



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**

**SOUTHWESTERN COMMUNITY COLLEGE**

**SYLVA, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**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, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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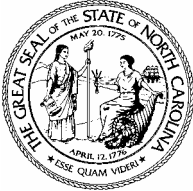
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Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

STATE OF NORTH CAROLINA  
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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Southwestern Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements resulted in no audit findings.

*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.*

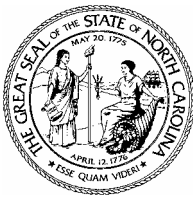
Leslie W. Merritt, Jr., CPA, CFP  
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February 13, 2006

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2005, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Southwestern Community College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Southwestern Community College Foundation, Inc., which represent 100% of the College's discretely presented component units. 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 those entities, 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwestern Community College and its discretely presented component unit as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

January 20, 2006

# **SOUTHWESTERN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **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, 2005. 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.

This section 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 Statements - 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.

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.

**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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Statement of Revenues, Expenses, and Changes in Net Assets** - presents the revenues and expenses for the fiscal year as well as changes in Net Assets. The College's net assets (the difference between assets and liabilities) are one indicator of the financial condition of the College.

**Statement of Cash Flows** - reports cash activity (receipts and payments) during the financial period. The information is summarized by different types of activities: operating, capital financing, non-capital financing and investing.

### Financial Highlights for Fiscal Year 2004-2005

The following chart shows the difference between the Statement of Net Assets for fiscal years 2005 and 2004:

	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Difference</u>	<u>% Difference</u>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 1,038,385.53	\$ 721,807.47	\$ 316,578.06	43.86 %
Receivables	392,708.21	389,912.14	2,796.07	0.72 %
Inventories	86,943.41	94,406.28	(7,462.87)	(7.91) %
Notes Receivable		80,000.00	(80,000.00)	(100.00) %
<b>Total Current Assets</b>	<u>1,518,037.15</u>	<u>1,286,125.89</u>	<u>231,911.26</u>	18.03 %
Noncurrent Assets:				
Restricted Cash and Cash Equivalents	1,262,972.66	1,545,366.60	(282,393.94)	(18.72) %
Restricted Due from Primary Government	1,152,935.46	445,068.40	707,867.06	159.05 %
Capital Assets - Nondepreciable	1,811,249.33	2,579,155.21	(767,905.88)	(29.77) %
Capital Assets - Depreciable	12,103,952.74	11,662,805.68	441,147.06	3.78 %
<b>Total Noncurrent Assets</b>	<u>16,331,110.19</u>	<u>16,232,395.89</u>	<u>98,714.30</u>	0.61 %
<b>Total Assets</b>	<u>17,849,147.34</u>	<u>17,518,521.78</u>	<u>330,625.56</u>	1.89 %
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	415,519.98	525,158.96	(109,638.98)	(20.88) %
Deferred Revenue	71,001.28	0.00	71,001.28	100.00 %
Funds Held for Others - Current	6,937.51	6,286.92	650.59	10.35 %
Long-Term Liabilities - Current Portion	99,981.88	70,703.58	29,278.30	41.41 %
<b>Total Current Liabilities</b>	<u>593,440.65</u>	<u>602,149.46</u>	<u>(8,708.81)</u>	(1.45) %
Noncurrent Liabilities:				
Funds Held for Others	362,106.83	628,860.16	(266,753.33)	(42.42) %
Long-Term Liabilities	716,196.71	739,068.40	(22,871.69)	(3.09) %
<b>Total Noncurrent Liabilities</b>	<u>1,078,303.54</u>	<u>1,367,928.56</u>	<u>(289,625.02)</u>	(21.17) %
<b>Total Liabilities</b>	<u>1,671,744.19</u>	<u>1,970,078.02</u>	<u>(298,333.83)</u>	(15.14) %
<b>NET ASSETS:</b>				
Invested in Capital Assets	13,915,202.07	14,241,960.89	(326,758.82)	(2.29) %
Restricted	2,330,512.15	1,337,242.30	993,269.85	74.28 %
Unrestricted	(68,311.07)	(30,759.43)	(37,551.64)	122.08 %
<b>Total Net Assets</b>	<u>\$ 16,177,403.15</u>	<u>\$ 15,548,443.76</u>	<u>\$ 628,959.39</u>	4.05 %



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

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The College's financial position remained strong at June 30, 2005, with assets of \$17.8 million and liabilities of \$1.6 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, were just over \$16.1 million and represented a 4% increase from the previous year.

