



STATE OF NORTH CAROLINA

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Office of the State Auditor

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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

We have completed a financial statement audit of Southwestern Community College for the year ended June 30, 2007, 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.

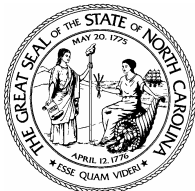
Leslie W. Merritt, Jr.

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

May 28, 2008

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets.....	13
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	14
A-3 Statement of Cash Flows	15
Component Unit Exhibits	
B-1 Statement of Financial Position.	17
B-2 Statement of Activities	18
Notes to the Financial Statements	19
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	33
ORDERING INFORMATION	35



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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, 2007, 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 is the College's only discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2008, 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

May 22, 2008

SOUTHWESTERN COMMUNITY COLLEGE 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, 2007. The Management's 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 Southwestern Community College's financial position;
- provide a comparative analysis with prior year data.

The Management's 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 *Governmental 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 been 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, noncapital financing, and investing.

Financial Highlights for Fiscal Year 2006-2007

Condensed Statement of Net Assets

The following chart shows the difference between the Statement of Net Assets for fiscal years 2007 and 2006:

	FY 2006-2007	FY 2005-2006 (as restated)	Difference	% Difference
ASSETS				
Current Assets	\$ 2,324,794.70	\$ 1,879,681.51	\$ 445,113.19	23.68%
Noncurrent Assets:				
Capital Assets, Net	18,554,291.04	16,420,462.75	2,133,828.29	12.99%
Other Noncurrent Assets	1,891,116.32	1,372,700.68	518,415.64	37.77%
Total Assets	22,770,202.06	19,672,844.94	3,097,357.12	15.74%
LIABILITIES				
Current Liabilities	934,053.01	901,694.06	32,358.95	3.59%
Noncurrent Liabilities	1,111,695.45	1,063,792.72	47,902.73	4.50%
Total Liabilities	2,045,748.46	1,965,486.78	80,261.68	4.08%
NET ASSETS				
Invested in capital assets	18,554,291.04	16,420,462.75	2,133,828.29	12.99%
Restricted	1,493,678.19	1,144,583.50	349,094.69	30.50%
Unrestricted	676,484.37	103,324.79	573,159.58	554.72%
Total Net Assets	\$ 20,724,453.60	\$ 17,668,371.04	\$ 3,056,082.56	17.30%

The College's financial position remained strong at June 30, 2007, with assets of \$22,770,202.06 and liabilities of \$2,045,748.46. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, totaled \$20,724,453.60 and represented a 17.30% increase from the previous year.

Southwestern Community College, as with other community colleges, was subject to budgetary reversions of one percent which totaled \$85,304. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Statement of Net Assets

The Statement of Net Assets measures the value of all the College's assets after deducting liabilities and depreciation.

Assets

Current Assets - consist of cash, cash equivalents, receivables, and inventories expected to be collected within the next accounting cycle. The current assets of Southwestern Community College consisted primarily of cash and receivables and totaled \$2,324,794.70 at June 30, 2007.

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. Capital assets, net of accumulated depreciation, totaled \$18,554,291.04 for fiscal year 2006-2007.

Total assets increased by \$3,097,357.12 (15.74%) in fiscal year 2006-2007, due primarily to the following:

1. Total cash and cash equivalents increased by \$1,068,461.49 due primarily to the collection of outstanding intergovernmental receivables, an increase in county appropriations, and an increase in the collection of administrative costs charged to federal and State grants.
2. Capital assets increased by a net amount of \$2,133,828.29. The increase is primarily due to the amount invested in construction of the new Macon Campus Building.

Liabilities

Current Liabilities - are comprised mostly of accounts payable, accrued compensation, unearned revenue, and current portions of long-term liabilities. Accounts payable and accrued compensation made up \$753,762.72 of total current liabilities. Total current liabilities at year-end were \$934,053.01 and represented a slight increase of \$32,358.95 (3.59%) from the previous year.

Noncurrent Liabilities - consist of funds held for others and long-term liabilities. Funds held for others totaled \$184,237.22 and is the amount of Foundation net assets held by the College in the STIF Account. Long-term liabilities consisted of accrued vacation and bonus leave not expected to be used within the next twelve months which totaled \$927,458.23 at June 30, 2007.

Total liabilities increased by \$80,261.68 (4.08%) in fiscal year 2006-2007, due primarily to:

1. An increase of \$50,859.04 in the compensated absences liability.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2. An increase of \$10,067.12 in funds held for others which is due to the advance collection of supply fees for the National Park Services classes which are held until the next fiscal year.

