



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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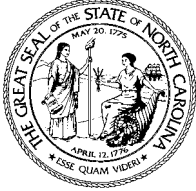
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Southwestern Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Southwestern Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Southwestern Community College. A summary of our reporting objectives and audit results is:

- 1. Objective** – To express an opinion on the accompanying financial statements that relate solely to Southwestern Community College.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance, which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

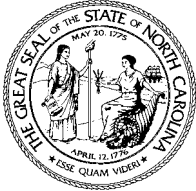
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Southwestern Community College
Sylva, North Carolina

We have audited the accompanying financial statements of Southwestern 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, 2004, which collectively comprise Southwestern Community 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 the Southwestern Community College Foundation, Inc., which represents 100% of 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 opinion, insofar as it relates to the amounts included for that entity, is 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 the Southwestern 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 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 Southwestern Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005, 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 this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



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

April 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The purpose of this section of Southwestern Community College's Financial Statements, "Management's Discussion and Analysis" is to provide an overview of the financial position and activities of Southwestern Community College for the year ended June 30, 2004. The Management Discussion and Analysis section will:

- provide a brief discussion of the basic financial statements;
- include summary financial information which will identify transactions which have had a significant financial impact;
- provide an analysis of the institution's overall financial position;
- provide a description of significant capital asset and long-term debt activity during the year;
- include information, facts, decisions or conditions that are expected to have a significant effect on the Southwestern Community College's financial position;
- provide a comparative analysis with prior year data.

The Management Discussion and Analysis should be read in conjunction with the financial statements and accompanying notes to the financial statements, which follow this section. The financial statements, related notes to the financial statements, and this discussion are the responsibility of management.

Using the Financial Statements

Southwestern Community College's Financial Statements are prepared and presented in accordance with Government Accounting Standards Board (GASB) principles.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments*, and as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the financial statements are presented on a consolidated basis focusing on the college as a whole. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has incurred.

It should be noted that for the Fiscal Year ended June 30, 2004, Southwestern Community College was required to implement GASB Statement No. 39 and report its Foundation as a component unit by presenting the financial information of Southwestern Community College Foundation in its Annual Financial Statements.

Three basic financial statements are included in this report along with the required supplementary information: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets – shows, at a glance, the financial position of the College. It includes all assets and liabilities and combines current financial resources and capital assets.

Statement of Revenues, Expenses, and Changes in Net Assets - presents the revenues and expenses for the fiscal year.

Statement of Cash Flows - reports cash activity which is divided into areas of operating, capital financing, noncapital financing and investing.

Financial Highlights for Fiscal Year 2003/2004

The following chart shows the difference between the Statement of Net Assets for fiscal years 2004 and 2003:

	FYE 2003-04	FYE 2002-03	Difference	% Difference
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 721,807.47	\$ 721,398.25	\$ 409.22	0.06 %
Receivables	389,912.14	799,945.62	(410,033.48)	(51.26) %
Inventories	94,406.28	97,390.62	(2,984.34)	(3.06) %
Notes Receivable	80,000.00	120,000.00	(40,000.00)	(33.33) %
Total Current Assets	1,286,125.89	1,738,734.49	(452,608.60)	(26.03) %
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	1,545,366.60	2,255,706.74	(710,340.14)	(31.49) %
Restricted Due from Primary Government	445,068.40	544,686.95	(99,618.55)	(18.29) %
Capital Assets - Nondepreciable	2,579,155.21	2,537,699.79	41,455.42	1.63 %
Capital Assets - Depreciable, Net	11,662,805.68	11,955,738.45	(292,932.77)	(2.45) %
Total Noncurrent Assets	16,232,395.89	17,293,831.93	(1,061,436.04)	(6.14) %
Total Assets	17,518,521.78	19,032,566.42	(1,514,044.64)	(7.96) %
LIABILITIES				
Current Liabilities:				
Other Liabilities	525,158.96	633,459.56	(108,300.60)	(17.10) %
Funds Held for Others	6,286.92	11,266.46	(4,979.54)	(44.20) %
Long-Term Liabilities	70,703.58	30,709.55	39,994.03	130.23 %
Total Current Liabilities	602,149.46	675,435.57	(73,286.11)	(10.85) %
Noncurrent Liabilities:				
Funds Held for Others	628,860.16	1,554,371.58	(925,511.42)	(59.54) %
Long-Term Liabilities	739,068.40	594,739.73	144,328.67	24.27 %
Total Noncurrent Liabilities	1,367,928.56	2,149,111.31	(781,182.75)	(36.35) %
Total Liabilities	1,970,078.02	2,824,546.88	(854,468.86)	(30.25) %
NET ASSETS				
Invested in Capital Assets	14,241,960.89	14,493,438.24	(251,477.35)	(1.74) %
Restricted	1,337,242.30	1,343,418.03	(6,175.73)	(0.46) %
Unrestricted	(30,759.43)	371,163.27	(401,922.70)	(108.00) %
Total Net Assets	\$ 15,548,443.76	\$ 16,208,019.54	\$ (659,575.78)	(4.07) %

The College's financial position remained strong at June 30, 2004, with assets of \$17.5 million and liabilities of \$1.9 million. Net assets, which represent the residual interest

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

in the College's assets after liabilities are deducted, were just over \$15.5 million and represented a 4% decrease from the previous year.

