



STATE OF NORTH CAROLINA

SOUTHEASTERN COMMUNITY COLLEGE

WHITEVILLE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

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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, 2014, 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	5
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Position	10
A-2 Statement of Revenues, Expenses, and Changes in Net Position.....	12
A-3 Statement of Cash Flows	13
Component Unit Exhibits	
B-1 Statement of Financial Position	15
B-2 Statement of Activities.....	16
Notes to the Financial Statements	17
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



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southeastern Community College
Whiteville, North Carolina

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Southeastern Community College Foundation, Inc., is based solely 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 from material misstatement. The financial statements of Southeastern Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Community College, and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 12, 2015

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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, 2014, with comparative data from fiscal year ended June 30, 2013. 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. 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 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 Position 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 Position 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.

The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital, noncapital financing and investing activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Position

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

Condensed Statement of Net Position				
	2014	2013	Increase (Decrease)	Percentage Change
Assets				
Current Assets	\$ 2,932,845.84	\$ 3,427,495.67	\$ (494,649.83)	-14.43%
Capital Assets	19,262,656.21	18,994,605.77	268,050.44	1.41%
Other Noncurrent Assets	1,137,185.36	1,300,549.65	(163,364.29)	-12.56%
Total Assets	23,332,687.41	23,722,651.09	(389,963.68)	-1.64%
Liabilities				
Current Liabilities	975,913.14	1,072,690.93	(96,777.79)	-9.02%
Noncurrent Liabilities	670,270.61	816,300.88	(146,030.27)	-17.89%
Total Liabilities	1,646,183.75	1,888,991.81	(242,808.06)	-12.85%
Net Position				
Investment in Capital Assets	19,262,656.21	18,994,605.77	268,050.44	1.41%
Restricted	1,643,283.02	2,073,980.94	(430,697.92)	-20.77%
Unrestricted	780,564.43	765,072.57	15,491.86	2.02%
Total Net Position	\$ 21,686,503.66	\$ 21,833,659.28	\$ (147,155.62)	-0.67%

During the current fiscal year, total assets decreased by \$389,964 and total liabilities decreased by \$242,808 resulting in a decrease in net position of \$147,156. The majority of the decrease in assets is due to a decrease in receivables of \$612,555. Due to a timing issue, the final draw for financial aid for fiscal year 2013 from the Department of Education in the amount of \$407,062 was not received prior to year-end and therefore reported as a receivable in 2013. The final draw for fiscal year 2014 was received prior to year-end. The decrease in noncurrent liabilities is due to the current portion of the notes payable of \$122,011 being moved from long-term to current liabilities and the long-term portion of compensated absences decreasing by \$24,019. This is mainly due to the College having a number of long-term employees retire or leave as of June 30, 2014. These employees were paid for their accumulated leave upon their termination of employment, which reduced the liability.

Purchases of machinery and equipment during the year consisted primarily of computer equipment. In addition, there was an increase in construction in progress of \$136,467 related to the renovation of the auditorium. Approximately \$309,041 in machinery and equipment with \$185,641 of accumulated depreciation was disposed of through surplus or sale during the year. These amounts along with increases to accumulated depreciation caused the College's investment in capital assets and related net position to increase \$268,050.

The majority of the change in restricted net position of \$430,698 was due to a reduction in capital projects and specific programs. Capital projects declined due to reduced funding in state capital aid related to capital projects, a roof project completion, and transfers of partially

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

completed projects to construction-in-progress, which were then reported in net investment in capital assets. The reduction in specific programs resulted mainly due to the timing issue concerning the 2013 financial aid draws from the Department of Education in the amount of \$407,062, as mentioned previously.