Southwestern Community College, as with other community colleges was subject to budgetary reversions totaling \$137,795.00 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, 2005, were \$1,518,037.15. Current assets increased by 18% during fiscal year 2004-2005 due to decreased county spending and an increase in recovery of administrative costs incurred through the management of federal and State grants.

Noncurrent Assets are comprised primarily of restricted cash, restricted receivables due from primary government and capital assets, net of accumulated depreciation. Capital assets (land, construction in progress, buildings, general infrastructure and equipment), are stated at historical cost less depreciation. Restricted due from primary government increased due to continuing construction activities related to the general obligation bond issuance by the State of North Carolina to provide funds for capital improvements for the NC Community Colleges. (See Note 13B).

Current Liabilities are comprised of accounts payable, accrued compensation, deferred revenue and current portions of long-term liabilities. Total current liabilities at year end were \$593,440.65, and represented an \$8,708.81 (or 1.45%) decrease from the previous year.

Noncurrent Liabilities consist of funds held for others and long-term liabilities totaling \$1,078,303.54. Funds Held for Others is the amount of Foundation net assets held by the College in the STIF Account. Long-term liabilities are the accrued vacation and bonus leave.

Invested in Capital Assets - Net assets invested in capital assets represent the College's capital assets net of accumulated depreciation. Of the \$16,177,403.15 in net assets this year, \$13,915,202.07 was attributable to Southwestern Community College's Investment in Capital Assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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. Restricted Net Assets increased by \$993,269.85, an increase of 74.28%. This increase was due to the start of construction on a new Macon County campus.

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; restricted nonexpendable; restricted expendable and unrestricted net assets.

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, 2005 were \$16,177,403.15, an increase of \$628,959.39 from fiscal year 2003/04. This change is primarily due to an increase of \$65,811.71 in operating revenue, a decrease of \$242,549.35 in operating expenses, and an increase of \$14,924.30 in nonoperating revenues.

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

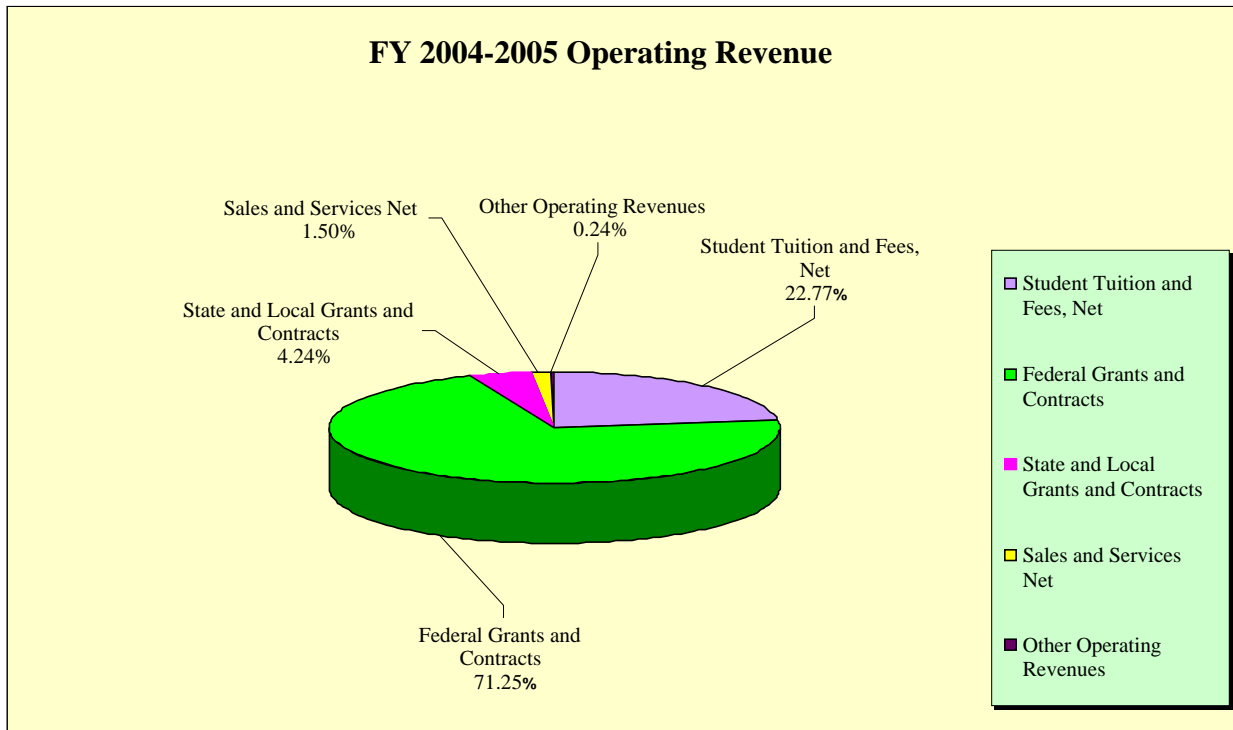
The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represent the changes in total net assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and the expenses paid by the College, operating and nonoperating,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