Southwestern Community College, as with other community colleges was subject to budgetary reversions of 3% totaling \$230,000 during the fiscal year due to the weak economy and its impact on the State of North Carolina. College administrators managed this reduction of funds without negatively impacting the College's learning mission by reducing operating expenses, managing hiring, and using outside funds (i.e. grants, gifts) effectively.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities of the College and presents the fiscal information in a summary format. Assets are grouped into either Current Assets or Noncurrent Assets.

Current assets - include cash, cash equivalents, receivables, and inventories. The current assets for Southwestern Community College consisted primarily of cash and receivables expected to be collected within the next accounting cycle. Current assets at June 30, 2004, were \$1,286,126. The \$452,609 decrease occurred from a decrease in intergovernmental and other receivables.

Noncurrent assets - are comprised primarily of restricted cash, restricted receivables due from primary government and capital assets, net of accumulated depreciation. At June 30, 2004, restricted cash totaled \$1,545,367. Restricted cash decreased \$710,340 as expenses were incurred for capital projects. Receivables due from primary government totaled \$445,068 and were comprised of receivables due from the State for construction projects. Noncurrent assets also include capital assets (land, construction in progress, buildings, general infrastructure, and equipment), which are stated at historical cost less depreciation. Capital assets are recorded as such if the item costs \$5,000 or more and has a useful life to more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings and 2 to 25 years for equipment. Capital assets net of accumulated depreciation totaled \$14.2 million for fiscal year 2003/2004, and decreased \$251,477, which is not significant.

Current Liabilities - are comprised mostly of accounts payable, accrued compensation, deferred revenue and current portions of long-term liabilities. Accounts payable and accrued compensation made up \$459,338 of total current liabilities. Total current liabilities at year end were \$602,149.

Noncurrent Liabilities - consist of Funds held for others, long-term liabilities and other noncurrent liabilities. Long-term liabilities, which consisted of accrued vacation and bonus leave, totaled \$739,068. Funds Held for Others totaled \$628,860 and is the amount of Foundation net assets held by the College in the STIF Account.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Invested in Capital Assets - Net assets invested in capital assets represent the College's capital assets net of accumulated depreciation. Of the \$15,548,444 in net assets this year, \$14,241,961 was attributable to Southwestern Community College's Investment in Capital Assets.

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

Restricted Net Assets - Expendable - Expendable restricted net assets include resources in which the College is legally or contractually obligated to spend the resources 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.

Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes they are divided into four categories: invested in capital assets, net of related debt; restricted non-expendable; restricted expendable; and unrestricted net assets.

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.

Net assets, the difference between total assets and total liabilities, is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year. Total net assets at June 30, 2004, were \$15,548,444 and decreased \$659,576. This decrease is primarily due to the decrease in operating revenues of \$1,560,530, an increase in nonoperating revenues of \$972,466, an increase in operating expenses of \$477,750, and an increase in capital contributions of \$261,313.

Statement of Revenues, Expenses, and Changes in Net Assets

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represent the changes in total net assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating and any other revenues, expenses, gains and losses received or spent by the institution.

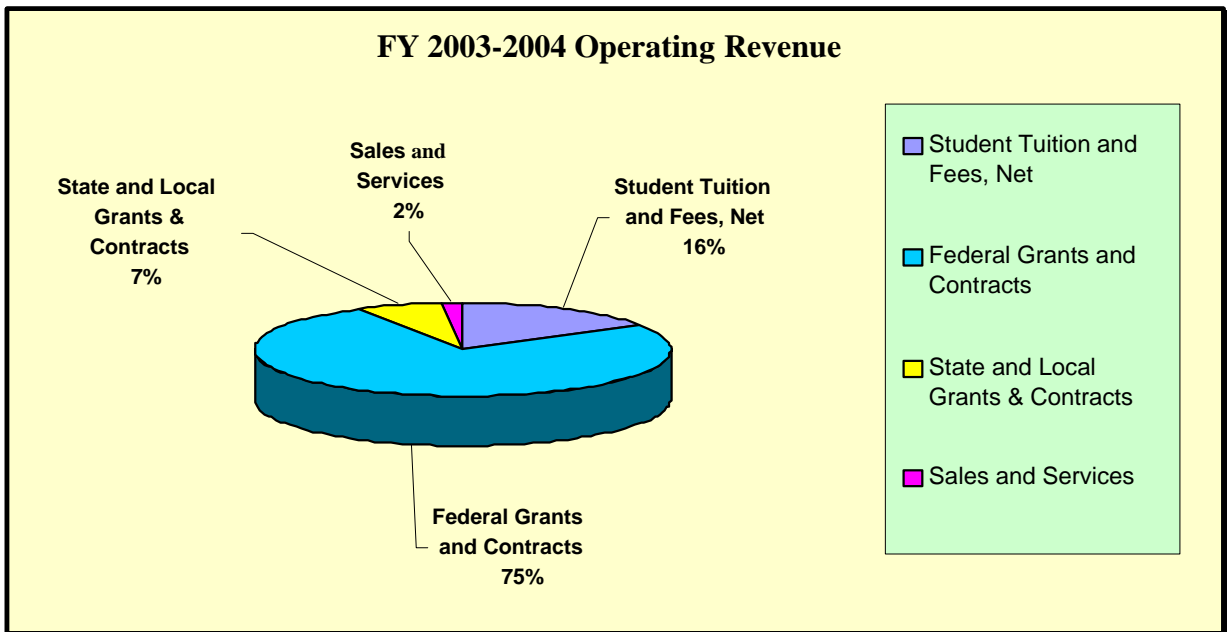
Operating revenues - are received for providing goods and services to the various customers and constituencies of the College. Operating revenues include Student Tuition and Fees; Federal, State and Local Operating Grants; and revenue obtained from sales and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenues

