



STATE OF NORTH CAROLINA

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, 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 and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

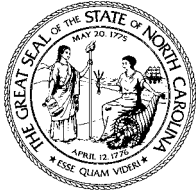
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	8
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	10
A-3 Statement of Cash Flows	11
Component Unit Exhibits	
B-1 Statement of Financial Position	13
B-2 Statement of Activities	14
Notes to the Financial Statements	15
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33
AUDIT FINDINGS AND RESPONSES	35
ORDERING INFORMATION	37



Beth A. Wood, CPA
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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Southeastern Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for Southeastern Community College Foundation, Inc., 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 other auditors provides a reasonable basis for our opinions.

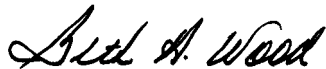
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southeastern Community College and its discretely presented component unit as of June 30, 2010, and the respective 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)

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2011 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

February 10, 2011

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, 2010, with comparative data from fiscal year ended June 30, 2009. Since this discussion and analysis is designed to focus on current year activities, resulting change, and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

This annual report consists of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

The statement format presents financial information in a form that emulates corporate presentation. The statements are prepared under the accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements.

The Statement of Net Assets reports current and noncurrent assets and liabilities. This statement combines and consolidates current financial resources with capital assets.

The Statement of Revenues, Expenses, and Changes in Net Assets reports revenues earned and expenses incurred during the fiscal year. State and county appropriations and gifts are required to be reported as nonoperating revenues even though these revenue sources are used to cover operating expenses.

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

	<u>2010</u>	<u>2009</u> <u>(as restated)</u>	<u>Percentage</u> <u>Change</u>
Current Assets	\$ 2,966,017.69	\$ 2,891,805.40	2.57%
Capital Assets	15,422,575.36	13,292,251.47	16.03%
Other Assets	1,401,345.61	2,865,992.10	-51.10%
Total Assets	<u>19,789,938.66</u>	<u>19,050,048.97</u>	
Current Liabilities	1,029,029.27	1,354,342.74	-24.02%
Long-Term Liabilities	1,227,005.70	1,304,804.73	-5.96%
Total Liabilities	<u>2,256,034.97</u>	<u>2,659,147.47</u>	
Net Assets			
Invested in Capital Assets	15,422,575.36	13,292,251.47	16.03%
Restricted	1,861,367.08	3,118,106.78	-40.30%
Unrestricted	249,961.25	(19,456.77)	1384.70%
Total Net Assets	<u>\$ 17,533,903.69</u>	<u>\$ 16,390,901.48</u>	

During the current fiscal year, total assets increased by \$739,890 while total liabilities decreased by \$403,112 resulting in an overall increase in net assets of \$1.14 million. This was due to several factors, most notably an increase in capital assets of \$2.13 million and a decrease in other assets of \$1.46 million. A new building and a HVAC energy improvement project at a total cost of \$2.93 million were completed during the year and added to capital assets. Prior year costs of \$1.27 million were transferred from construction in progress for these completed projects. In addition, approximately 140 acres of land valued at \$697,594 was donated to the College by the Southeastern Community College Foundation, Inc. The decline in other assets is mainly attributed to the decrease in funds due from primary government on construction projects because construction on the new Health and Human Services building was completed. The remaining increase in total net assets results from an increase in cash and cash equivalents, an increase in funds held for others, and a decline in current liabilities related to construction projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Revenues, Expenses, and Changes in Net Assets

The following condensed statement for fiscal years ended 2010 and 2009 reflects the percentage increase or decrease in reported revenues and expenses between years.

