



STATE OF NORTH CAROLINA

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, 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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

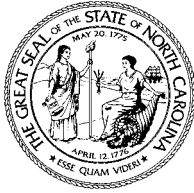
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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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, 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Southwestern Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for this entity 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.

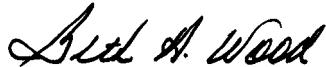
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwestern Community College and its discretely presented component unit as of June 30, 2010, and the respective 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.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

April 4, 2011

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, 2010. The Management Discussion and Analysis (MD&A) 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 Government Accounting Standards Board (GASB) principles.

The financial statements are presented pursuant to the provisions of GASB No. 35, *Basic Financial Statements - and Management's Discussion and Analysis for Public Colleges and Universities* 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(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 2009/2010

Condensed Statement of Net Assets

Below is a condensed comparative analysis between the Statement of Net Assets for the fiscal year ending June 30, 2010 and the prior fiscal year.

	FY 2009-2010	FY 2008-2009 As Restated	Difference	% Difference
ASSETS				
Current Assets	\$ 3,734,313.61	\$ 3,051,738.78	\$ 682,574.83	22.37%
Noncurrent Assets:				
Capital Assets, Net	19,288,632.23	18,648,662.78	639,969.45	3.43%
Other Noncurrent Assets	6,670,943.78	7,041,645.95	(370,702.17)	-5.26%
Total Assets	29,693,889.62	28,742,047.51	951,842.11	3.31%
LIABILITIES				
Current Liabilities	1,131,015.10	728,924.16	402,090.94	55.16%
Noncurrent Liabilities	883,016.63	1,006,360.94	(123,344.31)	-12.26%
Total Liabilities	2,014,031.73	1,735,285.10	278,746.63	16.06%
Invested in capital assets	19,288,632.23	18,648,662.78	639,969.45	3.43%
Restricted	6,812,782.99	7,213,640.92	(400,857.93)	-5.56%
Unrestricted	1,578,442.67	1,144,458.71	433,983.96	37.92%
Total Net Assets	\$ 27,679,857.89	\$ 27,006,762.41	\$ 673,095.48	2.49%

This condensed Statement of Net Assets reflects the continued growth and strong financial position of the College. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, increased by 2.49% or \$673,095.48 from the previous fiscal year. The increase in net assets is largely due to an increase in current cash and cash equivalents and an increase of \$639,969.45 in capital assets. These increases were offset by additional current and long-term liabilities incurred.

Current Assets - consist of cash, cash equivalents, inventories and receivables expected to be collected within the next accounting cycle. The current assets of Southwestern Community College consisted primarily of cash and receivables and totaled \$3,734,313.61 at June 30, 2010. Current Assets increased \$682,574.83 during Fiscal Year 2009/10 predominantly as a result of an increase in current cash and cash equivalents. This increase in current cash and cash equivalents is primarily due to an increase in restricted cash on deposit caused by reclassification of noncurrent cash to cover current liabilities in plant funds that did

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

not exist in the prior year, as well as an increase in unrestricted cash received from the collection of administrative fees associated with the administration of State and federal 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. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 2 to 30 years for equipment, 10 to 35 years for infrastructure and 10 to 40 years for buildings. Capital assets net of accumulated depreciation totaled \$19,288,632.23 for fiscal year 2009/10. The increase of \$639,969.45 in capital assets is mainly attributable to increases in construction in progress. In fiscal year 2009/10, the College completed the site and design work for the new Jackson County classroom/administration building (Burrell 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 \$600,335.28 of total current liabilities. Total current liabilities at year-end were \$1,131,015.10 and represented an increase of \$402,090.94 (55.16%) from the previous year. This increase was mainly due to reclassifying \$192,902.09 in revenue received for construction of the new Jackson County campus building as "unearned revenue" as the project had been delayed. Accounts payable and accrued liabilities also increased by \$109,297.12 from the previous year.

Noncurrent Liabilities - Long-term liabilities consisted of accrued vacation and bonus leave not expected to be used within the next twelve months and totaled \$883,016.63 at June 30, 2010. Noncurrent liabilities decreased by 12.26% from the prior fiscal year. This decrease is a direct result in the reduction of the vacation and bonus leave payable resulting from the retirement of faculty/staff during the fiscal year.