Operating Revenues include Student Tuition and Fees; Federal, State and Local Operating Grants and revenue obtained from sales and services.

	<b>Operating Revenues</b>			
	<u>FY 2004-2005</u>	<u>FY 2003-2004</u>	<u>Difference</u>	<u>% Difference</u>
<b>Operating Revenues</b>				
Student Tuition and Fees, Net	\$ 1,238,200.13	\$ 866,855.95	\$ 371,344.18	42.84 %
Federal Grants and Contracts	3,874,845.06	4,054,594.65	(179,749.59)	(4.43) %
State and Local Grants and Contracts	230,832.24	369,126.62	(138,294.38)	(37.47) %
Other Operating Revenues	13,125.65		13,125.65	
Sales and Services, Net	<u>81,795.76</u>	<u>82,409.91</u>	<u>(614.15)</u>	(0.75) %
Total Operating Revenues	<u>\$ 5,438,798.84</u>	<u>\$ 5,372,987.13</u>	<u>\$ 65,811.71</u>	1.22 %

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase in operating revenue is attributable to an increase in student tuition and fee costs. Tuition rates increased from \$35.50 per credit hour for in-State tuition to \$38.00 per credit hour and from \$197.00 per credit hour for out-of-State tuition to \$211.00 per credit hour. In the current year the College began collecting \$1.00 per credit hour for a technology use fee. There was also an increase in FTE for the current year from the prior year.



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 \$1,238,200.13.

For fiscal year 2004-2005, Southwestern Community College received \$230,832.24 in State and local grants and contract revenue. State and local grants revenue decreased due to the completion of the New Century Scholars grant in the current year. Grant revenue received in the current year decreased by \$103,377.22 for this grant. 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.

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, Student Support Services Program Grant and Title III Grant.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 (\$8,078,718.67) is State aid which consists of funds allotted from the North Carolina State Board of Community Colleges for operations of the College. Revenues received from State and local governments to support operations increased 4.84% and 2.70% respectively.

<b>Nonoperating Revenues</b>				
	<b>FY 2004-2005</b>	<b>FY 2003-2004</b>	<b>Difference</b>	<b>% Difference</b>
<b>Nonoperating Revenues</b>				
State Aid	\$ 8,078,718.67	\$ 7,705,953.57	\$ 372,765.10	4.84 %
County Appropriations	1,388,796.00	1,352,326.00	36,470.00	2.70 %
Noncapital Grants	324,396.07	671,468.71	(347,072.64)	(51.69) %
Noncapital Gifts, Net	48,667.89	55,212.48	(6,544.59)	(11.85) %
Investment Income, Net	45,925.44	52,308.92	(6,383.48)	(12.20) %
Other Nonoperating Revenues (Expense)	(22,899.09)	11,411.00	(34,310.09)	(300.68) %
Net Nonoperating Revenues	<b>\$ 9,863,604.98</b>	<b>\$ 9,848,680.68</b>	<b>\$ 14,924.30</b>	<b>0.01 %</b>

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 \$1,713,933.82 in State capital aid and county capital appropriations.

Other nonoperating revenues included noncapital grants and gifts, and investment income. The decrease in the noncapital grants is due to the completion of the Fibernet Project.