	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	<u>Difference</u>	<u>% Difference</u>
Operating Revenues				
Student Tuition and Fees, Net	\$ 866,855.95	\$ 1,029,510.94	\$ (162,654.99)	(15.80)%
Federal Grants and Contracts	4,054,594.65	4,548,368.63	(493,773.98)	(10.86)%
State and Local Grants and Contracts	369,126.62	1,236,125.20	(866,998.58)	(70.14)%
Sales and Services, Net	82,409.91	119,512.78	(37,102.87)	(31.05)%
Total Operating Revenues	<u>\$ 5,372,987.13</u>	<u>\$ 6,933,517.55</u>	<u>\$ (1,560,530.42)</u>	(22.51)%

The decrease in operating revenue is attributable to the completion of the various grant-funded projects (i.e. T.O.P. grant, Advantage West, etc).



Operating revenues totaled \$5,372,987 and consisted of four areas: student tuition and fees, net, federal grants and contracts, State/local grants and contracts and sales and services.

Student tuition and fees are presented net of the scholarships discounts. 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 student's behalf. The net amount received from Student Tuition and Fee revenue was \$866,856.

Federal grants and contracts are comprised mainly of funds received for Pell Grants; Stafford subsidized and unsubsidized loans; Upward Bound Program Grant; Gear-Up Grant Program;

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Student Support Services Program Grant; and Title III Grant. For fiscal year 2003/2004, Southwestern Community College received \$4,054,595 in Federal Grant/Contract revenue.

State and local grants and contracts are comprised mainly of funds received from the State for approved construction/improvement projects. This category also includes revenue from local agencies for the ITV system; State HB275 E-Commerce funds and funds received from the Appalachian Regional Commission for replication of the New Century Scholars Program. For fiscal year 2003/2004, Southwestern Community College received \$369,127 in State and Local Grants and Contract revenue.

Nonoperating revenues - are revenues received for which goods and services are not provided. They comprise the major portion of the College's income and include appropriations from State and local governments. The largest amount of nonoperating revenue (\$7,705,954) is State aid, which consists of funds allotted from the North Carolina State Board of Community Colleges for operations of the College.

Nonoperating Revenues

	FY 2003-2004	FY 2002-2003	Difference	% Difference
Nonoperating Revenues				
State Aid	\$ 7,705,953.57	\$ 7,050,327.38	\$ 655,626.19	9.30 %
County Appropriations	1,352,326.00	1,236,962.25	115,363.75	9.33 %
Noncapital Grants	671,468.71	603,779.41	67,689.30	11.21 %
Noncapital Gifts, Net	55,212.48	81,864.78	(26,652.30)	(32.56) %
Investment Income, Net	52,308.92	33,779.83	18,529.09	54.85 %
Other Nonoperating Revenues (Expenses)	11,411.00	(128,161.28)	139,572.28	108.90 %
Net Nonoperating Revenues	\$ 9,848,680.68	\$ 8,878,552.37	\$ 970,128.31	10.95 %

Nonoperating revenues received totaled \$9.8 million and consisted primarily of State appropriations and county appropriations. Other nonoperating revenues included noncapital grants & gifts and investment income. Of the \$9.8 million received in nonoperating revenues Southwestern Community College received over \$7.7 million in State aid and \$1.3 million in county appropriations in fiscal year 2003/2004. State appropriations are close to 50% of total revenue received by the College. This year Southwestern Community College was required to revert \$230,000 to the State. Overall nonoperating revenues remained stable.

Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Assets. Southwestern Community College received \$832,505 in State capital aid and county capital appropriations.

Total revenues at June 30, 2004, were \$16,054,173, which is a small decrease of \$329,089 from June 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Expenses

Operating expenses are expenses used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. The majority of operating expenses are for personnel costs. Other expenses are for operating activities that are necessary and essential to the mission of the College.

Operating expenses for fiscal year 2003/2004 totaled \$16.7 million and consisted of six categories: salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities and depreciation. Of the \$16.7 million in operating expenses, \$10.1 million were used for salaries and benefits expenditures. Salaries and benefits increased insignificantly for FYE 6/30/04.

Supplies and Material expenditures totaled \$1,722,460 and consisted mainly of maintenance supplies, instructional supplies used in the classrooms and laboratories, gasoline and motor vehicle supplies and office supplies. Grant funded supplies/materials used to complete special projects of the College are also contained in this category. Supplies and materials increased \$451,979, or 36%, primarily for purchases of fiber-optic cable.

Current Services expenditures totaled \$2,012,938 for fiscal year 2003/2004. Included in this category are expenditures for repair/maintenance services, contracted services, telecommunication costs, travel expenses incurred as a result of attending conferences/seminars; and printing costs.

Scholarships and Fellowships expenditures include expenses associated with student loans and scholarships awarded students. Total expenditures in this category for fiscal year 2003/2004 were \$1,712,282.

