

# STATE OF NORTH CAROLINA

**SOUTHEASTERN COMMUNITY COLLEGE**

**WHITEVILLE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**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, 2012**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

**BOARD OF TRUSTEES**

**SPRUELL BRITT, CHAIRMAN**

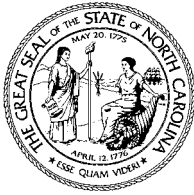
**ADMINISTRATIVE OFFICERS**

**DR. KATHLEEN MATLOCK, PRESIDENT**

**BETTY JO RAMSEY, VICE PRESIDENT FOR OPERATIONS AND FINANCE**

STATE OF NORTH CAROLINA

# Office of the State Auditor



**Beth A. Wood, CPA**  
State Auditor

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

## AUDITOR'S TRANSMITTAL

---

The Honorable Pat McCrory, 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, 2012, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

*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 .....	9
A-3 Statement of Cash Flows .....	10
Component Unit Exhibits	
B-1 Statement of Financial Position .....	12
B-2 Statement of Activities .....	13
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
ORDERING INFORMATION .....	35

# Office of the State Auditor



**Beth A. Wood, CPA**  
State Auditor

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

## INDEPENDENT AUDITOR'S REPORT

---

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, 2012, 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 provide 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, 2012, 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 March 13, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA  
State Auditor

March 13, 2013

## **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, 2012, with comparative data from fiscal year ended June 30, 2011. 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>2012</u>	<u>2011</u>	<u>Percentage Change</u>
Current Assets	\$ 3,305,387.17	\$ 3,173,285.54	4.16%
Capital Assets	17,678,618.53	15,587,947.88	13.41%
Other Assets	<u>1,363,670.80</u>	<u>1,234,990.59</u>	10.42%
Total Assets	<u>22,347,676.50</u>	<u>19,996,224.01</u>	11.76%
Current Liabilities	1,370,681.70	1,292,781.26	6.03%
Long-Term Liabilities	<u>905,957.45</u>	<u>1,105,014.55</u>	-18.01%
Total Liabilities	<u>2,276,639.15</u>	<u>2,397,795.81</u>	-5.05%
Net Assets			
Invested in Capital Assets	17,678,618.53	15,587,947.88	13.41%
Restricted	1,314,410.11	1,366,165.68	-3.79%
Unrestricted	<u>1,078,008.71</u>	<u>644,314.64</u>	67.31%
Total Net Assets	<u>\$ 20,071,037.35</u>	<u>\$ 17,598,428.20</u>	14.05%

During the current fiscal year, total assets increased by \$2,351,452 and total liabilities decreased by \$121,157 resulting in an overall increase in net assets of \$2,472,609. The majority of the increase in assets is due to an increase in construction in progress. The majority of the decrease in liabilities is related to a decrease in long-term liabilities, which is due to the current portion of the notes payable of \$104,095 being moved from long-term to current liabilities and the long-term portion of compensated absences decreasing by \$94,963. This is mainly due to the College having a number of long-term employees retire or leave as of June 30, 2012. These employees were paid for their accumulated leave upon their termination of employment, which reduced the liability.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The following condensed statement for fiscal years ended 2012 and 2011 reflects the percentage increase or decrease in reported revenues and expenses between years.