Statement of Revenues, Expenses, and Changes in Net Position

The following condensed statement for fiscal years ended 2014 and 2013 reflects the monetary and percentage increase or decrease in reported revenues and expenses between years.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,204,844.95	\$ 1,434,429.13	\$ (229,584.18)	-16.01%
Sales and Services and Other, Net	549,330.98	616,592.42	(67,261.44)	-10.91%
Nonoperating Revenues				
State Aid	10,875,665.24	11,289,970.36	(414,305.12)	-3.67%
County Appropriations	1,258,719.07	1,311,982.54	(53,263.47)	-4.06%
Noncapital Grant and Gifts	6,158,492.04	7,501,466.27	(1,342,974.23)	-17.90%
Investment Income	39,918.86	24,112.49	15,806.37	65.55%
Other Revenues:				
Capital Aid, Grants and Gifts	1,135,044.35	3,012,344.65	(1,877,300.30)	-62.32%
Total Revenues	<u>21,222,015.49</u>	<u>25,190,897.86</u>	<u>(3,968,882.37)</u>	-15.76%
Expenses:				
Operating Expenses				
Salaries and Benefits	14,287,456.81	14,742,089.66	(454,632.85)	-3.08%
Supplies and Materials	2,387,237.27	2,875,404.31	(488,167.04)	-16.98%
Services	1,931,602.76	2,623,264.23	(691,661.47)	-26.37%
Scholarships and Fellowships	1,802,262.70	2,458,939.04	(656,676.34)	-26.71%
Utilities	282,392.77	271,097.69	11,295.08	4.17%
Depreciation	550,480.59	432,017.47	118,463.12	27.42%
Nonoperating Expenses				
Interest and Fees on Debt	15,098.39	20,088.97	(4,990.58)	-24.84%
Other Nonoperating Expenses	112,639.82	5,374.56	107,265.26	1995.80%
Total Expenses	<u>21,369,171.11</u>	<u>23,428,275.93</u>	<u>(2,059,104.82)</u>	-8.79%
Increase (Decrease) in Net Position	<u>(147,155.62)</u>	<u>1,762,621.93</u>	<u>(1,909,777.55)</u>	-108.35%
Net Position - Beginning of Year	<u>21,833,659.28</u>	<u>20,071,037.35</u>	<u>1,762,621.93</u>	8.78%
Net Position - End of Year	<u>\$ 21,686,503.66</u>	<u>\$ 21,833,659.28</u>	<u>\$ (147,155.62)</u>	-0.67%

The decreases in operating revenues are mainly due to the decline in curriculum enrollment. The number of curriculum students enrolled during the current year decreased by over 400 students.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The largest decrease in nonoperating revenues is in noncapital grants and gifts of \$1.3 million and is primarily due to a decrease in Pell grant awards of approximately \$1.1 million. The decrease in Pell grant awards is due to an overall decline in curriculum student enrollment.

The decrease in capital aid, grants and gifts is mainly due to the decrease in capital gifts received for the completed building renovation project that houses the student center, bookstore, and classrooms. 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.

Overall, operating expenses decreased by \$2.2 million due to a decrease in appropriations from the State, resulting in fewer expenditures for salaries, supplies and services. Scholarships and fellowships decreased by \$656,676 due to a decrease in financial aid as a result of lower curriculum enrollment.

Capital Assets

At June 30, 2014, the College reported \$26.2 million invested in capital assets less \$6.9 million in accumulated depreciation for net capital assets of \$19.3 million. A building renovation project began on the teaching auditorium in 2013 with a total estimated cost of \$778,437. It is expected to be completed in fiscal year 2015. Cumulative expenditures on this project of \$163,170 are reported as construction-in-progress.

The following schedule reports capital assets for the fiscal years 2014 and 2013, net of accumulated depreciation.

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Land	\$ 974,533.85	\$ 974,533.85	\$ 0.00	0.0%
Construction in Progress	163,169.74	26,702.60	136,467.14	511.1%
Buildings	14,821,839.42	15,170,513.70	(348,674.28)	-2.3%
Machinery and Equipment	3,039,433.24	2,551,203.70	488,229.54	19.1%
General Infrastructure	<u>263,679.96</u>	<u>271,651.92</u>	<u>(7,971.96)</u>	-2.9%
Totals	<u>\$ 19,262,656.21</u>	<u>\$ 18,994,605.77</u>	<u>\$ 268,050.44</u>	1.4%

Long-Term Liabilities – Current and Noncurrent

The College reported long-term liabilities of \$887,369 as of June 30, 2014. This balance consists of a note payable and accrued vacation leave. A note payable with an outstanding balance of \$253,795 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 \$122,011. The liability for accrued vacation leave is \$633,574 of which \$95,088 is reported as current.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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 Academic Affairs Division and the Workforce and Community Development Division strive to provide cutting-edge programs of study and training.