Net Assets

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.

Invested in Capital Assets - Net assets invested in capital assets represent the College's capital assets net of accumulated depreciation. Invested in capital assets consisted primarily of buildings, infrastructure and equipment with a unit purchase cost of \$5,000 or greater. Of the \$20,724,453.60 in net assets this year, \$18,554,291.04 was attributable to Southwestern Community College's Investment in Capital Assets. The significant increase in capital assets reflects the ongoing construction of the new Macon Campus.

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, 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, 2007, were \$20,724,453.60, an increase of \$3,056,082.56 from fiscal year 2005-2006. The State bond construction project (new Macon Campus) was the main reason for the increase. The related receivable from the state and capitalization of Construction in Progress for the campus represented the majority of the increase in Net Assets. It should also be noted that the College made a net restatement of \$613,399.15 to the fiscal year 2005-2006 financial statements. This restatement was made to account for capitalized equipment/vehicles which had reached the end of their useful lives but were still being utilized by the college. As a result, accumulated depreciation was reduced. In addition, prior year receivables that were deemed uncollectible were written off.

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

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets represents 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	FY 2006-2007	FY 2005-2006 (as restated)	Difference	% Difference
Operating Revenues				
Student Tuition and Fees, Net..... \$	1,337,079.00	\$ 1,212,412.30	\$ 124,666.70	10.28 %
Federal Grants and Contracts.....	3,792,695.26	3,347,142.90	445,552.36	13.31 %
State and Local Grants and Contracts.....	84,026.12	84,078.74	(52.62)	(0.06) %
Nongovernmental Grants and Contracts.....		688.96	(688.96)	(100.00) %
Other Operating Revenues.....	31,056.29	27,649.37	3,406.92	12.32 %
Sales and Services, Net.....	92,552.16	91,952.38	599.78	0.65 %
Total Operating Revenues.....	5,337,408.83	4,763,924.65	573,484.18	12.04 %
Operating Expenses	18,112,531.65	16,633,584.43	1,478,947.22	8.89 %
Operating Loss	(12,775,122.82)	(11,869,659.78)	(905,463.04)	7.63 %
Nonoperating Revenues (Expenses)				
State Aid	9,599,124.27	8,698,979.76	900,144.51	10.35 %
County Appropriations	2,125,730.00	1,418,245.00	707,485.00	49.88 %
Noncapital Grants	366,097.88	307,356.31	58,741.57	19.11 %
Noncapital Gifts	76,568.02	66,015.70	10,552.32	15.98 %
Investment Income	134,803.16	78,506.81	56,296.35	71.71 %
Other Nonoperating Revenues		27,744.12	(27,744.12)	(100.00) %
Other Nonoperating Expenses	(34,943.28)	(233,230.58)	198,287.30	(85.02) %
Total Nonoperating Revenues	12,267,380.05	10,363,617.12	1,903,762.93	18.37 %
Loss Before Other Revenues	(507,742.77)	(1,506,042.66)	998,299.89	(66.29) %
State Capital Aid	2,355,788.20	570,441.83	1,785,346.37	312.98 %
County Capital Aid	1,171,134.03	1,735,407.12	(564,273.09)	(32.52) %
Capital Grants	24,469.97	77,762.45	(53,292.48)	(68.53) %
Capital Gifts	12,433.13		12,433.13	
Total Other Revenues	3,563,825.33	2,383,611.40	1,180,213.93	49.51 %
Increase (Decrease) in Net Assets	3,056,082.56	877,568.74	2,178,513.82	248.24 %
Net Assets				
Net Assets - Beginning of Year as Restated Restatements	17,668,371.04	16,177,403.15	1,490,967.89	
		613,399.15	(613,399.15)	
Net Assets - End of Year	\$ 20,724,453.60	\$ 17,668,371.04	\$ 3,056,082.56	17.30 %

Operating Revenues - totaled \$5,337,408.83 and consisted of five areas: student tuition and fees, net; federal grants and contracts; state/local grants and contracts; sales and services, net; and other operating revenues.