	2010	2009 (as restated)	Total Percentage Change
Total Operating Revenues	\$ 4,959,812.16	\$ 4,256,951.29	16.51%
Net Nonoperating Revenues	19,065,484.15	17,733,871.53	7.51%
Capital Grants	86,941.60	152,921.32	-43.15%
Capital Gifts	1,227,627.99	47,471.82	2486.01%
State Capital Aid	559,223.29	812,825.81	-31.20%
County Capital Aid	102,945.73	95,738.27	7.53%
Total Revenues	26,002,034.92	23,099,780.04	
Operating Expenses			
Personal Services	13,589,011.89	14,184,633.17	-4.20%
Supplies and Materials	3,225,023.11	2,188,213.84	47.38%
Services	1,715,642.07	1,516,586.11	13.13%
Scholarships and Fellowships	5,684,280.04	3,899,233.65	45.78%
Utilities	251,822.53	244,918.24	2.82%
Depreciation	393,253.07	381,835.07	2.99%
Total Operating Expenses	24,859,032.71	22,415,420.08	
Change in Net Assets	1,143,002.21	684,359.96	
Net Assets - Beginning of Year	16,390,901.48	15,633,078.10	
Restatements		73,463.42	
Net Assets - End of Year	\$ 17,533,903.69	\$ 16,390,901.48	

The increase in operating revenue and the increase in operating expenses is mainly due to an increase in student enrollment, tuition rates, and student financial aid. Although state and county 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 gifts valued at \$1.2 million consisted of funds received from the College's foundation for an HVAC project and the donation of approximately 140 acres of land valued at \$697,594 from the College's foundation.

Capital Assets

At June 30, 2010, the College reported \$21.2 million invested in capital assets less \$5.8 million in accumulated depreciation for net capital assets of \$15.4 million. A new Health and Human Services building and an HVAC improvement project were completed during the fiscal year which added \$2.93 million to the cost of buildings of which \$1.27 million was reported as construction in progress in the prior year. As mentioned previously, land donated by the College's foundation represents the large increase in land value.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following schedule reports capital assets for the fiscal years 2010 and 2009, net of accumulated depreciation.

	<u>2010</u>	<u>2009</u>	<u>Total Percentage Change</u>
Land	\$ 1,014,533.85	\$ 316,940.00	220.1%
Construction-in-Progress		1,269,799.11	-100.0%
Buildings	12,652,690.49	9,973,623.45	26.9%
Machinery and Equipment	1,459,783.22	1,428,349.15	2.2%
General Infrastructure	<u>295,567.80</u>	<u>303,539.76</u>	-2.6%
Totals	<u>\$ 15,422,575.36</u>	<u>\$ 13,292,251.47</u>	16.0%

Long-Term Liabilities

The College reported long-term liabilities of \$1.40 million as of June 30, 2010. This balance consists of a note payable and accrued vacation leave. A note payable with an outstanding balance of \$654,747 to PNC Equipment Finance 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 \$88,170. The liability for accrued vacation leave is \$744,397 of which \$83,968 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 continue the development of the local workforce, comprehensive program review continues throughout the division. Many programs, not connected to area jobs, are being phased out and others that require additional technology to remain current are receiving particular attention for upgrades. Additionally, work is beginning to develop programs related to "green technology" including bio-diesel and sustainable development. The level of documentation of program outcomes continues to be increased to meet stakeholder requirements.

The Continuing Education Division continuously updates and expands its workforce development programs and services which currently include customized industrial training assistance in support of full-time production and direct customer service positions created in Columbus County, thereby enhancing the growth potential of companies located in the county while simultaneously preparing Columbus County's workforce with the skills essential to gain successful employment in emerging industries; customized occupational/workforce development training that is designed to train, retrain and upgrade individuals' skills in a condensed time frame; the Small Business Center which offers programs designed to increase

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

the success rate and number of viable small businesses in Columbus County; and the Columbus County JobLink Career Center that 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, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 1,152,349.45
Restricted Cash and Cash Equivalents (Note 2)	809,687.67
Short-Term Investments (Note 2)	138,267.22
Receivables, Net (Note 3)	461,214.81
Due from Primary Government	3,547.99
Due from State of North Carolina Component Units	56,285.44
Inventories	344,665.11
	<hr/>
Total Current Assets	2,966,017.69