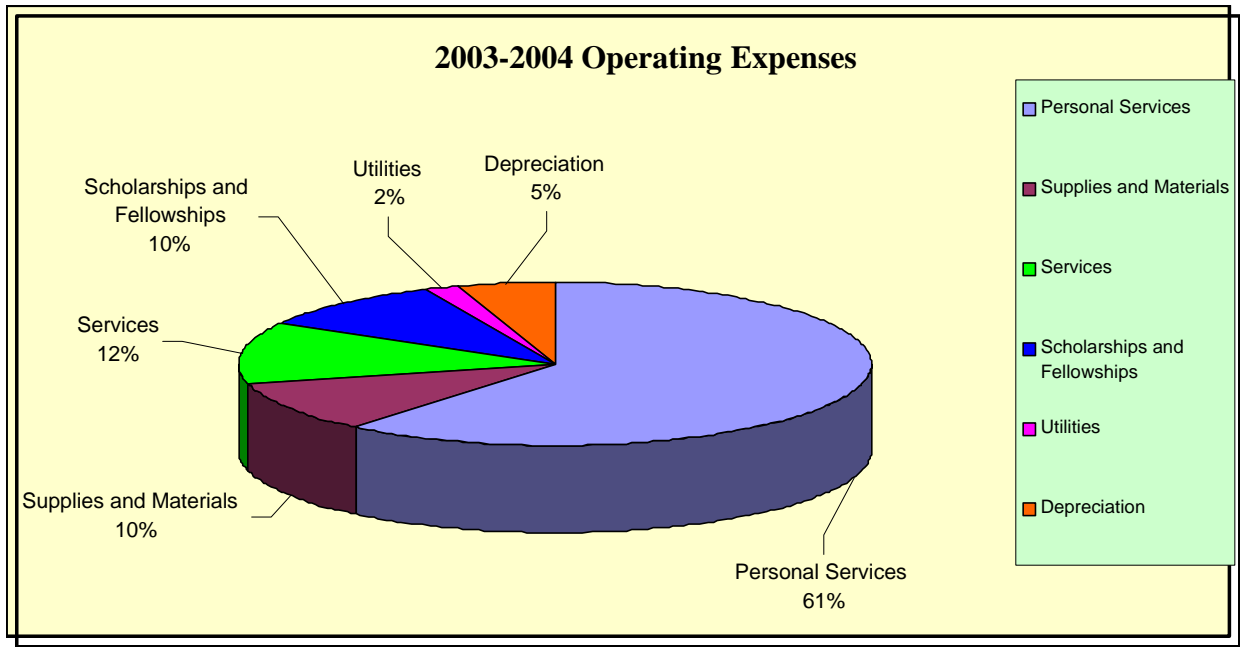
Utility expenditures include the costs for heating, electricity, water, and garbage/waste disposal. Utility costs for fiscal year 2003/2004 totaled \$268,726.

Accumulated depreciation for fiscal year 2003/2004 was \$824,263.

Operating Expenses

	<u>FY 2003-2004</u>	<u>FY 2002-2003</u>	<u>Difference</u>	<u>% Difference</u>
Operating Expenses				
Salaries and Benefits	\$ 10,173,079.72	\$ 9,959,021.12	\$ 214,058.60	2.15 %
Supplies and Materials	1,722,459.75	1,270,481.22	451,978.53	35.58 %
Services	2,012,938.15	2,119,911.13	(106,972.98)	(5.05) %
Scholarships and Fellowships	1,712,282.31	1,829,554.58	(117,272.27)	(6.41) %
Utilities	268,726.11	281,106.63	(12,380.52)	(4.40) %
Depreciation	824,262.77	775,924.48	48,338.29	6.23 %
Total Operating Expenses	<u>\$ 16,713,748.81</u>	<u>\$ 16,235,999.16</u>	<u>\$ 477,749.65</u>	2.94 %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)



Overall, operating expenses did not change significantly.

Statement of Cash Flows

The Statement of Cash Flows is used to provide detail on the cash activity for the year. Cash provided or used is categorized based on the type of activity, i.e. operating, noncapital financing, capital financing, or investing. Net cash used is reconciled to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

The following is a summary version of the Statement of Cash Flows for the year ended June 30, 2004:

	FY 2003-04	FY 2002-2003	Increase/ (Decrease)	% Increase/ (Decrease)
Cash Provided (Used) by:				
Operating Activities	\$ (11,022,185.44)	\$ (7,844,843.42)	\$ (3,177,342.02)	40.50 %
Noncapital Financing Activities	10,045,878.61	8,889,161.24	1,156,717.37	13.01 %
Capital Financing Activities	205,580.12	77,667.63	127,912.49	164.69 %
Investing Activities	60,795.79	32,860.64	27,935.15	85.01 %
Net Change in Cash	(709,930.92)	1,154,846.09	(1,864,777.01)	(161.47) %
Cash at Beginning of Year	2,977,104.99	1,822,258.90	1,154,846.09	63.37 %
Cash at End of Year	<u>\$ 2,267,174.07</u>	<u>\$ 2,977,104.99</u>	<u>\$ (709,930.92)</u>	(23.85) %

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Southwestern Community College's Capital Assets

Southwestern Community College had a net amount of \$14.2 million invested in capital assets at year end. Significant capital activity in the current year consisted primarily of completion of the Swain Center renovation (additions to buildings) in the amount of \$429,467, construction in progress totaling \$470,922, and the acquisition of \$148,799 in equipment. Depreciation expense for the year ended June 30, 2004 totaled \$824,263.