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

	<u>2012</u>	<u>2011 (as restated)</u>	<u>Total Percentage Change</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,412,835.84	\$ 991,220.24	42.54%
Sales and Services and Other, Net	636,368.37	680,291.09	-6.46%
Total Operating Revenues	<u>2,049,204.21</u>	<u>1,671,511.33</u>	22.60%
Operating Expenses:			
Salaries and Benefits	14,454,694.74	14,563,213.61	-0.75%
Supplies and Materials	2,906,113.58	3,140,137.24	-7.45%
Services	2,222,602.69	1,855,299.92	19.80%
Scholarships and Fellowships	2,889,295.66	3,659,299.22	-21.04%
Utilities	258,807.87	309,286.89	-16.32%
Depreciation	404,385.81	450,887.16	-10.31%
Total Operating Expenses	<u>23,135,900.35</u>	<u>23,978,124.04</u>	-3.51%
Operating Loss	<u>(21,086,696.14)</u>	<u>(22,306,612.71)</u>	-5.47%
Nonoperating Revenues (Expenses):			
State Aid	10,582,111.91	10,332,992.90	2.41%
County Appropriations	1,341,522.00	1,148,889.00	16.77%
Noncapital Grants and Gifts	8,282,004.28	9,770,770.48	-15.24%
Investment Income	40,767.27	31,846.73	28.01%
Interest and Fees on Debt	(24,689.73)	(28,923.07)	-14.64%
Other Nonoperating Expenses	(82,819.37)	(9,674.96)	756.02%
Other Revenues:			
Capital Aid, Grants and Gifts	<u>3,420,408.93</u>	<u>1,114,448.70</u>	206.91%
Total Nonoperating and Other Revenues	<u>23,559,305.29</u>	<u>22,360,349.78</u>	5.36%
Increase in Net Assets	<u>2,472,609.15</u>	<u>53,737.07</u>	4501.31%
Net Assets - Beginning of Year	<u>17,598,428.20</u>	<u>17,544,691.13</u>	0.31%
Net Assets - End of Year	<u>\$ 20,071,037.35</u>	<u>\$ 17,598,428.20</u>	14.05%

The increase in operating revenues is mainly due to an increase in tuition rates and the decline in waivers for prisoners although the Department of Corrections continues paying their registration fees from other funds. The increase in capital aid, grants and gifts is mainly due to the \$1.89 million received from the Southeastern Community College Foundation, Inc. for the renovation of the building that houses the student center and gym. The decrease in operating expenses is mainly due to the decrease of scholarships and fellowships. Noncapital

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

grants and gifts and scholarships and fellowships decreased \$1.49 million and \$770,004 respectively due to year-round Pell being eliminated for this academic year from the Department of Education and a decline in curriculum full time equivalents. Although state and county appropriations are used to cover operating expenses, GASB Statement No. 35 requires that they be reported as non-operating revenue. With adherence to this standard, the College will always report an operating loss.

### Capital Assets

At June 30, 2012, the College reported \$23.8 million invested in capital assets less \$6.1 million in accumulated depreciation for net capital assets of \$17.7 million. The College began renovation on the building that houses the student center and gym during the prior fiscal year. Expenses related to the renovation project, which included \$2.1 million during the current fiscal year, were reported as construction-in-progress.

The following schedule reports capital assets for the fiscal years 2012 and 2011, net of accumulated depreciation.

	2012	2011
Land	\$ 974,533.85	\$ 974,533.85
Construction-in-Progress	2,271,697.24	144,592.20
Buildings	12,087,581.56	12,368,609.93
Machinery and Equipment	2,065,182.00	1,812,616.06
General Infrastructure	279,623.88	287,595.84
Totals	\$ 17,678,618.53	\$ 15,587,947.88

### Long-Term Liabilities – Current and Noncurrent

The College reported long-term liabilities of \$905,957 as of June 30, 2012. This balance consists of a note payable and accrued vacation leave. A note payable with an outstanding balance of \$470,680 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 \$104,095. The liability for accrued vacation leave is \$658,493 of which \$119,121 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 Workforce and Community Development 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

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

---

connected to area jobs, will be phased out and others that require additional technology to remain current are receiving particular attention for upgrades. Additionally, work is continuing to develop programs related to “green technology” including bio-diesel, solar-energy, and sustainable development. The level of documentation of program outcomes continues to be increased to meet stakeholder requirements.