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	57,159.81
Investments (Note 2)	356,321.62
Restricted Due from Primary Government	950,055.92
Notes Receivable, Net (Note 3)	37,808.26
Capital Assets - Nondepreciable (Note 4)	1,014,533.85
Capital Assets - Depreciable, Net (Note 4)	14,408,041.51
	<hr/>
Total Noncurrent Assets	16,823,920.97

Total Assets	<hr/> <hr/> 19,789,938.66
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	485,266.98
Due to Primary Government	13,937.97
Due to State of North Carolina Component Units	2,330.48
Due to Community College Component Units	14,410.36
Unearned Revenue	160,636.38
Funds Held for Others	180,308.81
Long-Term Liabilities - Current Portion (Note 6)	172,138.29
	<hr/>
Total Current Liabilities	1,029,029.27

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 1,227,005.70
Total Liabilities	<hr/> <hr/> 2,256,034.97

Southeastern Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1
Page 2

NET ASSETS

Invested in Capital Assets	\$	15,422,575.36
Restricted for:		
Expendable:		
Scholarships and Fellowships		173,983.69
Loans		102,375.83
Capital Projects		912,345.67
Restricted for Specific Programs		584,082.32
Other		88,579.57
Unrestricted		<u>249,961.25</u>
Total Net Assets	\$	<u><u>17,533,903.69</u></u>

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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,575,133.84
Federal Grants and Contracts	1,880,186.47
State and Local Grants and Contracts	367,691.43
Sales and Services, Net (Note 8)	1,136,675.62
Other Operating Revenues	124.80

Total Operating Revenues	4,959,812.16
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EXPENSES

Operating Expenses:

Salaries and Benefits	13,589,011.89
Supplies and Materials	3,225,023.11
Services	1,715,642.07
Scholarships and Fellowships	5,684,280.04
Utilities	251,822.53
Depreciation	393,253.07

Total Operating Expenses	24,859,032.71
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Operating Loss	(19,899,220.55)
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NONOPERATING REVENUES (EXPENSES)

State Aid	9,468,086.71
County Appropriations	1,115,426.00
Noncapital Grants - Federal Student Financial Aid	6,835,323.40
Noncapital Grants	1,296,232.91
Noncapital Gifts	357,593.05
Investment Income	45,960.88
Interest and Fees on Debt	(32,810.24)
Other Nonoperating Expenses	(20,328.56)

Net Nonoperating Revenues	19,065,484.15
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Loss Before Other Revenues	(833,736.40)
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State Capital Aid	559,223.29
County Capital Aid	102,945.73
Capital Grants	86,941.60
Capital Gifts	1,227,627.99

Increase in Net Assets	1,143,002.21
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NET ASSETS

Net Assets, July 1, 2009 as Restated (Note 16)	16,390,901.48
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Net Assets, June 30, 2010	\$ 17,533,903.69
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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, 2010***

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 4,994,956.41
Payments to Employees and Fringe Benefits	(13,622,446.03)
Payments to Vendors and Suppliers	(5,416,684.42)
Payments for Scholarships and Fellowships	(5,684,280.04)
Collection of Loans to Students	644.94
Other Payments	(134,521.42)
	<hr/>
Net Cash Used by Operating Activities	(19,862,330.56)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,468,086.71
County Appropriations	1,115,426.00
Noncapital Grants - Federal Student Financial Aid	6,830,099.55
Noncapital Grants Received	1,248,130.96
Noncapital Gifts	357,593.05
Principal Paid on Noncapital Debt	(80,892.16)
Interest Paid on Noncapital Debt	(32,810.24)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,905,633.87

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	2,106,692.03
County Capital Aid	102,945.73
Capital Grants Received	215,267.18
Capital Gifts Received	530,034.14
Acquisition and Construction of Capital Assets	(1,846,311.67)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,108,627.41