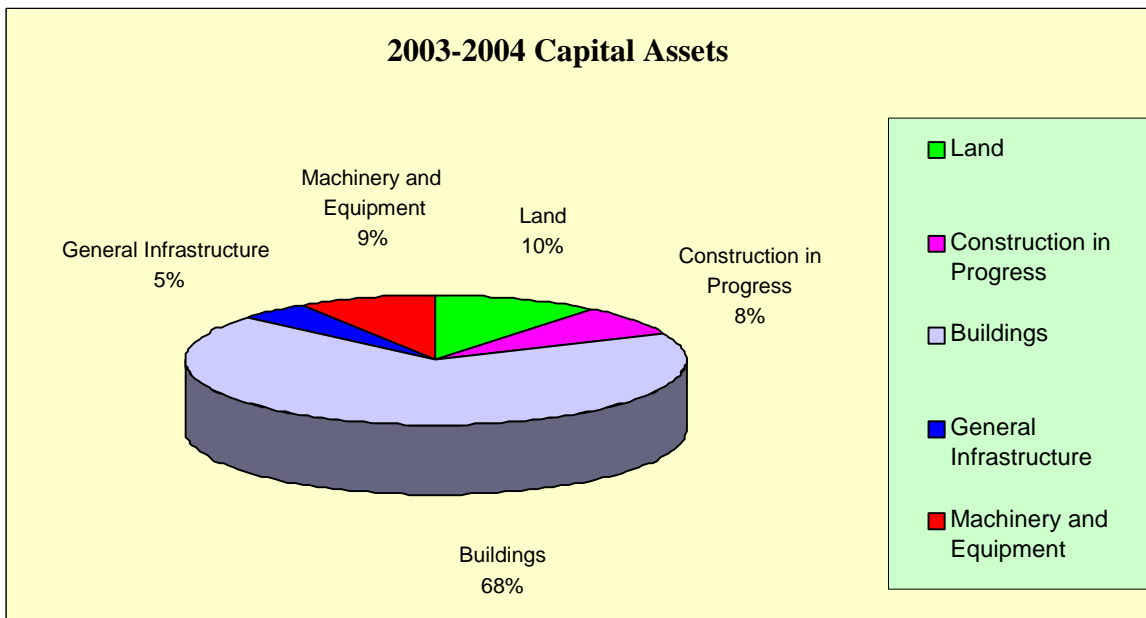
Capital assets for the College are comprised of nondepreciable and depreciable assets.

Nondepreciable assets are:

- Land;
- Construction in Progress.

Depreciable assets were:

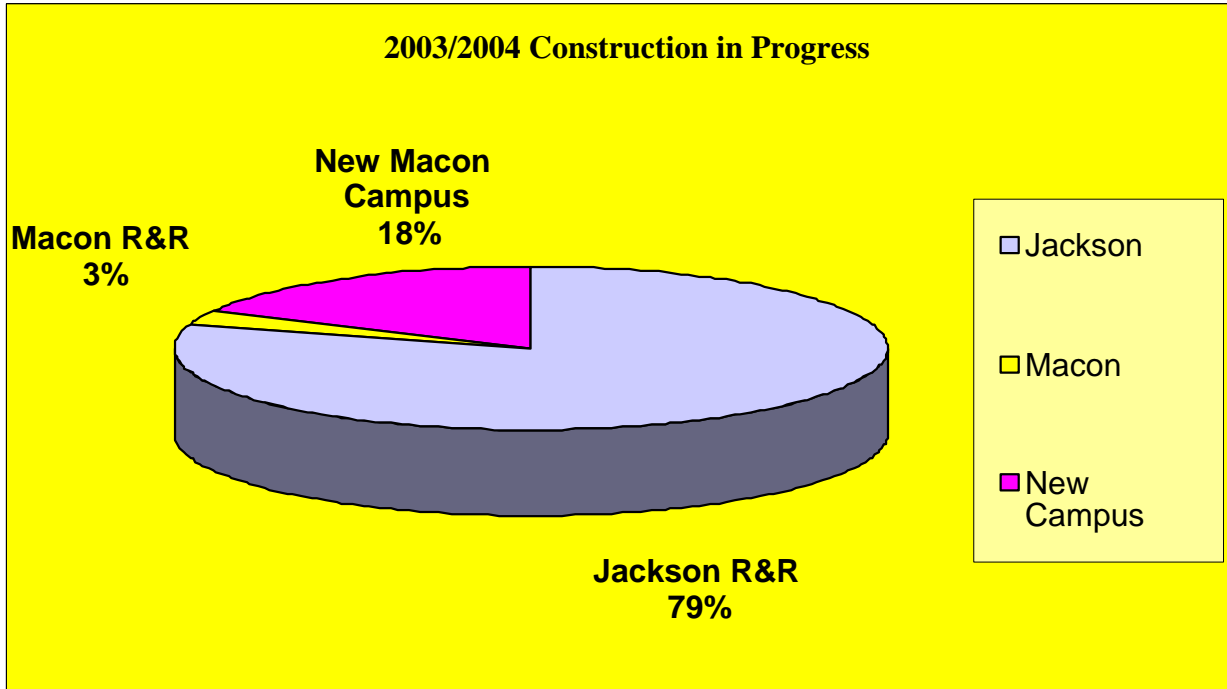
- Buildings;
- General Infrastructure;
- Machinery and Equipment.



