County; Focused Industrial Training (FIT), which utilizes individualized needs assessments and consultations to design and implement programs for businesses who need to upgrade workers' skills due to technological or process advances; Occupational Continuing Education, that is customized to offer programs designed to train, retrain and upgrade individuals' skills in a short timeframe; the Small Business Center, which offers programs designed to increase the success rate and number of viable small businesses in Columbus County; and Columbus County JobLink Career Center which provides ready access to employment and training resources to provide employers with dependable, qualified employees thus creating a strong local economy.

Southeastern Community College
Statement of Net Assets
June 30, 2006

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 520,664.47
Restricted Cash and Cash Equivalents	283,342.08
Investments	397,601.93
Receivables, Net (Note 4)	464,283.65
Due from State of North Carolina Component Units	15,140.92
Due from Southeastern Community College Foundation	81,529.96
Inventories	392,170.03
	<hr/>
Total Current Assets	2,154,733.04

Noncurrent Assets:

Restricted Cash and Cash Equivalents	156,051.42
Notes Receivable, Net (Note 4)	104,490.27
Capital Assets - Nondepreciable (Note 5)	306,878.63
Capital Assets - Depreciable, Net (Note 5)	6,499,654.83
	<hr/>
Total Noncurrent Assets	7,067,075.15
	<hr/>
Total Assets	9,221,808.19

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	260,078.54
Due to State of North Carolina Component Units	40,156.38
Unearned Revenue	82,266.74
Funds Held for Others	93,810.64
Long-Term Liabilities - Current Portion (Note 7)	137,119.83
	<hr/>
Total Current Liabilities	613,432.13

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	1,540,670.97
	<hr/>
Total Liabilities	2,154,103.10

NET ASSETS

Invested in Capital Assets	6,806,533.46
Restricted for:	
Nonexpendable:	
Endowment	5,495.67
Expendable:	
Scholarships and Fellowships	159,007.72
Loans	236,505.10
Capital Projects	212,231.68
Specific Programs	166,289.32
Other	110,388.27
Unrestricted	(628,746.13)
	<hr/>
Total Net Assets	\$ 7,067,705.09

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

***Southeastern Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2006***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 837,743.31
Federal Grants and Contracts	5,167,691.99
State and Local Grants and Contracts	523,320.23
Sales and Services, Net (Note 9)	588,306.88
Other Operating Revenues	28,095.74
	<hr/>
Total Operating Revenues	7,145,158.15
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	12,577,672.52
Supplies and Materials	2,283,278.56
Services	2,005,609.91
Scholarships and Fellowships	2,455,902.51
Utilities	208,238.09
Depreciation	375,190.89
	<hr/>
Total Operating Expenses	19,905,892.48
	<hr/>
Operating Loss	(12,760,734.33)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	9,386,502.99
County Appropriations	1,068,432.00
Noncapital Grants	311,643.36
Noncapital Gifts	302,537.52
Investment Income	23,195.03
Refund to Grantors	(73,229.00)
Interest and Fees on Debt	(45,284.98)
Other Nonoperating Revenues (Expenses)	(11,083.45)
	<hr/>

Net Nonoperating Revenues	10,962,713.47
	<hr/>
Income Before Other Revenues, Expenses, Gains, and Losses	(1,798,020.86)

State Capital Aid	572,746.12
County Capital Appropriations	94,425.72
Capital Grants	58,575.26
Capital Gifts	114,169.00
	<hr/>

Decrease in Net Assets	(958,104.76)
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NET ASSETS

Net Assets, July 1, 2005 as Restated (Note 15)	8,025,809.85
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Net Assets, June 30, 2006	\$ 7,067,705.09
	<hr/> <hr/>

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, 2006***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 7,197,868.78
Payments to Employees and Fringe Benefits	(12,513,113.24)
Payments to Vendors and Suppliers	(4,457,032.84)
Payments for Scholarships and Fellowships	(2,456,478.36)
Loans Issued to Students	(14,261.40)
Collection of Loans to Students	21,741.41
Other Payments	(55,201.27)
	<hr/>
Net Cash Used by Operating Activities	(12,276,476.92)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,386,502.99
County Appropriations	1,068,432.00
Noncapital Grants Received	692,963.01
Noncapital Gifts and Endowments Received	221,007.56
Principal Paid on Noncapital Debt	(55,812.94)
Interest Paid on Noncapital Debt	(45,284.98)
	<hr/>
Cash Provided by Noncapital Financing Activities	11,267,807.64

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	899,504.41
County Capital Appropriations	94,425.72
Capital Grants Received	41,561.32
Capital Gifts Received	114,169.00
Proceeds from Sale of Capital Assets	1,723.00
Acquisition and Construction of Capital Assets	(256,079.51)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	895,303.94