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	520,348.46
Investment Income	31,600.61
Purchase of Investments and Related Fees	(537,363.05)
	<hr/>
Net Cash Provided by Investing Activities	14,586.02

Net Increase in Cash and Cash Equivalents	166,516.74
Cash and Cash Equivalents, July 1, 2009	1,852,680.19
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 2,019,196.93

***Southeastern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010***

Exhibit A-3

Page 2

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

Operating Loss	\$ (19,899,220.55)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	393,253.07
Provision for Uncollectible Loans and Write-Offs	14,452.10
Changes in Assets and Liabilities:	
Receivables, Net	1,515.08
Inventories	(50,754.86)
Notes Receivable, Net	644.94
Accounts Payable and Accrued Liabilities	(177,200.85)
Due to Primary Government	2,302.60
Due to State of North Carolina Component Units	(12,500.98)
Unearned Revenue	33,629.17
Funds Held for Others	(134,521.42)
Compensated Absences	(33,928.86)
	<u>(33,928.86)</u>
Net Cash Used by Operating Activities	<u>\$ (19,862,330.56)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,152,349.45
Restricted Cash and Cash Equivalents	809,687.67
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>57,159.81</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 2,019,196.93</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 697,593.85
Change in Fair Value of Investments	5,443.39
Increase in Receivables Related to Nonoperating Income	37,527.77
Capital Asset Write-Offs	64,283.42

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, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	1,323,838
Investments		4,680,016
Land		315,000
Notes Receivable		33,596
Due from Southeastern Community College		14,410
		<hr/>
Total Assets	\$	<u>6,366,860</u>

NET ASSETS

Unrestricted	\$	3,021,600
Permanently Restricted		3,345,260
		<hr/>
Total Net Assets	\$	<u>6,366,860</u>

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, 2010

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 716,000
Investment Return	(30,670)
	<hr/>
Total Unrestricted Revenues	685,330
	<hr/>
Expenses:	
Program Services	1,441,683
Management and General	47,356
Fund Raising	7,168
	<hr/>
Total Expenses	1,496,207
	<hr/>
Decrease in Unrestricted Net Assets	(810,877)
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	10,000
Investment Return	250,756
	<hr/>
Total Permanently Restricted Revenues	260,756
	<hr/>
Expenses:	
Program Services	26,469
Total Expenses	26,469
	<hr/>
Increase in Permanently Restricted Net Assets	234,287
	<hr/>
Decrease in Net Assets	(576,590)
Net Assets at Beginning of Year	6,943,450
	<hr/>
Net Assets at End of Year	\$ 6,366,860
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The accompanying notes to the financial statements are an integral part of this statement.

SOUTHEASTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 its 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 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.

The Southeastern Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2010, the Foundation distributed \$770,558.48 to the College for both restricted and unrestricted purposes and transferred approximately 140 acres of land adjacent to the College valued at \$697,593.85. Complete financial statements for the Foundation can be obtained from Southeastern Community College Foundation, 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and savings accounts.
- E. Investments** - Investments generally are reported at fair value, as determined by quoted market prices or estimated amounts determined by management if quoted market prices are not available. Because of the inherent uncertainty in the use of estimates, values that are based on estimates may differ from the values that would have been used had a ready market existed for the investments. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Money market mutual 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 value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 to 75 years for general infrastructure, 25 to 60 years for buildings, and 10 to 40 years for equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave.

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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$849,751.22. The value of one trust fund at December 31, 2009 was \$151,605.60. The College receives 6/10th of 1% of the value of the fund as of December 31 each year. The value of the other trust fund was \$698,145.62 as of June 30, 2010. The College receives 15% of the net income of the trust annually for each of two scholarships.

- 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 do not revert and are available for future use by the College. County capital appropriations do revert and are not available for future use by the College except with prior approval from county commissioners.