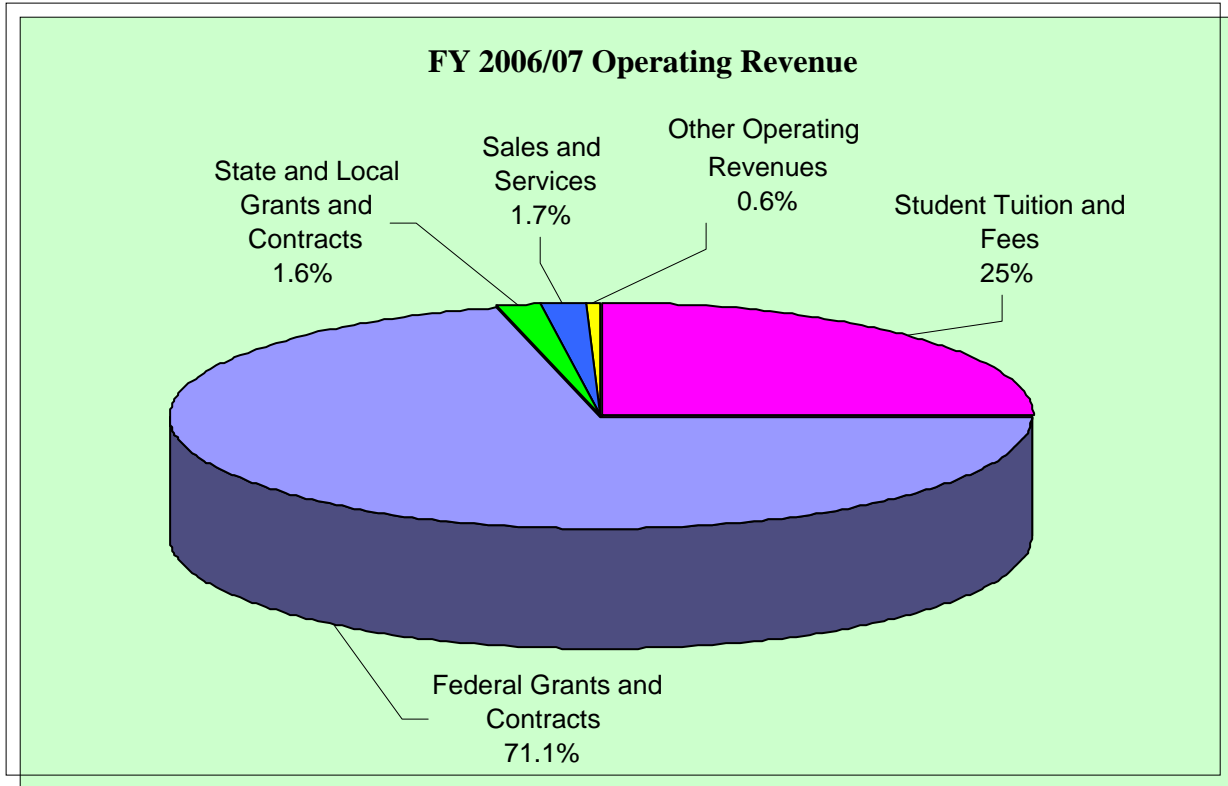
The increase of \$573,484.18 (12.04%) in operating revenue is attributable mainly to:

1. An increase of \$367,279.39 in the federal grant revenue for the Gaining Early Awareness & Readiness for Undergraduate Program Grant (Gear-Up) due to fiscal year 2006-2007 being the first full year of the new award.
2. An increase in student tuition and fee revenue, \$124,666.70, which resulted from a slight growth in enrollment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

3. Revenue received from the administration of Federal and State grants increased by \$34,179.74 due to increased grant activity.

The chart below shows the components of operating revenues for fiscal year 2006-2007.



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 2006-2007 totaled \$18,112,531.65 and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