At June 30, 2010 total liabilities were \$278,746.63 more than the previous fiscal year. The increase in liabilities was primarily due to an increase in unearned revenue. This increase in unearned revenue was a result of county capital revenue received in fiscal year 2009-10 which was reclassified as unearned at June 30, 2010.

Net Assets:

Net Assets represent the difference between total assets and total liabilities and 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, 2010 were \$27,679,857.89, an increase of \$673,095.48 from fiscal year 2008-2009.

For reporting purposes net assets 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 consists primarily of land, buildings, infrastructure and equipment with a unit cost of \$5,000 or greater. Of the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

\$27,679,857.89 in net assets this year, \$19,288,632.23 was attributable to Southwestern Community College's investment in capital assets. The increase \$639,969.54 in capital assets is the net result of increases to construction in progress 545,404.43, the acquisition of a parcel of land adjacent to the Jackson campus \$635,130.00, additions to machinery and equipment \$519,948.61 and current year depreciation expense \$1,020,862.69.

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. There was no change to restricted nonexpendable net assets.

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 - expendable decreased by \$400,857.93 in fiscal year 2009/10. The reduction in restricted net assets is due to a decrease in the amount due from primary government for construction projects and county capital appropriations for the continued repair and renovation to facilities.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. At June 30, 2010, unrestricted net assets totaled \$1,578,442.67 and represented a 37.9% increase from the prior fiscal year. Increases in self-supporting occupational revenue, self-supporting curriculum revenue, overhead receipts collected from the administration of federal and State grants and interest income contributed to the increase in unrestricted net assets.

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 change 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)

Statement of Revenues and Expenses Fiscal Year 2009/10

	FY 2009-2010	FY 2008-2009 (as restated)	Difference	% Difference
Operating Revenues				
Student Tuition and Fees, Net	\$ 1,747,610.19	\$ 1,627,996.75	\$ 119,613.44	7.35%
Federal Grants and Contracts	164,279.26	145,297.65	18,981.61	13.06%
State and Local Grants and Contracts	160,132.08	183,831.63	(23,699.55)	(12.89)%
Other Operating Revenues	48,494.24	47,456.73	1,037.51	2.19%
Sales and Services	101,897.49	96,170.60	5,726.89	5.95%
Total Operating Revenues	<u>2,222,413.26</u>	<u>2,100,753.36</u>	<u>121,659.90</u>	5.79%
Operating Expenses				
Personal Services	13,952,115.54	13,895,253.48	56,862.06	0.41%
Supplies and Materials	1,601,993.60	1,188,211.87	413,781.73	34.82%
Services	1,666,295.81	1,636,107.99	30,187.82	1.85%
Scholarships and Fellowships	3,694,380.56	2,447,356.22	1,247,024.34	50.95%
Utilities	462,240.21	460,591.77	1,648.44	0.36%
Depreciation	1,020,862.69	1,045,529.25	(24,666.56)	(2.36)%
Total Operating Expenses	<u>22,397,888.41</u>	<u>20,673,050.58</u>	<u>1,724,837.83</u>	8.34%
Operating Loss	<u>(20,175,475.15)</u>	<u>(18,572,297.22)</u>	<u>(1,603,177.93)</u>	8.63%
Nonoperating Revenues(Expenses)				
State Aid	10,030,334.91	10,470,875.26	(440,540.35)	(4.21)%
County Appropriations	1,928,621.75	1,905,420.00	23,201.75	1.22%
Noncapital Grants - Federal Student Financial Aid	4,216,417.38	2,420,585.57	1,795,831.81	74.19%
Noncapital Grants - Other	3,093,174.60	2,521,103.31	572,071.29	22.69%
Noncapital Gifts	65,375.00	57,246.00	8,129.00	14.20%
Investment Income	64,423.72	119,445.05	(55,021.33)	(46.06)%
Other Nonoperating Revenues (Expenses)	<u>(26,912.60)</u>	<u>52,102.97</u>	<u>(79,015.57)</u>	(151.65)%
Total Nonoperating Revenues	<u>19,371,434.76</u>	<u>17,546,778.16</u>	<u>1,824,656.60</u>	10.40%
Loss Before Other Revenues	<u>(804,040.39)</u>	<u>(1,025,519.06)</u>	<u>221,478.67</u>	(21.60)%
State Capital Aid	569,812.86	5,652,205.31	(5,082,392.45)	(89.92)%
County Capital Aid	216,284.60	536,975.76	(320,691.16)	(59.72)%
Capital Grants	55,908.41	13,292.30	42,616.11	320.61%
Capital Gifts	<u>635,130.00</u>	<u>33,230.00</u>	<u>601,900.00</u>	1811.32%
Total Other Revenues	<u>1,477,135.87</u>	<u>6,235,703.37</u>	<u>(4,758,567.50)</u>	(76.31)%
Increase (Decrease) in Net Assets	<u>673,095.48</u>	<u>5,210,184.31</u>	<u>(4,537,088.83)</u>	(87.08)%
Net Assets				
Net Assets - Beginning of Year	<u>27,006,762.41</u>	<u>21,796,578.10</u>	<u>5,210,184.31</u>	
Net Assets - End of Year	<u>\$ 27,679,857.89</u>	<u>\$ 27,006,762.41</u>	<u>\$ 673,095.48</u>	2.49%