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 \$1,890.00, and deposits in private financial institutions with a carrying value of \$2,017,306.93, and a bank balance of \$2,332,650.17. The amount shown on the Statement of Net Assets as investments includes certificates of deposit with a carrying value and a bank balance of \$127,329.00.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, 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.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investment Type	Fair Value	Investment Maturity (Years)	
		Less Than 1	1-5
Debt Securities			
Mutual Bond Funds	\$ 356,321.62	\$ 0.00	\$ 356,321.62
Money Market Mutual Funds	10,938.22	10,938.22	
	<u>367,259.84</u>		
Other Securities			
Certificates of Deposit	<u>127,329.00</u>		
Total Investments	<u>\$ 494,588.84</u>	<u>\$ 10,938.22</u>	<u>\$ 356,321.62</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2010, the College's investments in mutual bond funds were unrated.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$	1,890.00
Carrying Amount of Deposits with Private Financial Institutions		2,017,306.93
Investments in Certificates of Deposit		127,329.00
Mutual Bond Funds		356,321.62
Money Market Mutual Funds		<u>10,938.22</u>
 Total Deposits and Investments	 \$	 <u><u>2,513,785.77</u></u>
 Current:		
Cash and Cash Equivalents	\$	1,152,349.45
Restricted Cash and Cash Equivalents		809,687.67
Short-Term Investments		138,267.22
Noncurrent:		
Restricted Cash and Cash Equivalents		57,159.81
Investments		<u>356,321.62</u>
 Total	 \$	 <u><u>2,513,785.77</u></u>

Component Unit - Investments of the College's discretely presented component unit, Southeastern Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Southeastern Community College Foundation, Inc., reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type as of June 30, 2010:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Investment Restricted to:			
Operational Trust	\$ 2,329,156.40	\$ 2,230,875.47	\$ (98,280.93)
Permanent Endowments	<u>2,469,929.79</u>	<u>2,449,140.58</u>	<u>(20,789.21)</u>
	<u>\$ 4,799,086.19</u>	<u>\$ 4,680,016.05</u>	<u>\$ (119,070.14)</u>

Investment fees were \$20,854.52.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 388,447.68	\$ 196,911.00	\$ 191,536.68
Vendor Credit Memos	52,793.45		52,793.45
Intergovernmental	202,555.92		202,555.92
Other	14,328.76		14,328.76
Total Current Receivables	\$ 658,125.81	\$ 196,911.00	\$ 461,214.81
Notes Receivable - Noncurrent:			
Federal Loan Programs	\$ 33,827.83	\$ 21,467.16	\$ 12,360.67
Institutional Student Loan Programs	100,648.28	75,200.69	25,447.59
Total Notes Receivable - Noncurrent	\$ 134,476.11	\$ 96,667.85	\$ 37,808.26

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 316,940.00	\$ 697,593.85	\$ 0.00	\$ 1,014,533.85
Construction in Progress	1,269,799.11		1,269,799.11	
Total Capital Assets, Nondepreciable	1,586,739.11	697,593.85	1,269,799.11	1,014,533.85
Capital Assets, Depreciable:				
Buildings	14,045,398.03	2,931,953.16	30,000.00	16,947,351.19
Machinery and Equipment	2,570,381.75	184,157.62	34,283.42	2,720,255.95
General Infrastructure	522,028.77			522,028.77
Total Capital Assets, Depreciable	17,137,808.55	3,116,110.78	64,283.42	20,189,635.91
Less Accumulated Depreciation for:				
Buildings	4,071,774.58	239,304.10	16,417.98	4,294,660.70
Machinery and Equipment	1,142,032.60	145,977.01	27,536.88	1,260,472.73
General Infrastructure	218,489.01	7,971.96		226,460.97
Total Accumulated Depreciation	5,432,296.19	393,253.07	43,954.86	5,781,594.40
Total Capital Assets, Depreciable, Net	11,705,512.36	2,722,857.71	20,328.56	14,408,041.51
Capital Assets, Net	\$ 13,292,251.47	\$ 3,420,451.56	\$ 1,290,127.67	\$ 15,422,575.36