Total revenues at June 30, 2005, were \$17,057,358.85, which is an increase of 1,003,185.82 from June 30, 2004.

### **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 is for direct cost of salaries and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College.

Operating expenses for fiscal year 2004-2005 totaled \$16.4 million and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities and depreciation.

Personal Service expenses are salary and benefits for the faculty and staff of the College. Salaries and benefit expenditures increased 4.4% or \$449,079.68 in fiscal year 2004-05.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

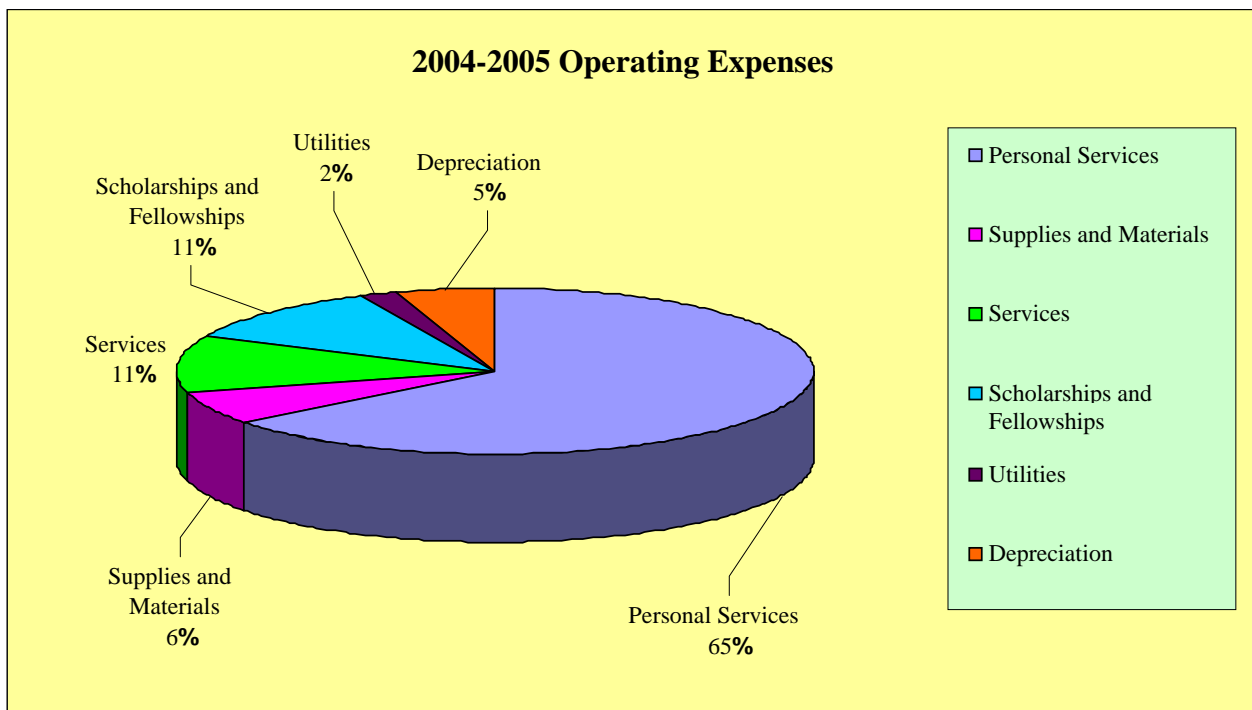
Supplies and Material expenditures consisted mainly of maintenance supplies, instructional supplies used in the classrooms and laboratories, gasoline and motor vehicle supplies and office supplies. Supplies and materials decreased \$690,465.76 from fiscal year 2003-2004 due to the completion of the Fibernet Project.

Current Services expenditures include 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 2005 increased \$105,589.46 from fiscal year 2004. This increase was due to an increase in Pell Grant Expenditures.