The Academic Affairs Division continues to focus on comprehensive program reviews that address workforce needs in our career and technical programs and revise curriculum offerings to include changes in the approved University General Education Transfer courses. We are seeking to modernize our technology programs in order to graduate students with advanced credentials, certifications and degrees that provide them with skills to compete in the job market. The College has provided opportunities for faculty to engage in professional development that will improve the quality of instruction in programs and teach skills necessary to incorporate this new technology into the curriculum areas. We are participating in the North Carolina Community College System Student Success Learning Institute, a cohort based network designed to spread learning and innovation that has developed through the state's Completion by Design initiative. Through this project, faculty and staff will take a systematic approach to create clear and intentional pathways that increase student's likelihood to complete their programs of study. The Student Services continues to increase student retention and graduation rates through appropriate placement, advising and follow-up of at-risk students.

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 training designed to train, retrain and upgrade individuals' employability skills; personal interest/development courses; a full complement of programs and services offered through the Small Business Center designed to increase the success rate and number of viable small businesses in Columbus County; and the Columbus County NCWorks 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 Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents (Note 2)	\$ 1,025,029.65
Restricted Cash and Cash Equivalents (Note 2)	597,401.63
Short-Term Investments (Note 2)	131,349.22
Receivables, Net (Note 3)	519,067.79
Due from Primary Government	1,672.30
Due from State of North Carolina Component Units	275,000.00
Inventories	383,325.25
	<hr/>
Total Current Assets	2,932,845.84

Noncurrent Assets:

Restricted Cash and Cash Equivalents (Note 2)	90,262.01
Restricted Due from Primary Government	617,972.07
Other Investments (Note 2)	428,951.28
Capital Assets - Nondepreciable (Note 4)	1,137,703.59
Capital Assets - Depreciable, Net (Note 4)	18,124,952.62
	<hr/>
Total Noncurrent Assets	20,399,841.57
	<hr/>
Total Assets	23,332,687.41

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources	<hr/> 0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	541,767.47
Due to Primary Government	8,904.50
Due to Community College Component Units	40,303.39
Unearned Revenue	112,814.83
Funds Held for Others	55,024.33
Long-Term Liabilities - Current Portion (Note 6)	217,098.62
	<hr/>
Total Current Liabilities	975,913.14

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 670,270.61
	<hr/>
Total Noncurrent Liabilities	670,270.61
	<hr/>
Total Liabilities	1,646,183.75

DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	<hr/> 0.00
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***Southeastern Community College
Statement of Net Position
June 30, 2014***

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

NET POSITION

Investment in Capital Assets	\$	19,262,656.21
Restricted for:		
Expendable:		
Scholarships and Fellowships		222,756.03
Loans		12,765.77
Capital Projects		617,972.07
Restricted for Specific Programs		722,532.17
Other		67,256.98
Unrestricted		<u>780,564.43</u>
Total Net Position	\$	<u><u>21,686,503.66</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 Position
For the Fiscal Year Ended June 30, 2014***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,204,844.95
Sales and Services, Net (Note 8)	536,622.38
Other Operating Revenues	12,708.60
	<hr/>
Total Operating Revenues	1,754,175.93
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	14,287,456.81
Supplies and Materials	2,387,237.27
Services	1,931,602.76
Scholarships and Fellowships	1,802,262.70
Utilities	282,392.77
Depreciation	550,480.59
	<hr/>
Total Operating Expenses	21,241,432.90
	<hr/>
Operating Loss	(19,487,256.97)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	10,875,665.24
County Appropriations	1,258,719.07
Noncapital Grants - Student Financial Aid	3,440,290.46
Noncapital Grants	2,265,169.27
Noncapital Gifts	453,032.31
Investment Income	39,918.86
Interest and Fees on Debt	(15,098.39)
Other Nonoperating Expenses	(112,639.82)
	<hr/>
Net Nonoperating Revenues	18,205,057.00
	<hr/>
Loss Before Other Revenues	(1,282,199.97)
	<hr/>
State Capital Aid	958,905.96
County Capital Aid	99,839.61
Capital Grants	76,298.78
	<hr/>
Decrease in Net Position	(147,155.62)
	<hr/>