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 121,522.13
Accrued Payroll	363,744.85
Total Accounts Payable and Accrued Liabilities	\$ 485,266.98

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Notes Payable	\$ 735,639.06	\$ 0.00	\$ 80,892.16	\$ 654,746.90	\$ 88,170.29
Compensated Absences	778,325.95	480,072.99	514,001.85	744,397.09	83,968.00
Total Long-Term Liabilities	\$ 1,513,965.01	\$ 480,072.99	\$ 594,894.01	\$ 1,399,143.99	\$ 172,138.29

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

Purpose	Financial Institution	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2010	Principal Outstanding June 30, 2010
Energy Savings Program	PNC Equipment Finance	4.65%	06/03/2016	\$ 1,044,048.12	\$ 389,301.22	\$ 654,746.90

The annual requirements to pay principal and interest on notes payable at June 30, 2010, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
2011	\$ 88,170.29	\$ 28,923.07
2012	95,896.31	24,689.73
2013	104,094.51	20,088.97
2014	112,790.49	15,098.39
2015	122,010.99	9,694.41
2016	131,784.31	3,852.13
Total Requirements	\$ 654,746.90	\$ 102,346.70

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for off-site buildings, postage meters, copiers, and printing equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 120,685.24
2012	119,567.16
2013	111,040.42
2014	82,895.22
2015	41,027.86
Total Minimum Lease Payments	<u>\$ 475,215.90</u>

Rental expense for all operating leases during the year was \$124,640.19.

NOTE 8 - 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	<u>\$ 3,035,146.07</u>	<u>\$ 1,459,757.23</u>	<u>\$ 255.00</u>	<u>\$ 1,575,133.84</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 45,589.33	\$ 0.00	\$ 0.00	\$ 45,589.33
Bookstore	2,123,846.09	1,118,522.22	(3,601.97)	1,008,925.84
Childcare	38,959.24			38,959.24
Other	43,201.21			43,201.21
Total Sales and Services	<u>\$ 2,251,595.87</u>	<u>\$ 1,118,522.22</u>	<u>\$ (3,601.97)</u>	<u>\$ 1,136,675.62</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,774,444.46	\$ 1,087,003.68	\$ 404,468.79	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,265,916.93
Public Service	95,939.99	16,479.76	9,775.72				122,195.47
Academic Support	1,338,110.37	76,295.00	32,693.25				1,447,098.62
Student Services	1,817,789.61	27,072.75	387,439.25				2,232,301.61
Institutional Support	2,109,887.38	85,013.75	436,291.04				2,631,192.17
Operations and Maintenance of Plant	351,928.82	352,230.44	369,803.67		251,822.53		1,325,785.46
Student Financial Aid			9,290.00	5,684,280.04			5,693,570.04
Auxiliary Enterprises	100,911.26	1,580,927.73	65,880.35				1,747,719.34
Depreciation						393,253.07	393,253.07
Total Operating Expenses	<u>\$ 13,589,011.89</u>	<u>\$ 3,225,023.11</u>	<u>\$ 1,715,642.07</u>	<u>\$ 5,684,280.04</u>	<u>\$ 251,822.53</u>	<u>\$ 393,253.07</u>	<u>\$ 24,859,032.71</u>

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,959,610.06, of which \$9,500,968.71 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$339,184.58 and \$570,058.12, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$339,184.58, \$335,678.06, and \$300,855.74, 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.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$37,228.00 for the year ended June 30, 2010.

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 \$226,061.00 for the year ended June 30, 2010.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute 135-7* and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$427,543.59, \$409,607.16, and \$404,429.02, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$49,405.04, \$51,950.18, and \$51,293.44, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The College pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. 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.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

commitments on construction contracts were \$167,568.75 and on other purchases were \$2,351.46 at June 30, 2010.