### 2004-2005 Operating Expenses

<b>Operating Expenses</b>	<b>FY 2004-2005</b>	<b>FY 2003-2004</b>	<b>Difference</b>	<b>% Difference</b>
Personal Services	\$ 10,622,159.40	\$ 10,173,079.72	\$ 449,079.68	4.41 %
Supplies and Materials	1,031,993.99	1,722,459.75	(690,465.76)	(40.09) %
Services	1,852,306.64	2,012,938.15	(160,631.51)	(7.98) %
Scholarships and Fellowships	1,817,871.77	1,712,282.31	105,589.46	6.17 %
Utilities	309,680.88	268,726.11	40,954.77	15.24 %
Depreciation	837,186.78	824,262.77	12,924.01	1.57 %
<b>Total Operating Expenses</b>	<b>\$ 16,471,199.46</b>	<b>\$ 16,713,748.81</b>	<b>\$ (242,549.35)</b>	<b>(1.45) %</b>



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

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Nonoperating Expenses include interest expense and loss on sale of capital assets.

### **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.

### **Southwestern Community College's Capital Assets**

Southwestern Community College had a net amount of \$13.9 million invested in capital assets at year end. Significant capital activity in the current year consisted primarily of completion of the renovations to the Jackson Campus (additions to buildings) in the amount of \$988,947.89, construction in progress totaling \$348,885.65 and the acquisition of \$164,760.26 in equipment. Depreciation expense for the year ended June 30, 2005, totaled \$837,186.78.

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

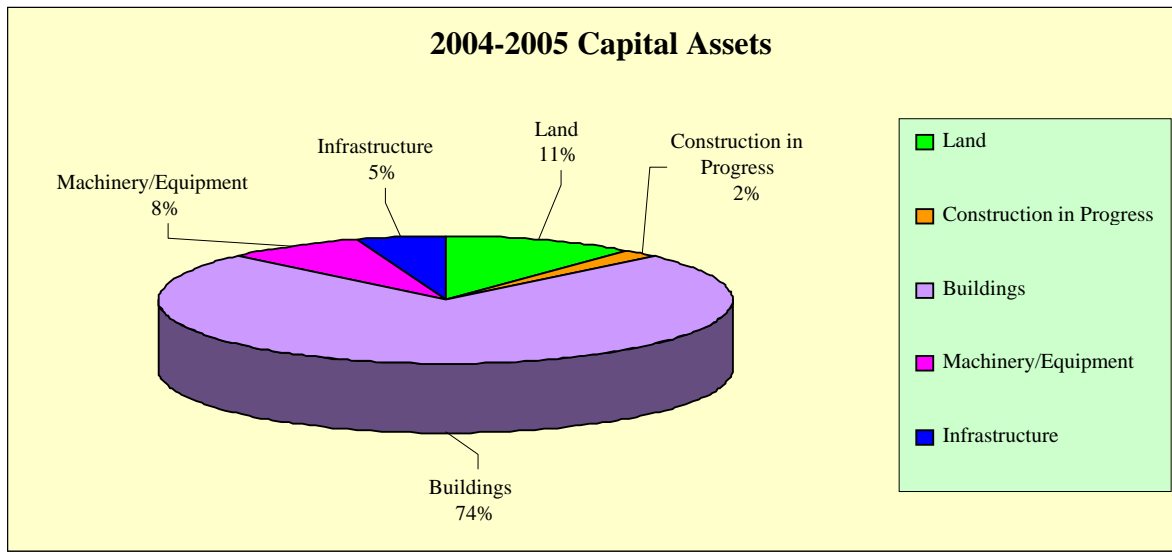
Nondepreciable assets are:

- Land;
- Construction in Progress.

Depreciable assets are:

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)



As you can see in the chart above, most of the College's capital assets are in the form of completed buildings. Construction in Progress and Land comprise 13% of capital assets. At the end of fiscal year 2004-2005, Southwestern Community College had \$319,595.00 invested in Construction in Progress which includes the initial design work for the New Macon County Campus.

Southwestern Community College continues to address its building and infrastructure needs through ongoing capital improvement planning. Projects planned for fiscal year 2005-2006 include construction on the new Macon County Campus and the initial planning for the new building to be located on the Jackson County campus. Projects are approved and funded from State capital improvement and local funds.

### **For the Future - Economic Factors**

North Carolina has experienced revenue shortfalls during the past four 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 2005-2006.