The Workforce and Community Development Division continuously updates and expands its workforce training 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 short-term 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 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, 2012***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 1,805,328.92
Restricted Cash and Cash Equivalents (Note 2)	536,972.04
Short-Term Investments (Note 2)	130,460.34
Receivables, Net (Note 3)	500,314.84
Due from Primary Government	4,700.29
Inventories	327,610.74
	<hr/>
Total Current Assets	3,305,387.17

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	116,466.83
Restricted Due from Primary Government	843,427.41
Other Investments (Note 2)	397,658.31
Notes Receivable, Net (Note 3)	6,118.25
Capital Assets - Nondepreciable (Note 4)	3,246,231.09
Capital Assets - Depreciable, Net (Note 4)	14,432,387.44
	<hr/>
Total Noncurrent Assets	19,042,289.33
	<hr/>
Total Assets	22,347,676.50

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	821,944.75
Due to Primary Government	14,300.99
Due to State of North Carolina Component Units	996.50
Due to Community College Component Units	50,678.84
Unearned Revenue	177,172.10
Funds Held for Others	82,372.61
Long-Term Liabilities - Current Portion (Note 6)	223,215.91
	<hr/>
Total Current Liabilities	1,370,681.70

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	905,957.45
	<hr/>
Total Liabilities	2,276,639.15

**NET ASSETS**

Invested in Capital Assets	17,678,618.53
Restricted for:	
Expendable:	
Scholarships and Fellowships	193,755.96
Loans	42,784.68
Capital Projects	602,222.99
Restricted for Specific Programs	410,765.16
Other	64,881.32
Unrestricted	1,078,008.71
	<hr/>
Total Net Assets	\$ 20,071,037.35

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, 2012***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,412,835.84
Sales and Services, Net (Note 8)	636,368.37

Total Operating Revenues	2,049,204.21
--------------------------	--------------

**EXPENSES**

Operating Expenses:

Salaries and Benefits	14,454,694.74
Supplies and Materials	2,906,113.58
Services	2,222,602.69
Scholarships and Fellowships	2,889,295.66
Utilities	258,807.87
Depreciation	404,385.81

Total Operating Expenses	23,135,900.35
--------------------------	---------------

Operating Loss	(21,086,696.14)
----------------	-----------------

**NONOPERATING REVENUES (EXPENSES)**

State Aid	10,582,111.91
County Appropriations	1,341,522.00
Noncapital Grants - Student Financial Aid	5,293,688.90
Noncapital Grants	2,502,511.22
Noncapital Gifts	485,804.16
Investment Income	40,767.27
Interest and Fees on Debt	(24,689.73)
Other Nonoperating Expenses	(82,819.37)

Net Nonoperating Revenues	20,138,896.36
---------------------------	---------------

Loss Before Other Revenues	(947,799.78)
----------------------------	--------------

State Capital Aid	1,432,150.63
Capital Grants	102,357.68
Capital Gifts	1,885,900.62

Increase in Net Assets	2,472,609.15
------------------------	--------------

**NET ASSETS**

Net Assets, July 1, 2011	17,598,428.20
--------------------------	---------------

Net Assets, June 30, 2012	\$ 20,071,037.35
---------------------------	------------------

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, 2012***

***Exhibit A-3  
Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,175,828.72
Payments to Employees and Fringe Benefits	(14,525,438.63)
Payments to Vendors and Suppliers	(5,498,682.94)
Payments for Scholarships and Fellowships	(2,889,295.66)
Collection of Loans to Students	229.79
Other Payments	(100,150.20)
	<u>(20,837,508.92)</u>
Net Cash Used by Operating Activities	<u>(20,837,508.92)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	10,582,111.91
County Appropriations	1,341,522.00
Noncapital Grants - Student Financial Aid	5,283,945.64
Noncapital Grants Received	2,503,489.97
Noncapital Gifts Received	485,804.16
Principal Paid on Noncapital Debt	(95,896.31)
Interest Paid on Noncapital Debt	(24,689.73)
William D. Ford Direct Lending Receipts	3,305,834.00
William D. Ford Direct Lending Disbursements	(3,305,834.00)
	<u>20,076,287.64</u>
Net Cash Provided by Noncapital Financing Activities	<u>20,076,287.64</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,190,304.48
Capital Grants Received	102,357.68
Capital Gifts Received	1,885,900.62
Acquisition and Construction of Capital Assets	(2,340,371.41)
	<u>838,191.37</u>
Net Cash Provided by Capital and Related Financing Activities	<u>838,191.37</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	146,371.83
Investment Income	30,685.38
Purchase of Investments and Related Fees	(154,239.27)
	<u>22,817.94</u>
Net Cash Provided by Investing Activities	<u>22,817.94</u>