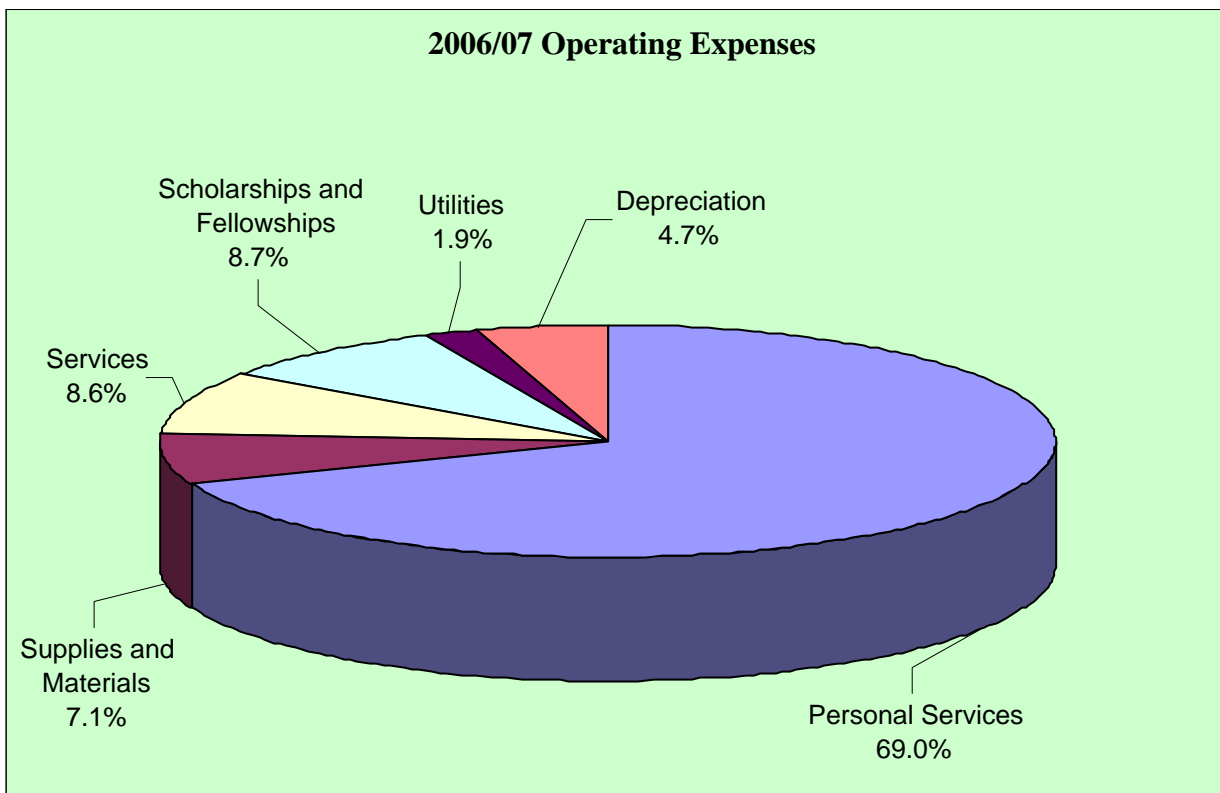
The increase of \$1,478,947.22 (8.89%) in operating expenses from the prior fiscal year is attributed to:

1. Personal Services expenses increased by \$1,173,758.28 due to:
 - a. A 5.5% pay increase for all non-exempt staff and a 6% pay increase for faculty and exempt staff as well as a one time 2 percent bonus to all faculty and staff.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- b. The addition of a faculty position for the new Fine Arts Program.
 - c. Payout of bonus and vacation leave to employees retiring or separating employment from the College.
2. Supplies and materials increased by \$258,982.03 due to:
 - a. Initial minor equipment and supply purchases for the New Macon Campus - \$141,310.73.
 - b. Increase in supply expenditures for the Gear-Up grant - \$11,244.15.

The chart below shows the components of operating expenses for fiscal year 2006-2007.



Nonoperating Revenues and Expenses - In fiscal year 2006-2007, nonoperating revenues and expenses increased by \$1,903,762.93 (18.37%). The majority of this increase is due to increases in state and county aid:

1. State aid increased by 10.35% or \$900,144.51 due to a slight increase in enrollment, an increase for faculty and staff raises, and an additional \$137,955.00 allocation for performance funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- County appropriations increased by \$707,485.00 primarily due to a contribution of \$433,250.00 from Macon County to fund equipment and infrastructure needs of the new Macon Campus. There was also a shift in funding operating expenses in Jackson County rather than capital items which added \$140,000.00 to current county appropriations.

The nonoperating revenues also included non-capital grants and gifts, and investment income totaling \$577,469.06. These revenues increased \$125,590.24 from the previous fiscal year.

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 \$3,563,825.33 in State capital aid and county capital appropriations. This amount represented an increase of \$1,180,213.93 (45.51%) from the previous fiscal year.

This increase was due primarily to an increase in State capital aid to fund the construction of the New Macon Campus Building.

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.