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	36,788.38
Purchase of Investments and Related Fees	(14,756.95)
	<hr/>
Cash Provided by Investing Activities	22,031.43

Net Decrease in Cash and Cash Equivalents	(91,333.91)
Cash and Cash Equivalents, July 1, 2005	1,051,391.88
	<hr/>
Cash and Cash Equivalents, June 30, 2006	\$ 960,057.97

Southeastern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

Exhibit A-3
Page 2

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

Operating (Loss)	\$ (12,760,734.33)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	375,190.89
Provision for Uncollectible Loans and Write-Offs	2,469.51
Miscellaneous Nonoperating Income	(73,229.00)
Changes in Assets and Liabilities:	
Receivables, Net	(12,458.35)
Inventories	(36,664.42)
Notes Receivable, Net	7,480.01
Accounts Payable and Accrued Liabilities	19,568.46
Dut to State of North Carolina Component Units	13,851.99
Unearned Revenue	64,593.13
Funds Held for Others	18,027.73
Compensated Absences	105,427.46
	<u>105,427.46</u>
Net Cash Used by Operating Activities	<u>\$ (12,276,476.92)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 520,664.47
Restricted Cash and Cash Equivalents	283,342.08
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>156,051.42</u>
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 960,057.97</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ (13,593.35)
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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, 2006

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	673,506.00
Investments		2,454,007.00
Land		1,234,750.00
Due From Endowment Funds		43,411.00
Notes Receivable		17,435.00
		<hr/>
Total Assets		4,423,109.00

LIABILITIES

Due to Southeastern Community College		81,530.00
Due to Operating Funds		43,411.00
		<hr/>
Total Liabilities		124,941.00

NET ASSETS

Unrestricted		1,268,901.00
Permanently Restricted		3,029,267.00
		<hr/>
Total Net Assets	\$	4,298,168.00

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

Southeastern Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2006

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues:

Contributions	\$ 210,917.00
Investment Return	153,643.00
Loss on Sale of Land	<u>(1,900,000.00)</u>

Total Unrestricted Revenues (1,535,440.00)

Transfers 2,500,000.00

Total Unrestricted Revenues and Other Support 964,560.00

Expenses:

Program Services	183,705.00
Management and General	60,163.00
Fund Raising	<u>7,537.00</u>

Total Expenses 251,405.00

Increase in Unrestricted Net Assets 713,155.00

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Transfers (2,500,000.00)

Decrease in Temporarily Restricted Net Assets (2,500,000.00)

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions 78,253.00

Increase in Permanently Restricted Net Assets 78,253.00

Decrease in Net Assets (1,708,592.00)

Net Assets at Beginning of Year 6,006,760.00

Net Assets at End of Year \$ 4,298,168.00

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

SOUTHEASTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

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 component units for which the College's Board of Trustees is financially accountable. The College's component units are either blended or discretely presented in the financial statements. The blended component units, although legally separate, are, in substance, part of the College's operations and therefore, are reported as if they were part of the College. Discretely presented component units' financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Units – 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 legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of the Trustees of Southeastern Community College and such non-Trustee members as may be selected pursuant to the bylaws of the Southeastern Community College Foundation, Inc. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2006, the Foundation distributed \$183,704.70 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Southeastern Community College, Inc., PO Box 151, Whiteville, NC 27472.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 charged 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 provider's conditions have been satisfied. 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 60 years for buildings, and 5 to 40 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 1 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 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion 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 – This represents the College's total investment in capital assets.

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

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

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

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

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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 was \$657,953.55. The value of one trust fund at December 31, 2005, was \$192,068.05. The College receives 6/10ths of 1% of the value of the fund as of each December 31. The value of the other trust fund was \$465,885.50 as of June 30, 2006. 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 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 *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,065.53 and deposits in private financial institutions with a carrying value of \$958,992.44 and a bank balance of \$1,067,597.70. The amount shown on the Statement of Net Assets as investments includes certificates of deposit with a carrying value and a bank balance of \$111,485.05.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings 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 G.S. 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 G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following table presents the fair value of investments by type at June 30, 2006, as well as information about interest rate risk and credit risk for debt investments.

Investment Type	Fair Value	Properties of Debt Investments	
		Weighted Average Maturities	Ratings
Debt Investments:			
Mutual Bond Funds - BB&T Intermediate U.S. Govt.	\$ 147,255.42	3.4 years	Unrated
Mutual Bond Funds - BB&T Short U.S. Govt.	41,073.24	0.3 years	Unrated
Mutual Bond Funds - BB&T Total Return	93,282.34	2.4 years	Unrated
Money Market Mutual Fund	4,505.88	0.0 years	Unrated
Total Debt Investments	286,116.88		
Other Investments			
Certificates of Deposit	111,485.05		
Total Investments	\$ 397,601.93		