Net Increase in Cash and Cash Equivalents	99,788.03
Cash and Cash Equivalents, July 1, 2011	<u>2,358,979.76</u>
Cash and Cash Equivalents, June 30, 2012	<u><u>\$ 2,458,767.79</u></u>

***Southeastern Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2012***

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

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

Operating Loss	\$ (21,086,696.14)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	404,385.81
Provision for Uncollectible Loans and Write-Offs	24,792.20
Changes in Assets and Liabilities:	
Receivables, Net	123,975.98
Inventories	(41,431.79)
Notes Receivable, Net	229.79
Accounts Payable and Accrued Liabilities	(106,463.81)
Due to Primary Government	1,554.01
Dut to State of North Carolina Component Units	(2,003.50)
Unearned Revenue	2,648.53
Funds Held for Others	(100,150.20)
Compensated Absences	(58,349.80)
	<u>(58,349.80)</u>
Net Cash Used by Operating Activities	<u>\$ (20,837,508.92)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,805,328.92
Restricted Cash and Cash Equivalents	536,972.04
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	116,466.83
	<u>116,466.83</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 2,458,767.79</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 241,204.42
Change in Fair Value of Investments	6,151.63
Increase in Receivables Related to Nonoperating Income	274,675.26
Loss on Disposal of Capital Assets	82,819.37

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, 2012***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	21,005
Investments		4,972,286
Land		191,000
Coin Collection		1,899
Notes Receivable		15,039
Due from Southeastern Community College		<u>50,679</u>
Total Assets	\$	<u><u>5,251,908</u></u>

**NET ASSETS**

Unrestricted	\$	1,359,258
Permanently Restricted		<u>3,892,650</u>
Total Net Assets	\$	<u><u>5,251,908</u></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, 2012***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:		
Contributions	\$	181,241
Investment Return		37,361
		<hr/>
Total Unrestricted Revenues and Gains		218,602
		<hr/>
Expenses:		
Program Services		2,178,536
Management and General		73,543
Fund Raising		3,348
		<hr/>
Total Expenses		2,255,427
		<hr/>
Decrease in Unrestricted Net Assets		(2,036,825)
		<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions		96,098
Investment Loss		(25,444)
		<hr/>
Increase in Permanently Restricted Net Assets		70,654
		<hr/>
Decrease in Net Assets		(1,966,171)
Net Assets at Beginning of Year		7,218,079
		<hr/>
Net Assets at End of Year	\$	5,251,908
		<hr/> <hr/>

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

[ This Page Left Blank Intentionally ]

**SOUTHEASTERN COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

---

**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 College's financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** - Southeastern Community College Foundation, Inc. is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. 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 Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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, 2012, the Foundation distributed \$2,178,536.22 to the College for both restricted and unrestricted purposes. 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 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 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all 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, savings accounts, and money market accounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

- 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.

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. Interest costs incurred are capitalized during the period of construction.

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.

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.

- 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 for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include notes payable and compensated absences that will not be paid within the next fiscal year.

**K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

**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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

\$885,732.74. The value of one trust fund at December 31, 2011 was \$144,321.08. 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 \$741,411.66 as of June 30, 2012. The College receives 15% of the net income of the trust annually for each of the 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 does 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** - The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, 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. Cash on hand at June 30, 2012 was \$1,840.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$2,587,388.13, and the bank balance was \$2,708,520.05.