***Southwestern Community College***  
***Statement of Net Assets***  
***June 30, 2005***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 825,020.91
Restricted Cash and Cash Equivalents	213,364.62
Receivables, Net (Note 3)	392,708.21
Inventories	86,943.41

Total Current Assets	1,518,037.15
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,262,972.66
Restricted Due from Primary Government	1,152,935.46
Capital Assets - Nondepreciable (Note 4)	1,811,249.33
Capital Assets - Depreciable, Net (Note 4)	12,103,952.74

Total Noncurrent Assets	16,331,110.19
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Total Assets	17,849,147.34
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	415,519.98
Deferred Revenue	71,001.28
Funds Held for Others	6,937.51
Long-Term Liabilities - Current Portion (Note 6)	99,981.88

Total Current Liabilities	593,440.65
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Noncurrent Liabilities:

Funds Held for Others	362,106.83
Long-Term Liabilities (Note 6)	716,196.71

Total Noncurrent Liabilities	1,078,303.54
------------------------------	--------------

Total Liabilities	1,671,744.19
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**NET ASSETS**

Invested in Capital Assets	13,915,202.07
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Loans	218.82
Capital Projects	2,178,349.20
Other	126,444.13

Unrestricted	(68,311.07)
--------------	-------------

Total Net Assets	\$ 16,177,403.15
------------------	------------------

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, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,238,200.13
Federal Grants and Contracts	3,874,845.06
State and Local Grants and Contracts	230,832.24
Sales and Services	81,795.76
Other Operating Revenues	13,125.65

Total Operating Revenues	5,438,798.84
--------------------------	--------------

**EXPENSES**

Operating Expenses:

Personal Services	10,622,159.40
Supplies and Materials	1,031,993.99
Services	1,852,306.64
Scholarships and Fellowships	1,817,871.77
Utilities	309,680.88
Depreciation	837,186.78

Total Operating Expenses	16,471,199.46
--------------------------	---------------

Operating Loss	(11,032,400.62)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,078,718.67
County Appropriations	1,388,796.00
Noncapital Grants	324,396.07
Noncapital Gifts	48,667.89
Investment Income, Net	45,925.44
Other Nonoperating Expenses	(22,899.09)

Net Nonoperating Revenues	9,863,604.98
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Loss Before Other Revenues	(1,168,795.64)
----------------------------	----------------

State Capital Aid	1,403,261.82
County Capital Appropriations	310,672.00
Capital Grants	41,021.21
Capital Gifts	42,800.00

Increase in Net Assets	628,959.39
------------------------	------------

**NET ASSETS**

Net Assets, July 1, 2004	15,548,443.76
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Net Assets, June 30, 2005	\$ 16,177,403.15
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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, 2005***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,439,533.71
Payments to Employees and Fringe Benefits	(10,581,634.19)
Payments to Vendors and Suppliers	(3,246,183.08)
Payments for Scholarships and Fellowships	(1,807,023.49)
Other Payments	(285,833.39)

Net Cash Used by Operating Activities (10,481,140.44)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,078,718.67
County Appropriations	1,388,796.00
Noncapital Grants Received	395,558.51
Noncapital Gifts Received	48,667.89

Cash Provided by Noncapital Financing Activities 9,911,741.07

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

State Capital Aid Received	695,394.76
County Capital Appropriations	310,672.00
Capital Grants Received	41,021.21
Proceeds from Sale of Capital Assets	49.51
Acquisition and Construction of Capital Assets	(489,117.91)

Net Cash Provided by Capital and Related Financing Activities 558,019.57

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>45,563.92</u>
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Cash Provided by Investing Activities 45,563.92

Net Increase in Cash and Cash Equivalents 34,184.12  
Cash and Cash Equivalents, July 1, 2004 2,267,174.07

Cash and Cash Equivalents, June 30, 2005 \$ 2,301,358.19

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

Operating Loss	\$ (11,032,400.62)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	837,186.78
Miscellaneous Nonoperating Expense	(19,730.65)
Changes in Assets and Liabilities:	
Receivables, Net	6,403.01
Inventories	7,462.87
Accounts Payable and Accrued Liabilities	(25,545.84)
Deferred Revenue	5,180.14
Funds Held for Others	(266,102.74)
Compensated Absences	6,406.61

Net Cash Used by Operating Activities \$ (10,481,140.44)