	<u>FY 2006-2007</u>	<u>FY 2005-2006</u>	<u>Difference</u>	<u>% Difference</u>
Cash Provided (Used) by:				
Operating Activities	\$ (11,822,298.72)	\$ (11,109,726.97)	\$ (712,571.75)	6.41% %
Noncapital Financing Activities	12,200,550.49	10,485,477.18	1,715,073.31	16.36% %
Capital and Related Financing Activities	555,528.77	645,539.88	(90,011.11)	(13.94)% %
Investing Activities	<u>134,680.95</u>	<u>78,300.20</u>	<u>56,380.75</u>	<u>72.01% %</u>
Net Increase in Cash	1,068,461.49	99,590.29	968,871.20	972.86% %
Cash - July 1	<u>2,400,948.48</u>	<u>2,301,358.19</u>	<u>99,590.29</u>	<u>4.33% %</u>
Cash - June 30	<u>\$ 3,469,409.97</u>	<u>\$ 2,400,948.48</u>	<u>\$ 1,068,461.49</u>	<u>44.50% %</u>

Southwestern Community College's Capital Assets

Southwestern Community College had a net amount of \$18,554,291.04 invested in capital assets at year-end. Significant capital activity in the current year consisted of the progression of the new Macon County Campus. At June 30, 2007, the Macon Campus building was near completion and, as a result, \$2,756,410.78 was added to Capital Assets - Construction in Progress. The College also acquired \$230,576.47 in equipment; however, \$92,365.92 in equipment was sold or surplus through the NCCCS Department of Administration - State Surplus Agency in fiscal year 2005-2006. Depreciation expense for the year ended June 30, 2007, totaled \$843,034.09.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

It should be noted that the College made a restatement in the amount of \$652,386.27 to account for capitalized equipment/vehicles that had reached the end of their useful lives but were still being utilized by the College. As a result, accumulated depreciation was reduced.

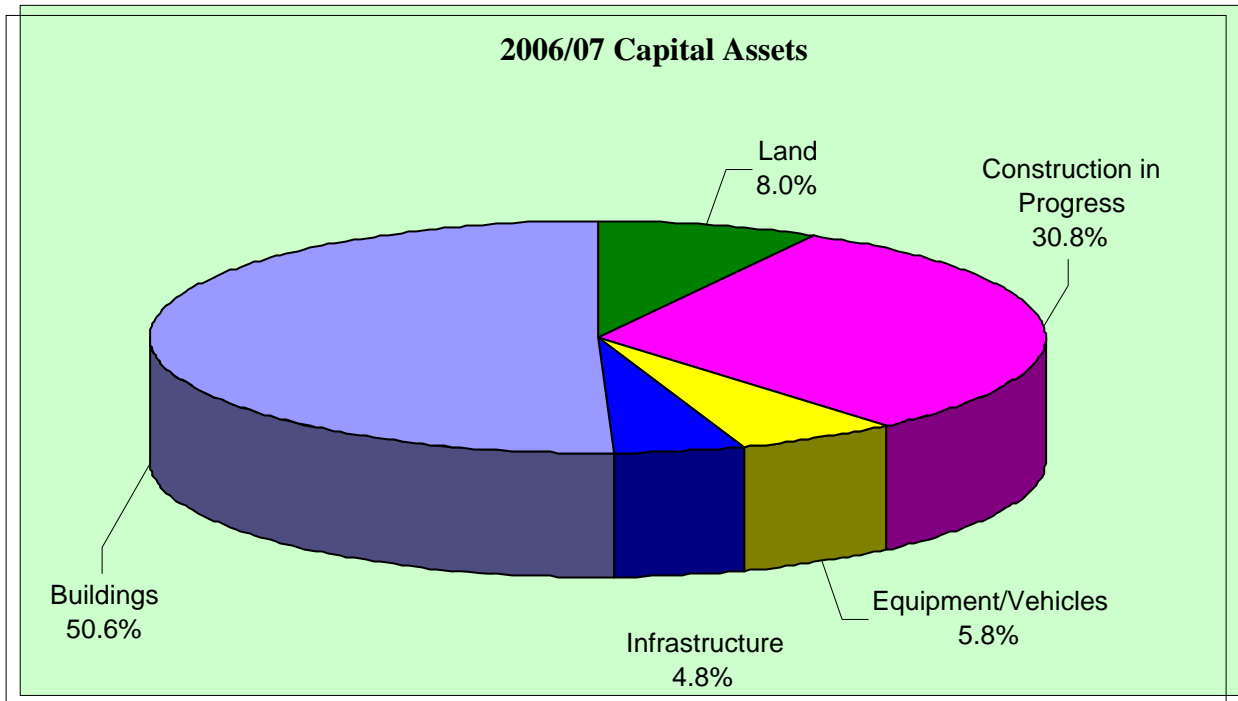
Capital assets for the College are comprised of nondepreciable and depreciable assets.

Nondepreciable assets are:

Land
Construction in Progress

Depreciable assets are:

Buildings
General Infrastructure
Machinery and Equipment



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 38.8% of capital assets. At the end of fiscal year 2006-2007, Southwestern Community College had \$5,723,253.00 in Construction in Progress, which represents the amount invested in the new Macon Campus building through June 30, 2007.