As illustrated in the above chart, most of the College's capital assets are in the form of completed buildings. Construction in Progress and Land comprise 18% of capital assets. At the end of Fiscal Year 2003/2004, Southwestern Community College had over \$1 million invested in Construction in Progress which included primarily renovation and repairs to the Jackson County campus and initial design work for the New Macon County Campus.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Southwestern Community College continues to address its building and infrastructure needs through ongoing capital improvement planning. Projects planned for fiscal year 2004-2005 include completion of renovations to the Jackson Campus and Macon Centers, and beginning construction on the new Macon County Campus. Projects are approved and funded from State capital improvement and local funds.



For the Future - Economic Factors

The State of North Carolina has experienced revenue shortfalls during the past three fiscal years, which have affected allocations to all governmental agencies including the Community College System. This economic trend is expected to continue into the next fiscal year. Management feels that by using a conservative realistic approach in handling its' resources, Southwestern Community College will be able to continue providing a superior education to its students in a quality learning environment.

The College will continue to execute its long-range plan to modernize and expand its campus infrastructure and facilities. Construction of the new campus in Macon County and planning for the new Jackson County Administration/Academic Building is scheduled to begin in Fiscal Year 2004-2005.

Southwestern Community College
Statement of Net Assets
June 30, 2004

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 527,613.64
Restricted Cash and Cash Equivalents	194,193.83
Receivables, Net (Note 3)	389,912.14
Inventories	94,406.28
Notes Receivable	80,000.00
	<hr/>
Total Current Assets	1,286,125.89

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,545,366.60
Restricted Due from Primary Government	445,068.40
Capital Assets - Nondepreciable (Note 4)	2,579,155.21
Capital Assets - Depreciable, Net (Note 4)	11,662,805.68
	<hr/>
Total Noncurrent Assets	16,232,395.89

Total Assets	<hr/> <hr/> 17,518,521.78
--------------	---------------------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	459,337.82
Deferred Revenue	65,821.14
Funds Held for Others	6,286.92
Long-Term Liabilities - Current Portion (Note 6)	70,703.58
	<hr/>
Total Current Liabilities	602,149.46

Noncurrent Liabilities:

Funds Held for Others	628,860.16
Long-Term Liabilities (Note 6)	739,068.40
	<hr/>
Total Noncurrent Liabilities	1,367,928.56

Total Liabilities	<hr/> <hr/> 1,970,078.02
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NET ASSETS

Invested in Capital Assets	14,241,960.89
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	23,525.48
Capital Projects	1,288,216.82
Unrestricted	(30,759.43)
	<hr/>
Total Net Assets	<hr/> <hr/> \$ 15,548,443.76

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

***Southwestern Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2004***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 866,855.95
Federal Grants and Contracts	4,054,594.65
State and Local Grants and Contracts	369,126.62
Sales and Services (Note 8)	82,409.91
	<hr/>
Total Operating Revenues	5,372,987.13
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	10,173,079.72
Supplies and Materials	1,722,459.75
Services	2,012,938.15
Scholarships and Fellowships	1,712,282.31
Utilities	268,726.11
Depreciation	824,262.77
	<hr/>
Total Operating Expenses	16,713,748.81
	<hr/>
Operating Loss	(11,340,761.68)
	<hr/>

NONOPERATING REVENUES

State Aid	7,705,953.57
County Appropriations	1,352,326.00
Noncapital Grants	671,468.71
Noncapital Gifts	55,212.48
Investment Income	52,308.92
Other Nonoperating Revenues	11,411.00
	<hr/>
Net Nonoperating Revenues	9,848,680.68
	<hr/>
Loss Before Other Revenues	(1,492,081.00)
	<hr/>
State Capital Aid	426,729.22
County Capital Appropriations	405,776.00
	<hr/>
Decrease in Net Assets	(659,575.78)
	<hr/>

NET ASSETS

Net Assets, July 1, 2003	16,208,019.54
	<hr/>
Net Assets, June 30, 2004	\$ 15,548,443.76
	<hr/> <hr/>

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

Southwestern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,581,182.52
Payments to Employees and Fringe Benefits	(9,996,511.86)
Payments to Vendors and Suppliers	(4,062,387.29)
Payments for Scholarships and Fellowships	(1,714,393.46)
Loans Issued to Students	40,000.00
Other Payments	(870,075.35)
	<u>(11,022,185.44)</u>
Net Cash Used by Operating Activities	<u>(11,022,185.44)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	7,705,953.57
County Appropriations	1,352,326.00
Noncapital Grants Received	932,386.56
Noncapital Gifts Received	55,212.48
	<u>10,045,878.61</u>
Cash Provided by Noncapital Financing Activities	<u>10,045,878.61</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	526,347.77
County Capital Appropriations	281,269.80
Acquisition and Construction of Capital Assets	(602,037.45)
	<u>205,580.12</u>
Net Cash Provided by Capital and Related Financing Activities	<u>205,580.12</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>60,795.79</u>
Net Decrease in Cash and Cash Equivalents	(709,930.92)
Cash and Cash Equivalents, July 1, 2003	<u>2,977,104.99</u>
Cash and Cash Equivalents, June 30, 2004	<u>\$ 2,267,174.07</u>

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

Operating Loss	\$ (11,340,761.68)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	824,262.77
Miscellaneous Nonoperating Income	58,347.98
Changes in Assets and Liabilities:	
Receivables, Net	265,134.96
Inventories	2,984.34
Notes Receivable	40,000.00
Accounts Payable and Accrued Liabilities	(69,002.46)
Deferred Revenue	(56,983.09)
Funds Held for Others	(930,490.96)
Compensated Absences	184,322.70
	<u>(11,022,185.44)</u>
Net Cash Used by Operating Activities	<u>\$ (11,022,185.44)</u>

