



STATE OF NORTH CAROLINA

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

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, 2007

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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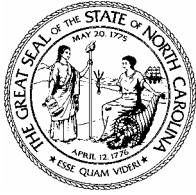
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STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Southeastern Community College for the year ended June 30, 2007, 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 Finding and Response 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.

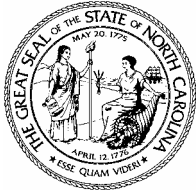
Leslie W. Merritt, Jr.

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

May 12, 2008

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STATE OF NORTH CAROLINA
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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, 2007, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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 auditor, 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, 2007, 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 April 29, 2008, 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

April 29, 2008

**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, 2007. Management's Discussion and Analysis (MD&A) 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 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.

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

	2007	2006	Total Percentage Change
Current Assets	\$ 2,340,049.55	\$ 2,154,733.04	8.60%
Capital Assets	8,145,480.05	6,806,533.46	19.67%
Other Assets	8,407,855.37	260,541.69	3127.07%
Total Assets	18,893,384.97	9,221,808.19	104.88%
Current Liabilities	1,317,142.14	613,432.13	114.72%
Long-term Liabilities	1,495,384.50	1,540,670.97	-2.94%
Total Liabilities	2,812,526.64	2,154,103.10	30.57%
Net Assets			
Invested in Capital Assets	8,145,480.05	6,806,533.46	19.67%
Restricted	8,413,510.46	889,917.76	845.43%
Unrestricted	(478,132.18)	(628,746.13)	-23.95%
Total Net Assets	\$ 16,080,858.33	\$ 7,067,705.09	127.53%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

During the current fiscal year the College's net assets increased by \$9 million. This large increase was mainly due to allotted state bond construction funds in the amount of \$8.2 million. During the year, current liabilities increased by \$703,710 due to amounts owed on construction projects.

Statement of Revenues, Expenses, and Changes in Net Assets

The following condensed statement for fiscal years ending 2007 and 2006 reflects the percentage increase or decrease in reported revenues and expenses between years.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2007	2006	Total Percentage Change
Total Operating Revenues	\$ 7,590,841.00	\$ 7,145,158.15	6.24%
Total Operating Expenses	19,937,841.42	19,905,892.48	0.16%
Operating Loss	(12,347,000.42)	(12,760,734.33)	-3.24%
Nonoperating Revenues(Expenses)	11,942,748.46	10,962,713.47	8.94%
Capital Grants	10,000.00	58,575.26	-82.93%
Capital Gifts	202,500.00	114,169.00	77.37%
State Capital Aid	8,536,451.32	572,746.12	1390.44%
County Capital Aid	100,000.00	94,425.72	5.90%
Change in Net Assets	8,444,699.36	(958,104.76)	981.40%
Net Assets - Beginning of Year	7,067,705.09	8,025,809.85	
Restatements	568,453.88		
Net Assets - End of Year	\$ 16,080,858.33	\$ 7,067,705.09	127.53%

Nonoperating revenues increased significantly due to an \$8.2 million increase in state bond construction allotments. Although state appropriations are used to cover operating expenses, GASB Statement No. 35 requires that State appropriations be reported as nonoperating revenue. With adherence to this standard, the College will always report an operating loss.

Capital Assets

At June 30, 2007, the College reported \$12.97 million invested in capital assets less \$4.82 million in accumulated depreciation for net capital assets of \$8.15 million. Funds from the general obligation bonds approved in 2000 for capital improvements for the North Carolina Community College System were allotted during the year for renovation and new construction. Approximately \$4.3 million in general obligation bonds have been authorized for a new Technology Building, which is scheduled to open in Fall of 2008. The special appropriation of \$3 million dollars granted by the NC General Assembly in 2005 has been authorized by the State Board of Community Colleges for a new Health and Human Services building. At June 30, 2007, this project was in the design development stage. Land increased

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

due to a gift from the College Foundation of approximately 20 acres with a fair market value of \$202,500.

The following schedule reports capital assets for the fiscal years 2007 and 2006, net of accumulated depreciation.

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change</u>
Land	\$ 316,940.00	\$ 114,440.00	176.95%
Construction-in-Progress	823,863.15	192,438.63	328.12%
Buildings	5,139,975.16	5,098,819.56	0.81%
Machinery and Equipment	1,545,218.06	1,017,171.20	51.91%
General Infrastructure	<u>319,483.68</u>	<u>383,664.07</u>	-16.73%
Totals	<u>\$ 8,145,480.05</u>	<u>\$ 6,806,533.46</u>	19.67%

Long-Term Liabilities

The College reported long-term liabilities of \$1.65 million as of June 30, 2007. This balance consists of a note payable and accrued vacation leave. A note payable with an outstanding balance of \$877,266 for the cost of the implementation of the energy savings program entered into with Ameresco, Inc., in 2004 will be paid off in June 2016. The current portion reported for this note is \$67,588. The liability for accrued vacation leave is \$774,897 of which \$89,191 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 cutting-edge programs of study and training.