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 1,065.53
Carrying Amount of Deposits with Private Financial Institutions	958,992.44
Investments in Certificates of Deposit	111,485.05
Bond Funds	281,611.00
Money Market Funds	4,505.88
Total Deposits and Investments	\$ 1,357,659.90
Current:	
Cash and Cash Equivalents	\$ 520,664.47
Restricted Cash and Cash Equivalents	283,342.08
Investments	397,601.93
Noncurrent:	
Restricted Cash and Cash Equivalents	156,051.42
Total	\$ 1,357,659.90

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are in a savings account and are reported separately as endowment cash and cash equivalents. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2006, net appreciation of \$495.67 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 143,888.90	\$ 99,335.35	\$ 44,553.55
Bookstore Vendor Credit Memos	104,922.55		104,922.55
Intergovernmental	304,719.47		304,719.47
Other	10,088.08		10,088.08
Total Current Receivables	\$ 563,619.00	\$ 99,335.35	\$ 464,283.65
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 37,705.45	\$ 15,358.43	\$ 22,347.02
Institutional Student Loan Programs	105,108.60	22,965.35	82,143.25
Total Notes Receivable - Noncurrent	\$ 142,814.05	\$ 38,323.78	\$ 104,490.27

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Adjustments	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:					
Land	\$ 114,440.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 114,440.00
Construction in Progress		110,825.60	81,613.03		192,438.63
Total Capital Assets, Nondepreciable	114,440.00	110,825.60	81,613.03		306,878.63
Capital Assets, Depreciable:					
Buildings	8,555,259.63	64,403.00			8,619,662.63
Machinery and Equipment	2,218,284.01		174,466.48	38,095.40	2,354,655.09
General Infrastructure	522,028.77				522,028.77
Total Capital Assets, Depreciable	11,295,572.41	64,403.00	174,466.48	38,095.40	11,496,346.49
Less Accumulated Depreciation:					
Buildings	4,997,622.06	(1,621,855.99)	145,077.00		3,520,843.07
Machinery and Equipment	1,458,873.28	(291,412.44)	195,312.00	25,288.95	1,337,483.89
General Infrastructure	399,812.22	(296,249.41)	34,801.89		138,364.70
Total Accumulated Depreciation	6,856,307.56	(2,209,517.84)	375,190.89	25,288.95	4,996,691.66
Total Capital Assets, Depreciable, Net	4,439,264.85	2,273,920.84	(200,724.41)	12,806.45	6,499,654.83
Capital Assets, Net	\$ 4,553,704.85	\$ 2,384,746.44	\$ (119,111.38)	\$ 12,806.45	\$ 6,806,533.46

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 178,490.22
Accrued Payroll	81,588.32
Total Accounts Payable and Accrued Liabilities	\$ 260,078.54

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, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Notes Payable	\$ 994,598.67	\$ 0.00	\$ 55,812.94	\$ 938,785.73	\$ 61,519.61
Compensated Absences	633,577.61	549,981.42	444,553.96	739,005.07	75,600.22
Total Long-Term Liabilities	\$ 1,628,176.28	\$ 549,981.42	\$ 500,366.90	\$ 1,677,790.80	\$ 137,119.83

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 06/30/2006	Principal Outstanding 06/30/2006
Energy Savings Program	National City Commercial Corp.	4.65%	6/3/2016	\$ 1,044,048.12	\$ 105,262.39	\$ 938,785.73

The annual requirements to pay principal and interest on the notes payable at June 30, 2006, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2007	\$ 61,519.61	\$ 42,591.11
2008	67,588.27	39,625.65
2009	74,038.79	36,371.41
2010	80,892.16	32,810.24
2011	88,170.29	28,923.07
2012-2016	566,576.61	73,423.63
Total Requirements	\$ 938,785.73	\$ 253,745.11

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, 2006:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$ 68,199.44
2008	59,302.24
2009	49,203.84
2010	40,155.99
2011	25,512.84
Total Minimum Lease Payments	<u>\$ 242,374.35</u>

Rental expense for all operating leases during the year was \$60,836.21.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	\$ 1,893,091.57	\$ 982,706.42	\$ 72,641.84	\$ 837,743.31
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 72,103.21	\$ 0.00	\$ 0.00	\$ 72,103.21
Bookstore	917,322.63	484,919.15	26,693.51	405,709.97
Childcare	87,546.70			87,546.70
Other	22,947.00			22,947.00
Total Sales and Services	<u>\$ 1,099,919.54</u>	<u>\$ 484,919.15</u>	<u>\$ 26,693.51</u>	<u>\$ 588,306.88</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - 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	\$ 7,173,676.54	\$ 1,126,366.51	\$ 684,878.81	\$ 178,837.75	\$ 0.00	\$ 0.00	\$ 9,163,759.61
Research	8,937.19	4,280.25	8,227.65				21,445.09
Public Service	83,984.67	13,529.28	13,624.04				111,137.99
Academic Support	1,161,887.88	49,279.27	62,441.10				1,273,608.25
Student Services	1,447,547.60	54,828.21	311,701.50	56,317.15	577.57		1,870,972.03
Institutional Support	2,214,555.19	135,831.19	485,031.85				2,835,418.23
Operations and Maintenance of Plant	372,252.81	72,001.10	267,026.76		207,660.52		918,941.19
Student Financial Aid			12,699.97	2,220,747.61			2,233,447.58
Auxiliary Enterprises	114,830.64	827,162.75	159,978.23				1,101,971.62
Depreciation						375,190.89	375,190.89
Total Operating Expenses	\$ 12,577,672.52	\$ 2,283,278.56	\$ 2,005,609.91	\$ 2,455,902.51	\$ 208,238.09	\$ 375,190.89	\$ 19,905,892.48