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



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

---

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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; specified bills of exchange; certain savings certificates; 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 of custodian.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, 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 Maturities
		(in Years)
		1 to 5
Debt Securities		
Mutual Bond Funds	\$ 397,658.31	\$ 397,658.31
Other Securities		
Certificates of Deposit	130,460.34	
Total Investments	<u>\$ 528,118.65</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, 2012, the College's investments in mutual bond funds were unrated.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$	1,840.00
Carrying Amount of Deposits with Private Financial Institutions		2,456,927.79
Investments in Certificates of Deposit		130,460.34
Mutual Bond Funds		<u>397,658.31</u>
<b>Total Deposits and Investments</b>		<b><u>\$ 2,986,886.44</u></b>
Current:		
Cash and Cash Equivalents	\$	1,805,328.92
Restricted Cash and Cash Equivalents		536,972.04
Short-Term Investments		130,460.34
Noncurrent:		
Restricted Cash and Cash Equivalents		116,466.83
Other Investments		<u>397,658.31</u>
<b>Total</b>		<b><u>\$ 2,986,886.44</u></b>

**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:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
<b>Investment Restricted to:</b>			
Operational Trust	\$ 2,042,702.83	\$ 2,128,511.91	\$ 85,809.08
Permanent Endowments	<u>2,830,651.08</u>	<u>2,843,773.81</u>	<u>13,122.73</u>
	<u>\$ 4,873,353.91</u>	<u>\$ 4,972,285.72</u>	<u>\$ 98,931.81</u>

Investment fees were \$44,204.73.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 536,599.22	\$ 290,564.92	\$ 246,034.30
Student Sponsors	27,916.69		27,916.69
Vendor Credit Memos	21,278.11		21,278.11
Intergovernmental	188,204.14		188,204.14
Other	16,881.60		16,881.60
<b>Total Current Receivables</b>	<u>\$ 790,879.76</u>	<u>\$ 290,564.92</u>	<u>\$ 500,314.84</u>
<b>Notes Receivable - Noncurrent:</b>			
Federal Loan Programs	\$ 33,654.20	\$ 33,654.20	\$ 0.00
Institutional Student Loan Programs	100,208.49	94,090.24	6,118.25
<b>Total Notes Receivable - Noncurrent</b>	<u>\$ 133,862.69</u>	<u>\$ 127,744.44</u>	<u>\$ 6,118.25</u>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 974,533.85	\$ 0.00	\$ 0.00	\$ 974,533.85
Construction in Progress	144,592.20	2,127,105.04		2,271,697.24
<b>Total Capital Assets, Nondepreciable</b>	<u>1,119,126.05</u>	<u>2,127,105.04</u>		<u>3,246,231.09</u>
Capital Assets, Depreciable:				
Buildings	16,947,351.19	10,302.05		16,957,653.24
Machinery and Equipment	3,030,044.78	440,468.74	406,815.88	3,063,697.64
General Infrastructure	522,028.77			522,028.77
<b>Total Capital Assets, Depreciable</b>	<u>20,499,424.74</u>	<u>450,770.79</u>	<u>406,815.88</u>	<u>20,543,379.65</u>
Less Accumulated Depreciation for:				
Buildings	4,578,741.26	291,330.42		4,870,071.68
Machinery and Equipment	1,217,428.72	105,083.43	323,996.51	998,515.64
General Infrastructure	234,432.93	7,971.96		242,404.89
<b>Total Accumulated Depreciation</b>	<u>6,030,602.91</u>	<u>404,385.81</u>	<u>323,996.51</u>	<u>6,110,992.21</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>14,468,821.83</u>	<u>46,384.98</u>	<u>82,819.37</u>	<u>14,432,387.44</u>
<b>Capital Assets, Net</b>	<u>\$ 15,587,947.88</u>	<u>\$ 2,173,490.02</u>	<u>\$ 82,819.37</u>	<u>\$ 17,678,618.53</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 382,815.71
Accrued Payroll	439,129.04
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 821,944.75</b>

### 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, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Notes Payable	\$ 566,576.61	\$ 0.00	\$ 95,896.31	\$ 470,680.30	\$ 104,094.51
Compensated Absences	716,842.86	525,691.20	584,041.00	658,493.06	119,121.40
<b>Total Long-Term Liabilities</b>	<b>\$ 1,283,419.47</b>	<b>\$ 525,691.20</b>	<b>\$ 679,937.31</b>	<b>\$ 1,129,173.36</b>	<b>\$ 223,215.91</b>

**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, 2012	Principal Outstanding June 30, 2012
Energy Savings Program	PNC Equipment Finance	4.65%	06/03/2016	\$ 1,044,048.12	\$ 573,367.82	\$ 470,680.30

The annual requirements to pay principal and interest on notes payable at June 30, 2012, are as follows:

Fiscal Year	Annual Requirements	
	Notes Payable	
	Principal	Interest
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	\$ 470,680.30	\$ 48,733.90

## 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, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 96,930.49
2014	75,675.66
2015	44,022.30
2016	<u>2,635.27</u>
Total Minimum Lease Payments	<u>\$ 219,263.72</u>

Rental expense for all operating leases during the year was \$123,305.22.