In the Curriculum Division, to encourage the development of new small businesses in technology and health-related areas, programs have been added in Broadcasting and Production Technology (with a web delivery emphasis), Web Technologies, Networking Technologies and Therapeutic Massage. Additionally, the current programs in Business Administration and Early Childhood Education have been expanded to provide greater emphasis on web business and children with special needs respectively.

The Continuing Education Division continuously updates and expands its workforce development programs and services which currently include New and Expanding Industry Training (NEIT), which is designed to provide training opportunities and services for new and/or expanding industries in Columbus County; Focused Industrial Training (FIT), which

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

utilizes individualized needs assessments and consultations to design and implement customized short-term training programs for industries who need to upgrade workers' skills due to technological or process advances; Customized Occupational/Workforce Development Training, which is designed to train, retrain and upgrade individuals' skills in a short time frame; the Small Business Center, which offers programs designed to increase the success rate and number of viable small businesses in Columbus County; the 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; and lastly, the College's newly originated Hispanic Initiative which will foster the development and implementation of educational programs and services for Columbus County's fastest growing target population.

Southeastern Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 432,135.36
Restricted Cash and Cash Equivalents	725,615.65
Investments	415,046.96
Receivables, Net (Note 3)	430,973.42
Due from Primary Government	20,094.92
Due from State of North Carolina Component Units	8,885.00
Inventories	307,298.24
	<hr/>
Total Current Assets	2,340,049.55

Noncurrent Assets:

Restricted Cash and Cash Equivalents	103,799.44
Restricted Due from Primary Government	8,208,166.49
Notes Receivable, Net (Note 3)	95,889.44
Capital Assets - Nondepreciable (Note 4)	1,140,803.15
Capital Assets - Depreciable, Net (Note 4)	7,004,676.90
	<hr/>
Total Noncurrent Assets	16,553,335.42

Total Assets

18,893,384.97

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	872,681.40
Due to Primary Government	71,786.62
Unearned Revenue	98,051.63
Funds Held for Others	117,843.54
Long-Term Liabilities - Current Portion (Note 6)	156,778.95
	<hr/>
Total Current Liabilities	1,317,142.14

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,495,384.50
	<hr/>

Total Liabilities

2,812,526.64

NET ASSETS

Invested in Capital Assets	8,145,480.05
Restricted for:	
Expendable:	
Scholarships and Fellowships	247,161.63
Loans	234,844.05
Capital Projects	7,695,401.73
Specific Programs	195,095.26
Other	41,007.79
Unrestricted	(478,132.18)
	<hr/>
Total Net Assets	\$ 16,080,858.33

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 778,541.54
Federal Grants and Contracts	5,189,566.63
State and Local Grants and Contracts	1,005,674.35
Sales and Services, Net (Note 8)	596,247.25
Other Operating Revenues	20,811.23
	<hr/>
Total Operating Revenues	7,590,841.00

EXPENSES

Operating Expenses:	
Personal Services	13,180,786.15
Supplies and Materials	1,990,620.24
Services	1,860,794.04
Scholarships and Fellowships	2,396,378.58
Utilities	216,094.39
Depreciation	293,168.02
	<hr/>
Total Operating Expenses	19,937,841.42
	<hr/>
Operating Loss	(12,347,000.42)

NONOPERATING REVENUES (EXPENSES)

State Aid	10,125,780.95
County Appropriations	1,082,937.00
Noncapital Grants	334,341.71
Noncapital Gifts	380,256.78
Investment Income	61,823.60
Interest and Fees on Debt	(42,591.11)
Other Nonoperating Revenues	199.53
	<hr/>
Net Nonoperating Revenues	11,942,748.46

Income Before Other Revenues, Expenses, Gains, and Losses (404,251.96)

State Capital Aid	8,536,451.32
County Capital Aid	100,000.00
Capital Grants	10,000.00
Capital Gifts	202,500.00
	<hr/>
Increase in Net Assets	8,444,699.36

NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	<hr/> 7,636,158.97
Net Assets, June 30, 2007	<hr/> <hr/> \$ 16,080,858.33