NOTE 14 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Material Violations of Finance - Related Legal or Contractual Provisions -
At June 30, 2010, Southeastern Community College had funds invested with Branch Banking & Trust in fixed income mutual funds in the amount of \$356,321.62 that may not qualify as an allowable investment option under *North Carolina General Statute 159-30(c)* and other statutes referenced therein.

On behalf of the College, General Counsel for the North Carolina Community College System has requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion from the Department of Justice indicates that this investment is not allowable, the College will divest from this fund as soon as it is economically prudent to do so.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

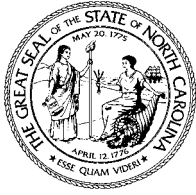
GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2009 Net Assets as Previously Reported	\$ 16,164,212.10
Restatement:	
Correction to prior year construction in progress	<u>226,689.38</u>
July 1, 2009 Net Assets as Restated	<u>\$ 16,390,901.48</u>

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Beth A. Wood, CPA
State Auditor

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

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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 10, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

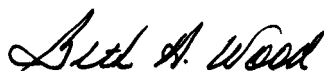
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in finding 1 in the Audit Findings and Responses section of this report to be significant deficiencies.

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in finding 2 in the Audit Findings and Responses section of this report.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses 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 College Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

February 10, 2011

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by Southeastern Community College contained misstatements and misclassifications that were corrected as a result of our audit. These misstatements and misclassifications indicate that the College's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to users. Errors noted in our audit included the following:

- The College made several errors in calculating the amount of third party scholarships credited to student accounts, which is commonly referred to as scholarship discounts. To prevent reporting the amount as both a revenue from the third party and from the student, this amount must be adjusted out of gross revenues and expenses at year-end. As a result of the calculation errors, student tuition and fees revenue was overstated by \$830,075, sales and services revenue was understated by \$59,005, and scholarships and fellowships expense was overstated by \$771,070.
- The College misclassified net assets between unrestricted and restricted funds. Unrestricted net assets was overstated by a total of \$177,531 and total restricted net assets was understated by the same amount.
- The College classified investments as current even though there was no expectation that the investments would be converted to cash within the next fiscal year. This resulted in an overstatement of current assets and an understatement of noncurrent assets of \$356,322.

Recommendation: Management should implement policies and procedures to strengthen internal controls over financial reporting to ensure the accuracy of the financial statements.

College Response: The College concurs with the audit finding and recommendation. College personnel agree to implement policies and procedures to strengthen internal controls over financial reporting. Also, the College hired an additional accountant this year, enabling management to assign the statement preparation to multiple employees with a more effective review process emphasizing accuracy of the financial statements.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

2. NONCOMPLIANCE WITH STATUTORY INVESTMENT REQUIREMENTS

The College holds an investment in a mutual fund that may not qualify as an allowable investment option under *North Carolina General Statute 159-30(c)* and other statutes referenced therein. College staff concluded that the investment met the statutory requirements; however, we concluded based on our reading of the law that this is not the case. At June 30, 2010, the fair value of the investment was \$367,260, which represented 74% of the College's investments.

General Counsel for the North Carolina Community College System Office has requested an opinion from the North Carolina Department of Justice on this matter. This opinion may differ from our interpretation.

Recommendation: If the legal opinion received from the Department of Justice indicates that the investment is not allowable, the College may have to divest its funds from the unauthorized mutual fund. However, we believe that this should only occur when those responsible for the College's investment decisions feel it is economically prudent to do so.

College Response: The College disagrees with the North Carolina State Auditor's interpretation that the referenced mutual fund is not an allowable investment option under *North Carolina General Statutes*. General Counsel for The North Carolina Community College System Office agrees that the College's interpretation is reasonable. Further, given the potential ambiguity of the statute, General Counsel has requested an opinion from the North Carolina Department of Justice on this matter. If the legal opinion received from the Department of Justice does indicate that the investment is not allowable, the College will follow the recommendation made by the State Auditor and divest itself from this mutual fund as soon as it is economically prudent to do so.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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