NET POSITION

Net Position, July 1, 2013	21,833,659.28
	<hr/>
Net Position, June 30, 2014	\$ 21,686,503.66
	<hr/> <hr/>

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

Southeastern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 1,762,587.15
Payments to Employees and Fringe Benefits	(14,342,329.50)
Payments to Vendors and Suppliers	(4,597,789.78)
Payments for Scholarships and Fellowships	(1,802,262.70)
Collection of Loans to Students	3,403.81
Other Receipts	6,545.10
	<hr/>
Net Cash Used by Operating Activities	(18,969,845.92)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,875,665.24
County Appropriations	1,258,719.07
Noncapital Grants - Student Financial Aid	3,520,290.46
Noncapital Grants	2,699,914.62
Noncapital Gifts Received	453,032.31
Principal Paid on Noncapital Debt	(112,790.49)
Interest Paid on Noncapital Debt	(15,098.39)
William D. Ford Direct Lending Receipts	200,095.00
William D. Ford Direct Lending Disbursements	(200,095.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,679,732.82

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,153,988.00
County Capital Aid Received	99,839.61
Capital Grants Received	76,298.78
Proceeds from Sale of Capital Assets	11,396.50
Acquisition and Construction of Capital Assets	(968,633.30)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	372,889.59

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	369,591.20
Investment Income	25,377.43
Purchase of Investments and Related Fees	(382,655.67)
	<hr/>
Net Cash Provided by Investing Activities	12,312.96

Net Increase in Cash and Cash Equivalents	95,089.45
Cash and Cash Equivalents, July 1, 2013	1,617,603.84
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 1,712,693.29

***Southeastern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014***

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

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

Operating Loss	\$ (19,487,256.97)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	550,480.59
Nonoperating Other Expenses	(636.65)
Changes in Assets and Liabilities:	
Receivables, Net	104,801.13
Inventories	(28,659.16)
Notes Receivable, Net	3,403.81
Accounts Payable and Accrued Liabilities	12,485.02
Due to State of North Carolina Component Units	(187.50)
Unearned Revenue	(96,389.91)
Funds Held for Others	7,181.75
Compensated Absences	(35,068.03)
Net Cash Used by Operating Activities	<u>\$ (18,969,845.92)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,025,029.65
Restricted Cash and Cash Equivalents	597,401.63
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>90,262.01</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 1,712,693.29</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	\$ 13,884.49
Loss on Disposal of Capital Assets	(112,003.17)

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, 2014

Exhibit B-1

ASSETS	
Cash and Cash Equivalents	\$ 21,057
Investments	4,956,735
Land	191,000
Notes Receivable	12,778
Due from Southeastern Community College	32,430
	<hr/>
Total Assets	<u>\$ 5,214,000</u>
 NET ASSETS	
Unrestricted	\$ 436,952
Permanently Restricted	4,777,048
	<hr/>
Total Net Assets	<u>\$ 5,214,000</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, 2014

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	\$ 286,279
Investment Return	86,179
	<hr/>
Total Unrestricted Revenues and Gains	372,458
	<hr/>
Expenses and Losses:	
Program Services	274,673
Management and General	73,194
Fund Raising	4,309
	<hr/>
Total Expenses	352,176
	<hr/>
Increase in Unrestricted Net Assets	20,282
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Revenues and Gains:	
Contributions	90,775
Investment Return	431,177
	<hr/>
Increase in Permanently Restricted Net Assets	521,952
	<hr/>
Increase in Net Assets	542,234
Net Assets at Beginning of Year	4,671,766
	<hr/>
Net Assets at End of Year	\$ 5,214,000
	<hr/> <hr/>

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

**SOUTHEASTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

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. See below for further discussion of the College's component unit.

Discretely Presented Component Unit - Southeastern Community College Foundation, Inc. (Foundation) is a legally separate nonprofit 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 Foundation. 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 nonprofit organization that reports its financial results under Financial Accounting Standards Board (FASB) Codification. 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, 2014, the Foundation distributed \$274,673.83 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.