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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 7,607,834.10
Payments to Employees and Fringe Benefits	(12,904,277.38)
Payments to Vendors and Suppliers	(3,571,839.67)
Payments for Scholarships and Fellowships	(2,397,823.34)
Loans Issued to Students	(9,248.72)
Collection of Loans to Students	10,668.93
Other Receipts	24,232.43
	<hr/>
Net Cash Used by Operating Activities	(11,240,453.65)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,125,780.95
County Appropriations	1,082,937.00
Noncapital Grants Received	374,144.41
Noncapital Gifts	461,786.74
Principal Paid on Noncapital Debt	(61,519.61)
Interest Paid on Noncapital Debt	(42,591.11)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	11,940,538.38

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	308,189.91
County Capital Aid Received	100,000.00
Capital Grants Received	10,000.00
Acquisition and Construction of Capital Assets	(861,160.73)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(442,970.82)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	91,554.92
Investment Income	62,099.72
Purchase of Investments and Related Fees	(109,276.07)
	<hr/>
Net Cash Provided by Investing Activities	44,378.57

Net Increase in Cash and Cash Equivalents	301,492.48
Cash and Cash Equivalents, July 1, 2006	960,057.97
	<hr/>
Cash and Cash Equivalents, June 30, 2007	\$ 1,261,550.45

***Southeastern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007***

***Exhibit A-3
Page 2***

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

Operating (Loss)	\$ (12,347,000.42)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	293,168.02
Provision for Uncollectible Loans and Write-Offs	7,180.62
Miscellaneous Nonoperating Income	199.53
Changes in Assets and Liabilities:	
Receivables, Net	(236.55)
Inventories	84,871.79
Notes Receivable, Net	1,420.21
Accounts Payable and Accrued Liabilities	612,602.86
Dut to State of North Carolina Component Units	31,630.24
Unearned Revenue	15,784.89
Funds Held for Others	24,032.90
Compensated Absences	35,892.26
	<hr/>
Net Cash Used by Operating Activities	<u><u>\$ (11,240,453.65)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 432,135.36
Restricted Cash and Cash Equivalents	725,615.65
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	103,799.44
	<hr/>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 1,261,550.45</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 202,500.00
Change in Fair Value of Investments	6,898.33
Increase in Receivables Related to Nonoperating Income	8,228,261.41

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, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	762,953.00
Investments		2,689,751.00
Land		434,750.00
Notes Receivable		18,595.00
		<hr/>
Total Assets		3,906,049.00
		<hr/>

LIABILITIES

Due to Southeastern Community College		709.00
		<hr/>
Total Liabilities		709.00
		<hr/>

NET ASSETS

Unrestricted		723,598.00
Permanently Restricted		3,181,742.00
		<hr/>
Total Net Assets	\$	3,905,340.00
		<hr/> <hr/>

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, 2007

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues:	
Contributions	\$ 194,269.00
Investment Return	383,220.00
Loss on Sale of Land	<u>(597,500.00)</u>
Total Unrestricted Revenues	<u>(20,011.00)</u>
Transfers	<u>(202,500.00)</u>
Total Unrestricted Revenues and Other Support	<u>(222,511.00)</u>
Expenses:	
Program Services	276,687.00
Management and General	40,586.00
Fund Raising	<u>5,519.00</u>
Total Expenses	<u>322,792.00</u>
Decrease in Unrestricted Net Assets	<u>(545,303.00)</u>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	<u>152,475.00</u>
Increase in Permanently Restricted Net Assets	<u>152,475.00</u>
Decrease in Net Assets	(392,828.00)
Net Assets at Beginning of Year	<u>4,298,168.00</u>
Net Assets at End of Year	<u><u>\$ 3,905,340.00</u></u>

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

SOUTHEASTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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 a different reporting model 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 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, 2007, the Foundation distributed \$276,687.83 to the College for both restricted and unrestricted purposes. The Foundation also transferred to the College approximately 20 acres of land adjacent to the College, valued at \$202,500. Complete financial statements for the Foundation can be obtained from Southeastern Community College, Inc., PO Box 151, Whiteville, NC 28472.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 amounts 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method. Merchandise for resale is valued at cost using the retail inventory 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 50 to 75 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.
- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 – 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 \$686,611.19. The value of one trust fund at December 31, 2006, was \$195,261.05. The College receives 6/10ths of 1% of the value of the fund as of December 31st each year. The value of the other trust fund was \$491,350.14 as of June 30, 2007. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,790.00, and deposits in private financial institutions with a carrying value of \$1,259,760.45 and a bank balance of \$1,057,664.11. The amount shown on the Statement of Net Assets as investments includes certificates of deposit with a carrying value and a bank balance of \$115,383.17.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2007, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Otherwise, the College has no formal investment policies.