Southwestern Community College continues to address its Building and Infrastructure needs through ongoing capital improvement planning. Projects planned for fiscal year 2007-2008 include completion of the new Macon Campus building, initial design work for the Administrative/Classroom building to be located on the Jackson County campus and re-roofing the Oaks Classroom Building on the Jackson campus. Projects are approved and funded from State Capital Improvement and local funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

For the Future - Economic Factors

The State of North Carolina economy has begun to show improvement during the past two fiscal years. Although budget reversions were once again required this year, the College experienced a ten percent increase in the state operating budget in fiscal year 2006-2007. 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. The new Macon Campus building will be completed in the summer of 2007 and will be occupied for the Fall term.

The College has also facilitated an agreement with the North Carolina Forest Service for a land transfer. This exchange has been approved by the Council of State and is currently in the process of transfer. Once complete, Southwestern Community College will begin its design phase for a new Administrative/Classroom Building which will be built on the newly acquired property.

Southwestern Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,988,248.15
Restricted Cash and Cash Equivalents	174,601.86
Receivables, Net (Note 3)	85,025.99
Inventories	76,918.70
Total Current Assets	2,324,794.70

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,306,559.96
Restricted Due from Primary Government	584,556.36
Capital Assets - Nondepreciable (Note 4)	7,214,907.33
Capital Assets - Depreciable, Net (Note 4)	11,339,383.71
Total Noncurrent Assets	20,445,407.36

Total Assets	22,770,202.06
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	753,762.72
Unearned Revenue	36,743.38
Funds Held for Others	17,314.81
Long-Term Liabilities - Current Portion (Note 6)	126,232.10
Total Current Liabilities	934,053.01

Noncurrent Liabilities:

Funds Held for Others	184,237.22
Long-Term Liabilities	927,458.23
Total Noncurrent Liabilities	1,111,695.45
Total Liabilities	2,045,748.46

NET ASSETS

Invested in Capital Assets	18,554,291.04
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	1,736.75
Capital Projects	1,394,172.86
Other	72,268.58
Unrestricted	676,484.37
Total Net Assets	\$ 20,724,453.60

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, 2007***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,337,079.00
Federal Grants and Contracts	3,792,695.26
State and Local Grants and Contracts	84,026.12
Sales and Services	92,552.16
Other Operating Revenues	31,056.29

Total Operating Revenues	<u>5,337,408.83</u>
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EXPENSES

Operating Expenses:

Personal Services	12,499,550.31
Supplies and Materials	1,280,263.76
Services	1,556,822.92
Scholarships and Fellowships	1,590,021.53
Utilities	342,839.04
Depreciation	843,034.09

Total Operating Expenses	<u>18,112,531.65</u>
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Operating Loss	<u>(12,775,122.82)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	9,599,124.27
County Appropriations	2,125,730.00
Noncapital Grants	366,097.88
Noncapital Gifts	76,568.02
Investment Income	134,803.16
Other Nonoperating Expenses	(34,943.28)

Net Nonoperating Revenues	<u>12,267,380.05</u>
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Income Before Other Revenues, Expenses, Gains, and Losses	(507,742.77)
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State Capital Aid	2,355,788.20
County Capital Aid	1,171,134.03
Capital Grants	24,469.97
Capital Gifts	12,433.13

Increase in Net Assets	3,056,082.56
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NET ASSETS

Net Assets, July 1, 2006 as Restated (Note 14)	<u>17,668,371.04</u>
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Net Assets, June 30, 2007	<u><u>\$ 20,724,453.60</u></u>
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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, 2007

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 5,285,047.42
Payments to Employees and Fringe Benefits	(12,380,152.68)
Payments to Vendors and Suppliers	(3,135,318.27)
Payments for Scholarships and Fellowships	(1,575,848.04)
Other Payments	(16,027.15)
	<hr/>
Net Cash Used by Operating Activities	(11,822,298.72)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,599,124.27
County Appropriations	2,125,730.00
Noncapital Grants Received	399,128.20
Noncapital Gifts Received	76,568.02
	<hr/>
Cash Provided by Noncapital Financing Activities	12,200,550.49

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

State Capital Aid Received	1,997,092.44
County Capital Aid	1,171,134.03
Capital Grants Received	389,714.94
Capital Gifts Received	12,433.13
Acquisition and Construction of Capital Assets	(3,014,845.77)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	555,528.77