### 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>
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 3,334,025.70</u>	<u>\$ 1,916,032.15</u>	<u>\$ 5,157.71</u>	<u>\$ 1,412,835.84</u>
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Vending	\$ 28,389.06	\$ 0.00	\$ 0.00	\$ 28,389.06
Athletics	10,307.16			10,307.16
Bookstore	1,503,653.96	1,009,654.44	38,607.18	455,392.34
Childcare	56,266.55			56,266.55
Other	<u>86,013.26</u>			<u>86,013.26</u>
<b>Total Sales and Services</b>	<u>\$ 1,684,629.99</u>	<u>\$ 1,009,654.44</u>	<u>\$ 38,607.18</u>	<u>\$ 636,368.37</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	\$ 8,457,858.98	\$ 1,125,142.91	\$ 685,849.30	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,268,851.19
Public Service	97,556.48	9,157.35	11,372.96				118,086.79
Academic Support	1,497,121.31	88,941.07	46,207.54				1,632,269.92
Student Services	1,704,389.11	37,207.17	393,638.57				2,135,234.85
Institutional Support	2,255,750.50	127,271.38	454,472.53				2,837,494.41
Operations and Maintenance of Plant	328,199.21	85,009.22	531,680.49		258,807.87		1,203,696.79
Student Financial Aid		427.51	22,880.98	2,889,295.66			2,912,604.15
Auxiliary Enterprises	113,819.15	1,432,956.97	76,500.32				1,623,276.44
Depreciation						404,385.81	404,385.81
Total Operating Expenses	<u>\$ 14,454,694.74</u>	<u>\$ 2,906,113.58</u>	<u>\$ 2,222,602.69</u>	<u>\$ 2,889,295.66</u>	<u>\$ 258,807.87</u>	<u>\$ 404,385.81</u>	<u>\$ 23,135,900.35</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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$12,277,218.00, of which \$9,674,747.63 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$719,801.22 and \$580,484.86, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$719,801.22, \$482,907.68, and \$339,184.58, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans - Internal Revenue Code 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 \$54,668.59 for the year ended June 30, 2012.

Internal Revenue Code 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. The plan administrator is Prudential Retirement. No costs are incurred by the College. The voluntary contributions by employees amounted to \$224,926.60 for the year ended June 30, 2012.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

### 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 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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$483,737.38, \$479,767.43, and \$427,543.59, 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*



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

*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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer 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, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$50,308.69, \$50,914.11, and \$49,405.04, 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.

The risk of tort claims of up to \$1,000,000 per claimant is 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

---

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 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 community 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 a policy purchased from a private insurance company. The College is protected for errors and omissions by a policy with a private insurance company for \$1,000,000 with a \$1,000 deductible.

The College also purchased additional public employee dishonesty coverage from a private insurance company. The special extension of property and commercial crime coverage provides for protection with coverage of \$115,000 per occurrence with a \$1,000 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

---

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 commitments on construction contracts were \$1,172,200.99 at June 30, 2012.

[ This Page Left Blank Intentionally ]

**Office of the State Auditor**

**Beth A. Wood, CPA**  
State Auditor

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

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

---

Board of Trustees  
Southeastern Community College  
Whiteville, North Carolina

We have audited the financial statements of Southeastern Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 13, 2013. 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

The College's management is responsible for establishing and maintaining effective 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 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.

**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)**

---

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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College, the 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

March 13, 2013

## ORDERING INFORMATION

---

Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647

---

This audit required 389 audit hours at an approximate cost of \$28,008. The cost represents .10% of the College's total assets and .10% of total expenses subjected to audit.