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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$11,156,993.56, of which \$8,945,155.16 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$536,709.37 and \$209,316.63, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$209,316.63, \$190,841.94, and \$18,587.87, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$243,186.88 for the year ended June 30, 2006.

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 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 \$12,300.00 for the year ended June 30, 2006.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$339,915.90. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 year ended June 30, 2006, the College's total contribution to the DIPNC was \$46,514.81. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 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, and can include 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 \$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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

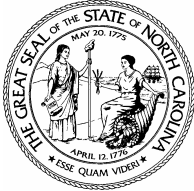
- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$0.00 and on other purchases were \$184,139.66 at June 30, 2006.
- B. **Pending Litigation 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2005, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2005 Net Assets as Previously Reported	\$ 5,641,063.41
Restatement - Correction of Capital Assets Balances	<u>2,384,746.44</u>
July 1, 2005 Net Assets as Restated	<u><u>\$ 8,025,809.85</u></u>



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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

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

Board of Trustees
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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 1, 2006. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We consider the deficiency described in the Audit Findings and Recommendations section of this report to be a reportable condition.

**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 (CONCLUDED)**

A material weakness is a reportable 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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, which are reported in the Audit Findings and Recommendations section of this report, disclosed 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, the State Board of Community Colleges, management of the College, the Governor, the State Controller, and the General Assembly, 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

June 1, 2006

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting Objectives

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

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Southeastern Community College contained numerous misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted in our audit included:

- a. The College netted total scholarship discounts out of tuition and fees when the portion applicable to bookstore sales should have been netted from sales and services. As a result, the tuition and fees account was understated and the sales and services account was overstated by \$485,000.
- b. The College established estimated useful lives of capital assets based on guidance provided by the North Carolina Community College Systems Office and did not adjust the lives to match actual life expectancy. This resulted in a \$2.2 million understatement of capital assets.
- c. The College did not properly capitalize construction costs as construction in progress, resulting in a \$192,000 understatement of construction in progress.
- d. The College did not properly compute the amount of unearned revenue at year-end and made an erroneous entry to accounts payable, resulting in an understatement of current liabilities of \$143,000.
- e. The College did not record an allowance for doubtful accounts for student receivables deemed uncollectible at year-end. As a result, student receivables were overstated by approximately \$100,000.
- f. The College recorded receivables for grant funds greater than the balances earned and uncollected at year-end. As a result, intergovernmental receivables were overstated by \$94,000.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control to ensure the completeness and accuracy of the financial statements.

College's Response: Below are the College's responses to your finding during the audit of fiscal year 2005-06 pertaining to deficiencies in financial reporting:

- a. The College agrees that the portion of scholarship discounts applicable to bookstore sales should have been netted from sales and services and not out of tuition and fees. This change will be made in future financial statements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- b. The College will adjust useful lives of capital assets to match actual life expectancy.
- c. The College will implement additional internal controls necessary to ensure that reclassification journal entries pertaining to construction in progress are posted each year to properly capitalize on-going construction costs.
- d. The College will implement additional internal controls necessary to ensure that unearned revenue is calculated correctly and that journal entries are posted to the correct general ledger accounts in order to reflect accurate liability balances.
- e. In past financial statements, an allowance for doubtful accounts has only been established for outstanding student loans. In the future all receivables, including student receivables, will be reviewed and an allowance for doubtful accounts will be reflected in the financial statements.
- f. The College will implement additional internal controls necessary to ensure that intergovernmental receivables accurately reflect balances earned but uncollected as of year-end.

During fiscal year 2005-2006, due to a shortage in personnel, it was difficult to maintain the normal emphasis on effective review and oversight that is necessary to ensure the completeness and accuracy of the financial statements resulting in three of the above misstatements listed in items c., d., and f. We concur that effective internal controls are tantamount to ensuring both the completeness and accuracy of the financial statements and will immediately implement any controls necessary to produce complete, accurate financial statements.

ORDERING INFORMATION

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