- 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, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using first-in, first-out method. Merchandise for resale is valued at cost or 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 100 years for buildings, and 2 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.
- 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. Under this policy, the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

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 Position - The College's net position is classified as follows:

Investment in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

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 Position. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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 Position. 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 \$981,769.51. The value of one trust fund at December 31, 2013 was \$159,435.19. The College receives 1.2% of the value of the fund as of December 31 each year. The value of the other trust fund was \$822,334.32 as of June 30, 2014. 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 appropriations do not revert and are available for future use by the College. County capital

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014 was \$1,840.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit of \$131,349.22, was \$1,842,202.51 and the bank balance was \$2,137,642.70.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2014, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments

College - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, 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.

Investments		Investment Maturities (in Years)
Investment Type	Fair Value	1 to 5
Debt Securities		
Mutual Bond Funds	\$ 428,951.28	<u>\$ 428,951.28</u>
Other Securities		
Certificates of Deposit	<u>131,349.22</u>	
Total Investments	<u>\$ 560,300.50</u>	

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, 2014, the College’s investments in mutual bond funds were unrated.

Component Unit - Investments of the College’s discretely presented component unit, Southeastern Community College Foundation, Inc. (Foundation) are subject to and restricted by G.S. 36E “Uniform Prudent Management of Institutional Funds Act” (UPMIFA) and any requirements

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

placed on them by contract or donor agreements. Because the Foundation 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, 2014:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Investments Restricted to:			
Operational Trust	\$ 1,311,744.53	\$ 1,396,749.73	\$ 85,005.20
Permanent Endowments	3,192,073.73	3,559,985.52	367,911.79
	\$ 4,503,818.26	\$ 4,956,735.25	\$ 452,916.99

Investment fees were \$29,680.27.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$ 1,840.00
Carrying Amount of Deposits with Private Financial Institutions	1,710,853.29
Investments in Certificates of Deposit	131,349.22
Mutual Bond Funds	428,951.28
Total Deposits and Investments	\$ 2,272,993.79
Deposits	
Current:	
Cash and Cash Equivalents	\$ 1,025,029.65
Restricted Cash and Cash Equivalents	597,401.63
Noncurrent:	
Restricted Cash and Cash Equivalents	90,262.01
Total Deposits	1,712,693.29
Investments	
Current:	
Short-Term Investments	131,349.22
Noncurrent:	
Other Investments	428,951.28
Total Investments	560,300.50
Total Deposits and Investments	\$ 2,272,993.79

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 1,244,440.44	\$ 1,055,087.22	\$ 189,353.22
Student Sponsors	27,287.97		27,287.97
Vendor Credit Memos	29,171.53		29,171.53
Intergovernmental	273,255.07		273,255.07
	<u>1,574,155.01</u>	<u>1,055,087.22</u>	<u>519,067.79</u>
Total Receivables	<u>\$ 1,574,155.01</u>	<u>\$ 1,055,087.22</u>	<u>\$ 519,067.79</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 974,533.85	\$ 0.00	\$ 0.00	\$ 974,533.85
Construction in Progress	26,702.60	136,467.14		163,169.74
Total Capital Assets, Nondepreciable	<u>1,001,236.45</u>	<u>136,467.14</u>		<u>1,137,703.59</u>
Capital Assets, Depreciable:				
Buildings	20,351,369.89			20,351,369.89
Machinery and Equipment	3,651,233.40	805,463.56	309,040.93	4,147,656.03
General Infrastructure	522,028.77			522,028.77
Total Capital Assets, Depreciable	<u>24,524,632.06</u>	<u>805,463.56</u>	<u>309,040.93</u>	<u>25,021,054.69</u>
Less Accumulated Depreciation for:				
Buildings	5,180,856.19	348,674.28		5,529,530.47
Machinery and Equipment	1,100,029.70	193,834.35	185,641.26	1,108,222.79
General Infrastructure	250,376.85	7,971.96		258,348.81
Total Accumulated Depreciation	<u>6,531,262.74</u>	<u>550,480.59</u>	<u>185,641.26</u>	<u>6,896,102.07</u>
Total Capital Assets, Depreciable, Net	<u>17,993,369.32</u>	<u>254,982.97</u>	<u>123,399.67</u>	<u>18,124,952.62</u>
Capital Assets, Net	<u>\$ 18,994,605.77</u>	<u>\$ 391,450.11</u>	<u>\$ 123,399.67</u>	<u>\$ 19,262,656.21</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 95,907.60
Accrued Payroll	423,928.45
Intergovernmental Payables	8,663.70
Other	<u>13,267.72</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 541,767.47</u>