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<hr/> 134,680.95
Cash Provided by Investing Activities	<hr/> 134,680.95
Net Increase in Cash and Cash Equivalents	1,068,461.49
Cash and Cash Equivalents, July 1, 2006	<hr/> 2,400,948.48
Cash and Cash Equivalents, June 30, 2007	<hr/> <hr/> \$ 3,469,409.97

Southwestern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2007

Exhibit A-3
Page 2

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

Operating Loss	\$ (12,775,122.82)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	843,034.09
Miscellaneous Nonoperating Income	(24,818.41)
Changes in Assets and Liabilities:	
Receivables, Net	7,979.14
Inventories	18,509.08
Accounts Payable and Accrued Liabilities	94,636.96
Unearned Revenue	(46,167.06)
Funds Held for Others	8,791.26
Compensated Absences	50,859.04
Net Cash Used by Operating Activities	<u><u>\$ (11,822,298.72)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 1,988,248.15
Restricted Cash and Cash Equivalents	174,601.86
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,306,559.96</u>
Total Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 3,469,409.97</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	\$ 360,337.01
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The accompanying notes to the financial statements are an integral part of this statement.

Southwestern Community College Foundation, Inc.
Statement of Financial Position
As of June 30, 2007

Exhibit B-1

ASSETS

Cash and Cash Equivalents

Cash Held by College	\$	173,233
Cash in Investment Account		10,334

Total Cash and Cash Equivalents		183,567
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Receivables

Accounts Receivable		2,208
Pledges Receivable		97,467

Total Current Receivables		99,675
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Investments

Marketable Securities		1,704,019
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Endowment Assets

Cash Held by College		14,348
Marketable Securities		974,461

Total Endowment Assets		988,809
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Total Assets	\$	2,976,070
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	5,552
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Net Assets

Unrestricted		7,618
Temporarily Restricted		1,974,091
Permanently Restricted		988,809

Total Net Assets		2,970,518
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Total Liabilities and Net Assets	\$	2,976,070
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The accompanying notes to the financial statements are an integral part of this statement.

Southwestern Community College Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 29,632	\$ 235,635	\$ 1,025	\$ 266,292
Support Our Students Grant		76,500		76,500
Special Events Revenue	29,565	27,633		57,198
Investment Income and Gains		346,528		346,528
Interest Income	567	7,492		8,059
In Kind Contributions	126,205			126,205
Subtotal	185,969	693,788	1,025	880,782
Net Assets Released from Restriction and Reclassifications: Released by Expenditure	162,428	(162,428)		
Total Support and Revenue	348,397	531,360	1,025	880,782
EXPENSES				
Program Expenses				
Scholarships and Grants	76,880			76,880
Support-Our-Students Program	76,163			76,163
Technology for College	12,433			12,433
Other Program Activities	74,713			74,713
Total Program Expenses	240,189			240,189
Supporting Services				
Management and General	33,172			33,172
Fundraising	64,702			64,702
Total Supporting Services	97,874			97,874
Total Expenses	338,063			338,063
Change in Net Assets	10,334	531,360	1,025	542,719
Net Assets, Beginning of Year	(2,716)	1,442,731	987,784	2,427,799
Net Assets, End of Year	\$ 7,618	\$ 1,974,091	\$ 988,809	\$ 2,970,518

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

SOUTHWESTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007

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

During the year ended June 30, 2007, the Foundation distributed \$164,026 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, North Carolina 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Treasurer in the short-term investment fund. The short-term investment fund 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

- 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

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,450.00, and deposits in private financial institutions with a carrying value of \$44,585.82 and a bank balance of \$111,247.52.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2007, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,423,374.15 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2007. 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.

Component Unit – Investments of the College's component unit, Southwestern Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The Foundation follows SFAS No. 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Foundation's Statement of Financial Position. Unrealized and realized gains and losses are included in the change in net assets in the Foundation's Statement of Activities.

The Foundation's investment portfolio was allocated as shown below as of audit year end. Investment income and gains for the audit year were \$346,528.00, which is net of investment management fees of \$21,139.00.