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.

The following table presents the fair value of investments by type at June 30, 2007, as well as information about interest rate risk and credit risk for debt investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments

	Fair Value	Properties of Debt Investments Investment Maturities in Years	Ratings
Investment Type:			
Debt Investments:			
Mutual Bond Funds	\$ 272,279.96	4.6 years	Unrated
Money Market Mutual Fund	27,383.83	0.0 years	Unrated
Total Debt Investments	299,663.79		
Other Investments			
Certificates of Deposit	115,383.17		
Total Investments	\$ 415,046.96		

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	\$ 1,790.00
Carrying Amount of Deposits with Private Financial Institutions	1,259,760.45
Investments in Certificates of Deposit	115,383.17
Bond Funds	272,279.96
Money Market Funds	27,383.83
Total Deposits and Investments	\$ 1,676,597.41
Current:	
Cash and Cash Equivalents	\$ 432,135.36
Restricted Cash and Cash Equivalents	725,615.65
Investments	415,046.96
Noncurrent:	
Restricted Cash and Cash Equivalents	103,799.44
Total	\$ 1,676,597.41

Component Unit - Investments of the College's component unit, Southeastern Community College Foundation, Inc. is 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.

The investment policy of the Foundation allows up to 60% of the market value of the portfolio, with a 5% variance, to be invested in common

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

stocks. At June 30, 2007, 61.76% of the portfolio was invested in equities.

Long-term investments are stated at fair value and consist of U.S. Government bonds, corporate bonds and equities. Fair values and unrealized appreciation (depreciation) at June 30, 2007 are summarized as follows:

June 30, 2007	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Investments Restricted To:			
Operational Trust	\$ 171,839	\$ 187,463	\$ 15,624
Permanent Endowments	2,186,914	2,502,288	315,374
	\$ 2,358,753	\$ 2,689,751	\$ 330,998

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 260,304.43	\$ 111,431.99	\$ 148,872.44
Bookstore Vendor Credit Memos	80,448.29		80,448.29
Intergovernmental	195,834.06		195,834.06
Other	5,818.63		5,818.63
Total Current Receivables	\$ 542,405.41	\$ 111,431.99	\$ 430,973.42
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 34,340.71	\$ 16,089.62	\$ 18,251.09
Institutional Student Loan Programs	103,021.78	25,383.43	77,638.35
Total Notes Receivable - Noncurrent	\$ 137,362.49	\$ 41,473.05	\$ 95,889.44

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Balance June 30, 2007
Capital Assets, Nondepreciable:			
Land	\$ 114,440.00	\$ 202,500.00	\$ 316,940.00
Construction in Progress	192,438.63	631,424.52	823,863.15
Total Capital Assets, Nondepreciable	<u>306,878.63</u>	<u>833,924.52</u>	<u>1,140,803.15</u>
Capital Assets, Depreciable:			
Buildings	8,619,662.63	193,571.43	8,813,234.06
Machinery and Equipment	2,354,655.09	140,809.87	2,495,464.96
General Infrastructure	522,028.77		522,028.77
Total Capital Assets, Depreciable	<u>11,496,346.49</u>	<u>334,381.30</u>	<u>11,830,727.79</u>
Less Accumulated Depreciation:			
Buildings	3,524,499.60	148,759.30	3,673,258.90
Machinery and Equipment	813,810.14	136,436.76	950,246.90
General Infrastructure	194,573.13	7,971.96	202,545.09
Total Accumulated Depreciation	<u>4,532,882.87</u>	<u>293,168.02</u>	<u>4,826,050.89</u>
Total Capital Assets, Depreciable, Net	<u>6,963,463.62</u>	<u>41,213.28</u>	<u>7,004,676.90</u>
Capital Assets, Net	<u>\$ 7,270,342.25</u>	<u>\$ 875,137.80</u>	<u>\$ 8,145,480.05</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 550,476.57
Accrued Payroll	322,204.83
Total Accounts Payable and Accrued Liabilities	<u>\$ 872,681.40</u>