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, 2014, is presented as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Notes Payable	\$ 366,585.79	\$ 0.00	\$ 112,790.49	\$ 253,795.30	\$ 122,010.99
Compensated Absences	<u>668,641.96</u>	<u>633,008.10</u>	<u>668,076.13</u>	<u>633,573.93</u>	<u>95,087.63</u>
Total Long-Term Liabilities	<u>\$ 1,035,227.75</u>	<u>\$ 633,008.10</u>	<u>\$ 780,866.62</u>	<u>\$ 887,369.23</u>	<u>\$ 217,098.62</u>

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

<u>Purpose</u>	<u>Financial Institution</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2014</u>	<u>Principal Outstanding June 30, 2014</u>
Energy Savings Program	PNC Equipment Finance	4.65%	06/03/2016	<u>\$ 1,044,048.12</u>	<u>\$ 790,252.82</u>	<u>\$ 253,795.30</u>

The annual requirements to pay principal and interest on notes payable at June 30, 2014, are as follows:

<u>Fiscal Year</u>	<u>Annual Requirements Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 122,010.99	\$ 9,694.41
2016	<u>131,784.31</u>	<u>3,852.13</u>
Total Requirements	<u>\$ 253,795.30</u>	<u>\$ 13,546.54</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for postage meters, copiers, and printing equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2014:

<u>Fiscal Year</u>	<u>Amount</u>
2015	\$ 74,375.98
2016	31,504.38
2017	15,079.50
2018	4,428.00
2019	2,952.00
Total Minimum Lease Payments	\$ 128,339.86

Rental expense for all operating leases during the year was \$102,080.10.

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>\$ 2,662,426.15</u>	<u>\$ 1,351,991.34</u>	<u>\$ 105,589.86</u>	<u>\$ 1,204,844.95</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining/Vending	\$ 11,946.80	\$ 0.00	\$ 0.00	\$ 11,946.80
Bookstore	1,079,543.66	723,524.99	7,420.78	348,597.89
Childcare	69,079.00			69,079.00
Athletics	4,627.07			4,627.07
Other	<u>102,371.62</u>			<u>102,371.62</u>
Total Sales and Services	<u>\$ 1,267,568.15</u>	<u>\$ 723,524.99</u>	<u>\$ 7,420.78</u>	<u>\$ 536,622.38</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	\$ 8,429,501.65	\$ 1,057,025.89	\$ 522,570.72	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,009,098.26
Public Service	100,670.28	8,239.05	9,161.35				118,070.68
Academic Support	1,619,244.92	119,591.79	86,716.75				1,825,553.46
Student Services	1,397,711.29	47,798.78	295,727.99				1,741,238.06
Institutional Support	2,254,579.90	63,191.75	537,163.29				2,854,934.94
Operations and Maintenance of Plant	321,803.20	121,459.58	411,183.02		282,392.77		1,136,838.57
Student Financial Aid		0.00	6,132.21	1,802,262.70			1,808,394.91
Auxiliary Enterprises	163,945.57	969,930.43	62,947.43				1,196,823.43
Depreciation						550,480.59	550,480.59
Total Operating Expenses	\$ 14,287,456.81	\$ 2,387,237.27	\$ 1,931,602.76	\$ 1,802,262.70	\$ 282,392.77	\$ 550,480.59	\$ 21,241,432.90

NOTE 10 - PENSION PLANS

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,846,450.84, of which \$9,414,728.45 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$818,139.90 and \$564,883.71 respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$818,139.90, \$810,533.41, and \$719,801.22, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The TSERS 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.

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 Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$508,395.34, \$515,705.53, and \$483,737.38, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. 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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$41,424.81, \$42,813.29, and \$50,308.69, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 \$21,256.67 and on other purchases were \$212,968.50 at June 30, 2014.

Office of the State Auditor

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 12, 2015. Our report includes a reference to other auditors who audited the financial statements of Southeastern Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Southeastern Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Southeastern Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

May 12, 2015

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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

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Office of the State Auditor Fraud Hotline: 1-800-730-8477

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For additional information contact:

Bill Holmes

Director of External Affairs

919-807-7513