***Southwestern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004***

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	527,613.64
Restricted Cash and Cash Equivalents		194,193.83

Noncurrent Assets:

Restricted Cash and Cash Equivalents		<u>1,545,366.60</u>
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Total Cash and Cash Equivalents - June 30, 2004

	\$	<u><u>2,267,174.07</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$	17,684.95
Increase in Receivables Related to Nonoperating Income		1,559.77

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

Southwestern Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004

Exhibit B-1

ASSETS

Cash Held by College	\$ 480,866.00
Cash in Investment Account	9,891.00
Accounts Receivable	2,460.00
Marketable Securities	950,592.00
Endowment Assets:	
Cash Held by College	89,311.00
Marketable Securities	820,069.00
Notes Receivable	80,000.00
	<hr/>
Total Assets	\$ 2,433,189.00
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$ 23,775.00
	<hr/>

Net Assets:

Unrestricted	71,310.00
Temporarily Restricted	1,357,311.00
Permanently Restricted	980,793.00
	<hr/>

Total Net Assets	2,409,414.00
	<hr/>

Total Liabilities and Net Assets	\$ 2,433,189.00
	<hr/> <hr/>

See Note 1 in the Notes to the Financial Statements

Southwestern Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 31,770.00	\$ 78,323.00	\$ 159,144.00	\$ 269,237.00
Support Our Students Grant		140,830.00		140,830.00
Grants - Other		51,830.00		51,830.00
Special Events Revenue	22,517.00	20,422.00		42,939.00
Interest Income	2,616.00	30,083.00		32,699.00
Change in Investment Value	2,072.00	76,488.00	46,569.00	125,129.00
Other Income	2,335.00			2,335.00
Net Assets Released from Restriction and Reclassification:				
Released by Expenditure	167,464.00	(167,464.00)		
Transfer to Endowment		(38,863.00)	38,863.00	
Total Support and Revenue	<u>228,774.00</u>	<u>191,649.00</u>	<u>244,576.00</u>	<u>664,999.00</u>
EXPENSES				
Program Expenses				
Scholarships and Grants	63,233.00			63,233.00
Support Our Students Program	125,134.00			125,134.00
Other Program Support	21,780.00			21,780.00
Total Program Expenses	<u>210,147.00</u>			<u>210,147.00</u>
Supporting Services:				
Management and General	10,622.00			10,622.00
Fund Raising	10,265.00			10,265.00
Total Supporting Services	<u>20,887.00</u>			<u>20,887.00</u>
Total Expenses	<u>231,034.00</u>			<u>231,034.00</u>
Change in Net Assets	(2,260.00)	191,649.00	244,576.00	433,965.00
Net Assets at Beginning of Year	<u>73,570.00</u>	<u>1,165,662.00</u>	<u>736,217.00</u>	<u>1,975,449.00</u>
Net Assets at End of Year	<u>\$ 71,310.00</u>	<u>\$ 1,357,311.00</u>	<u>\$ 980,793.00</u>	<u>\$ 2,409,414.00</u>

See Note 1 in the Notes to the Financial Statements

SOUTHWESTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Southwestern Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – The Southwestern 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 Southwestern Community College Foundation, Inc. (Foundation), is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of not less than nine or more than 35 elected members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Southwestern 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 GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$220,769.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College Controller's Office, 447 College Drive, Sylva, North Carolina 28779 or by calling (828) 586-4091 ext. 473.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** – Receivables consist of tuition and fees charges 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.
- F. Inventories** – Inventories, consisting of expendable supplies, postage and fuel oil held for consumption, are valued at cost using the last invoice cost method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. 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 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. Net Assets – The College’s net assets are classified as follows:

Invested in Capital Asset – This represents the College’s total investment in capital assets.

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

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

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

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

L. 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’

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

M. 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.

N. County Appropriations - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer’s Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deposit. At year end, cash on hand was \$2,100.00. The carrying amount of cash on deposit was \$2,265,074.07 and the bank balance was \$2,420,970.53.

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.

Cash on deposit at year end consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Cash on Deposit with State Treasurer	\$ 2,186,545.63	\$ 2,065,165.98
Cash on Deposit with Private Financial Institutions	<u>78,528.44</u>	<u>355,804.55</u>
	<u>\$ 2,265,074.07</u>	<u>\$ 2,420,970.53</u>

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer’s Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are “readily convertible into cash.” All investments of the fund are held either by the Department of State Treasurer or agent in the State’s name. The fund’s uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller’s Internet home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2004, \$113,968.37 of the bank balance was covered by federal depository insurance and \$241,836.18 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 137,740.34	\$ 78,634.84	\$ 59,105.50
Accounts	1,559.77		1,559.77
Intergovernmental	329,246.87		329,246.87
Total Current Receivables	\$ 468,546.98	\$ 78,634.84	\$ 389,912.14