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Notes Payable	\$ 938,785.73	\$ 0.00	\$ 61,519.61	\$ 877,266.12	\$ 67,588.27
Compensated Absences	739,005.07	502,409.84	466,517.58	774,897.33	89,190.68
Total Long-Term Liabilities	<u>\$ 1,677,790.80</u>	<u>\$ 502,409.84</u>	<u>\$ 528,037.19</u>	<u>\$ 1,652,163.45</u>	<u>\$ 156,778.95</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 06/30/2007	Principal Outstanding 06/30/2007
Energy Savings Program	National City Commercial Corp.	4.65%	6/3/2016	<u>\$ 1,044,048.12</u>	<u>\$ 166,782.00</u>	<u>\$ 877,266.12</u>

The annual requirements to pay principal and interest on the notes payable at June 30, 2007, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
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	95,896.31	24,689.73
2013-2016	<u>470,680.30</u>	<u>48,733.90</u>
Total Requirements	<u>\$ 877,266.12</u>	<u>\$ 211,154.00</u>

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 75,700.56
2009	61,352.16
2010	43,417.23
2011	<u>25,512.84</u>
Total Minimum Lease Payments	<u>\$ 205,982.79</u>

Rental expense for all operating leases during the year was \$91,147.76.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 1,913,727.97	\$ 1,056,181.15	\$ 79,005.28	\$ 778,541.54
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 28,325.81	\$ 0.00	\$ 0.00	\$ 28,325.81
Bookstore	1,045,027.31	578,623.01	32,426.71	433,977.59
Childcare	82,625.30			82,625.30
Other	51,318.55			51,318.55
Total Sales and Services	\$ 1,207,296.97	\$ 578,623.01	\$ 32,426.71	\$ 596,247.25

NOTE 9 - 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	\$ 7,463,760.75	\$ 767,019.27	\$ 548,311.69	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,779,091.71
Research	10,460.65	6,773.66	4,067.72				21,302.03
Public Service	120,039.04	10,964.28	16,675.16				147,678.48
Academic Support	1,375,951.29	61,675.84	69,566.18				1,507,193.31
Student Services	1,719,535.86	56,097.51	439,257.37				2,214,890.74
Institutional Support	1,995,994.61	93,520.66	512,471.59				2,601,986.86
Operations and Maint of Plant	404,276.30	74,003.58	181,066.97		216,094.39		875,441.24
Student Financial Aid		121.24	12,121.00	2,396,378.58			2,408,620.82
Auxiliary Enterprises	90,767.65	920,444.20	77,256.36				1,088,468.21
Depreciation						293,168.02	293,168.02
Total Operating Expenses	\$ 13,180,786.15	\$ 1,990,620.24	\$ 1,860,794.04	\$ 2,396,378.58	\$ 216,094.39	\$ 293,168.02	\$ 19,937,841.42

NOTE 10 - PENSION PLANS

A. Retirement Plans – Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$11,532,671.01, of which \$9,255,630.51 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$555,337.83 and \$246,199.77, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$246,199.77, \$209,316.63, and \$190,841.94, 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 \$258,504.00 for the year ended June 30, 2007.

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 \$8,750.00 for the year ended June 30, 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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, 2007, the College's total contribution to the Plan was \$351,713.96. 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. Disability Income** – 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, 2007, the College's total contribution to the DIPNC was \$48,129.28. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 funds.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 13 - 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 \$4,284,876.30 and on other purchases were \$62,859.93 at June 30, 2007.
- 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.

NOTE 14 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 7,067,705.09
Correction of Capital Asset Balances	469,753.53
Other	<u>98,700.35</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 7,636,158.97</u></u>



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

Board of Trustees
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, 2007, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 29, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record,

**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)**

process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiency described in the Audit Finding and Response section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Audit Finding and Response section of this report.

The College's response to the finding identified in our audit is described in the Audit Finding and Response section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, 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., CPA, CFP
State Auditor

April 29, 2008

AUDIT FINDING AND RESPONSE

Matters Related to Financial Reporting Objectives

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

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Southeastern Community College contained 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 did not properly record its allotment for the general obligation bonds. As a result, State Capital Aid was understated and State and Local Grants and Contracts were overstated by \$8,208,166.
- b. Cash reclassifications were necessary to record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds. As a result, unrestricted cash was overstated by \$317,321, current restricted cash was understated by \$148,391, and noncurrent restricted cash was understated by \$168,930.
- c. The College erroneously recorded receivables for grant funds that were unearned at year-end. As a result, intergovernmental receivables were overstated by \$198,193.
- d. Various other misstatements were made in the financial statements, notes to the financial statements, and management's discussion and analysis.

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

Agency's Response: We concur that greater emphasis on the year-end financial reporting and effective internal controls are tantamount to ensuring both the completeness and accuracy of the financial statements. We will immediately implement additional controls necessary to produce complete, accurate financial statements.

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