As of June 30, 2007:

Equity Securities	\$ 1,823,882.00
Taxable Fixed Income Funds	639,938.00
Money Funds	<u>214,660.00</u>
Total Investments	<u><u>\$ 2,678,480.00</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 139,570.19	\$ 102,010.67	\$ 37,559.52
Intergovernmental	44,568.13		44,568.13
Investment Earnings	690.34		690.34
Accounts	2,208.00		2,208.00
Total Current Receivables	<u>\$ 187,036.66</u>	<u>\$ 102,010.67</u>	<u>\$ 85,025.99</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	\$ 1,491,654.33	\$ 0.00	\$ 0.00	\$ 1,491,654.33
Construction in Progress	2,966,842.22	2,756,410.78		5,723,253.00
Total Capital Assets, Nondepreciable	4,458,496.55	2,756,410.78		7,214,907.33
Capital Assets, Depreciable:				
Buildings	16,639,903.46			16,639,903.46
Machinery and Equipment	2,981,192.37	230,576.47	92,365.92	3,119,402.92
General Infrastructure	1,712,153.02	0.00		1,712,153.02
Total Capital Assets, Depreciable	21,333,248.85	230,576.47	92,365.92	21,471,459.40
Less Accumulated Depreciation:				
Buildings	6,803,070.56	455,925.26		7,258,995.82
Machinery and Equipment	1,830,364.72	299,667.57	82,241.05	2,047,791.24
General Infrastructure	737,847.37	87,441.26		825,288.63
Total Accumulated Depreciation	9,371,282.65	843,034.09	82,241.05	10,132,075.69
Total Capital Assets, Depreciable, Net	11,961,966.20	(612,457.62)	10,124.87	11,339,383.71
Capital Assets, Net	<u>\$ 16,420,462.75</u>	<u>\$ 2,143,953.16</u>	<u>\$ 10,124.87</u>	<u>\$ 18,554,291.04</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	\$ 110,787.09
Accrued Payroll	379,060.63
Contract Retainage	263,915.00
Total Accounts Payable and Accrued Liabilities	<u>\$ 753,762.72</u>

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, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Compensated Absences	\$ 1,002,831.29	\$ 492,580.98	\$ 441,721.93	\$ 1,053,690.34	\$ 126,232.10

NOTE 7 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	\$ 7,500.00
2009	3,750.00
Total Minimum Lease Payments	\$ 11,250.00

Rental expense for all operating leases during the year was \$9,020.00.

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	\$ 2,010,054.91	\$ 672,975.91	\$ 1,337,079.00

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	\$ 7,723,627.47	\$ 508,587.51	\$ 636,718.11	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,868,933.09
Academic Support	1,150,503.20	39,335.19	140,271.30				1,330,109.69
Student Services	754,883.36	19,394.15	82,969.13				857,246.64
Institutional Support	1,920,372.58	104,622.20	391,755.36				2,416,750.14
Oper. and Maint of Plant	812,493.29	590,806.08	301,769.21		342,839.04		2,047,907.62
Student Financial Aid	137,670.41	1,758.42	3,329.81	1,590,021.53			1,732,780.17
Auxiliary Enterprises		15,760.21	10.00				15,770.21
Depreciation						843,034.09	843,034.09
Total Operating Expenses	<u>\$ 12,499,550.31</u>	<u>\$ 1,280,263.76</u>	<u>\$ 1,556,822.92</u>	<u>\$ 1,590,021.53</u>	<u>\$ 342,839.04</u>	<u>\$ 843,034.09</u>	<u>\$ 18,112,531.65</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan 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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of \$10,415,002.41, of which \$8,595,340.73 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$515,720.44 and \$228,636.06, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were \$228,636.06, \$179,749.95, and \$160,429.87, 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 (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 \$60,974.10 for the year ended June 30, 2007.

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 \$51,678.00 for the year ended June 30, 2007.

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 \$16,200.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was \$326,622.95. 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. Disability Income -** 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 .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was \$44,695.77. 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 three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$75,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from Penn National 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. The employer contribution rate was .16% for the current fiscal year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$415,527.69 and on other purchases were \$112,888.23 at June 30, 2007.

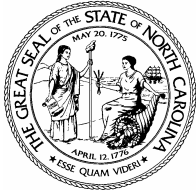
NOTE 14 - NET ASSET RESTATEMENTS

As of July 1, 2006, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2006, Net Assets as Previously Reported	\$ 17,054,971.89
Correction of Capital Asset Balances	652,386.27
Receivables - Bad Debt Write-Off	<u>(38,987.12)</u>
July 1, 2006, Net Assets as Restated	<u><u>\$ 17,668,371.04</u></u>

NOTE 15 - SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the College was notified of an ADA (Americans with Disabilities Act) complaint filed with the Office of Civil Rights and is currently awaiting a ruling. College management is of the opinion that the liability, if any, for this matter will not have a material adverse effect on the financial position of the College.



STATE OF NORTH CAROLINA
Office of the 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, 2007, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 22, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Southwestern Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management of the College the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, and is not intended to be and should not be used by anyone other than these specified parties.



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

May 22, 2008

ORDERING INFORMATION

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

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