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 1,491,654.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,491,654.33
Construction in Progress	1,046,045.46	(429,467.00)	470,922.42		1,087,500.88
Total Capital Assets, Nondepreciable	2,537,699.79	(429,467.00)	470,922.42		2,579,155.21
Capital Assets, Depreciable:					
Buildings	15,204,626.57	429,467.00			15,634,093.57
Machinery and Equipment	3,725,137.83	(36,955.11)	148,799.60	(241,310.87)	3,595,671.45
General Infrastructure	1,521,779.27	36,955.11			1,558,734.38
Total Capital Assets, Depreciable	20,451,543.67	429,467.00	148,799.60	(241,310.87)	20,788,499.40
Less Accumulated Depreciation:					
Buildings	5,505,725.67		407,103.41		5,912,829.08
Machinery and Equipment	2,201,898.34	(3,695.54)	319,283.12	(194,373.88)	2,323,112.04
General Infrastructure	788,181.32	3,695.54	97,875.74		889,752.60
Total Accumulated Depreciation	8,495,805.33		824,262.27	(194,373.88)	9,125,693.72
Total Capital Assets, Depreciable, Net	11,955,738.34	429,467.00	(675,462.67)	(46,936.99)	11,662,805.68
Capital Assets, Net	\$ 14,493,438.13	\$ 0.00	\$ (204,540.25)	\$ (46,936.99)	\$ 14,241,960.89

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 206,151.08
Accrued Payroll	253,186.54
Total Accounts Payable and Accrued Liabilities	\$ 459,337.62

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	\$ 625,449.28	\$ 656,413.26	\$ 472,090.56	\$ 809,771.98	\$ 70,703.58

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	\$ 23,072.00
2006	20,064.00
2007	15,876.00
2008	7,500.00
2009	3,750.00
Total Minimum Lease Payments	\$ 70,262.00

Rental expense for all operating leases during the year was \$27,738.00.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 1,567,915.47	\$ 701,059.52	\$ 866,855.95
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 22,653.38	\$ 0.00	\$ 22,653.38
Vending Operations	42,301.05		42,301.05
Other	17,455.48		17,455.48
Total Sales and Services	\$ 82,409.91	\$ 0.00	\$ 82,409.91

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	\$ 5,832,116.92	\$ 447,160.94	\$ 815,284.83	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,094,562.69
Public Service	5,406.16	7,871.71	133,652.90				146,930.77
Academic Support	1,045,644.98	54,216.37	114,843.93				1,214,705.28
Student Services	767,248.57	205,411.01	115,849.21				1,088,508.79
Institutional Support	1,874,952.99	460,375.13	409,659.53				2,744,987.65
Operations and Maintenance of Plant	647,710.10	516,523.36	361,627.25		268,726.11		1,794,586.82
Student Financial Aid			62,020.50	1,712,282.31			1,774,302.81
Auxiliary Enterprises		30,901.23					30,901.23
Depreciation						824,262.77	824,262.77
Total Operating Expenses	\$ 10,173,079.72	\$ 1,722,459.75	\$ 2,012,938.15	\$ 1,712,282.31	\$ 268,726.11	\$ 824,262.77	\$ 16,713,748.81

NOTE 10 - PENSION PLANS

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

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$8,802,183.19, of which \$7,147,425.14 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$428,845.54 and \$15,724.34, respectively. The College made 100 percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$15,724.34, \$0.00, and \$132,728.38, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

home page <http://www.osc.state.nc.us/> and clicking on “Financial Reports”, or by calling the State Controller’s Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund’s assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$74,338.35 for the year ended June 30, 2004.

IRC Section 401(k) Plan - All members of the Teachers’ and State Employees’ Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$40,238.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee’s eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$14,800.00 for the year ended June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended

June 30, 2004, the College's total contribution to the Plan was \$228,717.60. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, there have been no significant reductions in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a \$10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from Titan Insurance with coverage of \$50,000 per occurrence and no deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$154,792.00 and on other purchases were \$206,151.28 at June 30, 2004.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of \$8,889,549.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

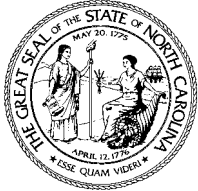
Southwestern Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
<i>Projects Approved by the State Board</i>									
Swain Center Renovation	Mar 2002	Aug 2002	\$ 400,000.00	\$ 28,538.00	\$ 428,538.00	\$ 424,423.00	100.00%	Jun 2003	Jun 2003
Jackson County R & R	Nov 2000	Nov 2001	798,942.00	150,000.00	948,942.00	868,151.41	91.49%	Mar 2004	Aug 2004
Macon R & R	Sep 2002	Jun 2004	90,000.00		90,000.00	27,649.47	30.72%	Mar 2005	Mar 2005
General Building - Macon New Campus	Oct 2003	Oct 2003	2,944,018.00	2,941,510.00	5,885,528.00	191,700.00	3.26%	Mar 2006	Mar 2006
<i>Projects Pending Approval by the State Board</i>									
Academic/Administration Building	May 2005	May 2005	6,232,770.00	4,271,584.00	10,504,354.00			Jan 2008	Jan 2008
Total All Projects			\$ 10,465,730.00	\$ 7,391,632.00	\$ 17,857,362.00	\$ 1,511,923.88			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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Ralph Campbell, Jr.
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
Southwestern Community College
Sylva, North Carolina

We have audited the financial statements of Southwestern 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, 2004, which collectively comprise the Southwestern Community College's basic financial statements, and have issued our report thereon dated April 8, 2005. We did not audit the financial statements of Southwestern Community College Foundation, Inc., which represents 100% of 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 opinion, insofar as it relates to the amounts included for the Southwestern Community College Foundation, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the Southwestern Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to this discretely presented component unit.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the

**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)**

design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Leslie W. Merritt, Jr.

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

April 8, 2005

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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
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Mr. James D. Johnson	Director, Fiscal Research Division
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June 28, 2005

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