***Southwestern Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3***

***Page 2***

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$	825,020.91
Restricted Cash and Cash Equivalents		213,364.62

Noncurrent Assets:

Restricted Cash and Cash Equivalents		<u>1,262,972.66</u>
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Total Cash and Cash Equivalents - June 30, 2005

	\$	<u><u>2,301,358.19</u></u>
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**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through a Gift	\$	42,800.00
Increase in Receivables Related to Nonoperating Income		718,625.91

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, 2005***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents:	
Cash Held by College	\$ 261,897.00
Cash in Investment Account	1,904.00
	<hr/>
Total Cash and Cash Equivalents	263,801.00
	<hr/>
Current Receivables:	
Accounts Receivable	2,250.00
Investments:	
Marketable Securities	967,805.00
	<hr/>
Endowment Assets:	
Cash Held by College	110,684.00
Marketable Securities	964,667.00
	<hr/>
Total Endowment Assets	1,075,351.00
	<hr/>
Total Assets	\$ 2,309,207.00
	<hr/> <hr/>

**LIABILITIES**

Accounts Payable	\$ 12,723.00
	<hr/>

**NET ASSETS**

Unrestricted	18,405.00
Temporarily Restricted	1,202,729.00
Permanently Restricted	1,075,350.00
	<hr/>
Total Net Assets	2,296,484.00
	<hr/>
Total Liabilities and Net Assets	\$ 2,309,207.00
	<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, 2005***

***Exhibit B-2***

**SUPPORT AND REVENUE**

Contributions	\$ 92,557.00
Support Our Students Grant	147,900.00
Grants-Other	16,666.00
Special Events Revenue	42,866.00
Investment Income and Gains	153,825.00
Interest Income	15,008.00
Other Income	650.00
	<hr/>
Total Support and Revenue	469,472.00

**EXPENSES**

Program Expenses:

Scholarships and Grants	90,954.00
Support our Students Program	216,280.00
Technology for College	124,213.00
Evening/Weekend Nursing Program	54,996.00
Other Program Support	50,014.00
	<hr/>
Total Program Expenses	536,457.00

Supporting Services:

Management and General	34,154.00
Fundraising	11,791.00
	<hr/>
Total Supporting Services	45,945.00

Total Expenses	<hr/> 582,402.00
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Change in Net Assets	(112,930.00)
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Net Assets at Beginning of Year	<hr/> 2,409,414.00
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Net Assets at End of Year	<u><u>\$ 2,296,484.00</u></u>
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**SOUTHWESTERN COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005**

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**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 units 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 financial data is reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

**Discretely Presented Component Unit** - The Southwestern Community College Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 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.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2005, the Foundation distributed \$230,118 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by contacting Ms. Sonja Haynes, Executive Director-SCC Foundation, 447 College Drive, Sylva, NC 28779, (828) 586-4091.

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

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

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

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- 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 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.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, 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 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Assets** - 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' 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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 AND INVESTMENTS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,400.00, and deposits in private financial institutions with a carrying value of \$85,396.79 and a bank balance of \$441,137.63.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$2,214,561.40 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 130,403.70	\$ 97,757.36	\$ 32,646.34
Intergovernmental	359,700.35		359,700.35
Investment Earnings	361.52		361.52
<b>Total Current Receivables</b>	<b>\$ 490,465.57</b>	<b>\$ 97,757.36</b>	<b>\$ 392,708.21</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 1,491,654.33	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,491,654.33
Construction in Progress	1,087,500.88	(1,116,791.53)	348,885.65		319,595.00
<b>Total Capital Assets, Nondepreciable</b>	<b>2,579,155.21</b>	<b>(1,116,791.53)</b>	<b>348,885.65</b>		<b>1,811,249.33</b>
Capital Assets, Depreciable:					
Buildings	15,634,093.57	988,947.89			16,623,041.46
Machinery and Equipment	3,595,671.45		164,760.26	27,137.20	3,733,294.51
General Infrastructure	1,558,734.38	127,843.64			1,686,578.02
<b>Total Capital Assets, Depreciable</b>	<b>20,788,499.40</b>	<b>1,116,791.53</b>	<b>164,760.26</b>	<b>27,137.20</b>	<b>22,042,913.99</b>
Less Accumulated Depreciation:					
Buildings	5,912,829.08		434,484.85		6,347,313.93
Machinery and Equipment	2,323,112.04		308,631.34	23,919.25	2,607,824.13
General Infrastructure	889,752.60		94,070.59		983,823.19
<b>Total Accumulated Depreciation</b>	<b>9,125,693.72</b>		<b>837,186.78</b>	<b>23,919.25</b>	<b>9,938,961.25</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>11,662,805.68</b>	<b>1,116,791.53</b>	<b>(672,426.52)</b>	<b>3,217.95</b>	<b>12,103,952.74</b>
<b>Capital Assets, Net</b>	<b>\$ 14,241,960.89</b>	<b>\$ 0.00</b>	<b>\$ (323,540.87)</b>	<b>\$ 3,217.95</b>	<b>\$ 13,915,202.07</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 105,299.84
Accrued Payroll	287,305.14
Contract Retainage	22,915.00
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 415,519.98</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 809,771.98	\$ 440,586.05	\$ 434,179.44	\$ 816,178.59	\$ 99,981.88

### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	\$ 20,064.00
2007	15,876.00
2008	7,500.00
2009	3,750.00
Total Minimum Lease Payments	\$ 47,190.00

Rental expense for all operating leases during the year was \$23,072.00.

### 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	\$ 1,923,415.36	\$ 685,215.23	\$ 1,238,200.13

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 6,292,031.36	\$ 349,114.52	\$ 730,424.34	\$ 0.00	\$ 0.00	\$ 0.00	\$ 7,371,570.22
Public Service	2,422.15	1,412.57	115.46				3,950.18
Academic Support	1,032,982.22	101,905.43	149,349.61				1,284,237.26
Student Services	632,680.52	127,741.98	83,494.52				843,917.02
Institutional Support	1,813,118.15	88,670.03	505,861.53				2,407,649.71
Operations and Maintenance of Plant	732,010.66	345,702.56	380,349.51		309,680.88		1,767,743.61
Student Financial Aid	116,914.34	507.10	2,711.67	1,817,871.77			1,938,004.88
Auxiliary Enterprises		16,939.80					16,939.80
Depreciation						837,186.78	837,186.78
Total Operating Expenses	<u>\$ 10,622,159.40</u>	<u>\$ 1,031,993.99</u>	<u>\$ 1,852,306.64</u>	<u>\$ 1,817,871.77</u>	<u>\$ 309,680.88</u>	<u>\$ 837,186.78</u>	<u>\$ 16,471,199.46</u>

### NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$9,001,241.43, of which \$7,393,081.41 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$443,584.94 and \$160,429.87, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$160,429.87, \$15,724.34, and \$0.00, 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)

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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 \$77,723.76 for the year ended June 30, 2005.

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 \$41,543.00 for the year ended June 30, 2005.

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 \$18,100.00 for the year ended June 30, 2005.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, 2005, the College's total contribution to the Plan was \$236,578.61. 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. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$32,899.21. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

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)

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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

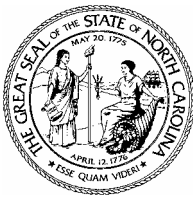
- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$130,320.00 and on other purchases were \$107,062.38 at June 30, 2005.
- B. Community College 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 \$7,845,865.00 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)

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### NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



Leslie W. Merritt, Jr., CPA, CFP  
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**

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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, 2005, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 20, 2006. We did not audit the financial statements of Southwestern Community College Foundation, Inc., which represents 100% of the College's discretely presented component units. 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 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. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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 Southwestern Community College Foundation, Inc., was 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 opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation

**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)**

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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*.

*Leslie W. Merritt, Jr.*

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

January 20, 2006

## DISTRIBUTION OF AUDIT REPORT

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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  
Mr. David T. McCoy  
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Mr. H. Martin Lancaster  
Dr. Cecil L. Groves  
Ms. Janet Burnette

Mr. Conrad Burrell

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller  
President, North Carolina Community College System  
President, Southwestern Community College  
Vice President for Administrative Services  
Southwestern Community College  
Chairman, Board of Trustees  
Southwestern Community College

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Mr. James D. Johnson

Director, Fiscal Research Division

February 13, 2006

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

Internet: <http://www.ncauditor.net>

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