Operating Revenues - totaled \$2,222,413.26 and consisted of five areas: student tuition and fees, net; federal grants and contracts; State/local grants and contracts; sales and services; and other operating revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase of \$121,659.90 in operating revenue is mainly attributed to:

1. An increase of \$119,613.44 in student tuition and fee revenue due to an increase of 6.2% in student enrollment.
2. An increase of \$18,981.61 in federal grants/contracts, which resulted from revenues from the contract for providing instructional services to the LBJ Job Corp.

Operating Expenses - are expenses used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. The majority of operating expenses are for 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 2009-2010 totaled \$22,397,888.41 and consisted of six categories: personal services, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

The increase of \$1,724,837.83 in operating expenses from the prior fiscal year is attributed to:

1. Scholarship and Fellowship expenses increased by \$1,247,024.34 due to an increase of 6.2% in student enrollment and the number of students applying for and receiving financial assistance.
2. Supplies and materials increased by \$413,781.73 as a result of the increase in enrollment and associated increases in plant operating costs.
3. Personal Services expenses increased slightly by \$56,862.06 due to:
 - a. Increases in the employer's retirement contribution rate and health insurance premiums.
 - b. Payout of bonus and vacation leave to employees retiring or separating from employment with the College.

During the fiscal year, there were no increases to salaries and vacant non-instructional positions were left unfilled for part or most of the year.

Nonoperating Revenues and Expenses - In fiscal year 2009/10, nonoperating revenues and expenses increased by \$1,824,656.60. The majority of this increase is due to the increase in noncapital grants particularly federal financial aid funds received (Pell, SEOG and College Work Study). The College received an additional \$1,795,831.81 in federal student financial aid due to a 6.2% increase in student enrollment and an increased number of students qualifying for financial aid. Maximum Pell awards to students were also increased.

Additionally noncapital grants-other, primarily made up of the federal TRIO grants (Gear-Up, Student Support Services and Upward Bound) increased by \$572,071.29 in fiscal year 2009/10. This increase is primarily attributable to the addition of the Title III grant along with increased revenues from the Gear-Up, Student Support Services and Upward Bound grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

State aid allocated to the College to fund operating expenses decreased by 4.21% or \$440,540.35 in FY 2009/10. This decrease is a result of spending restrictions placed on the College as well as a required 3% budgetary reversion. The decrease in State aid - operating funds however was partially offset by an increase of \$181,017.85 in federal pass through funds.

County appropriations used to fund plant salaries and operating expenses increased by \$23,201.75.

The College also realized a reduction of \$55,021.33 in interest earned from the investment of surplus cash. This is a direct result of the economy and lower interest rates paid.

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 \$786,097.46 in State capital aid and county capital appropriations.

This amount represented a decrease of \$5,403,083.61 from the previous fiscal year. The majority of State bond funds for the construction of the new administration/classroom building was allocated in the prior fiscal year and is the basis for the current year reduction.

Southwestern Community College's Capital Assets

Southwestern Community College had a net amount of \$19,288,632.23 invested in capital assets at year-end. Capital assets held by the College include land, construction in progress, buildings, infrastructure, equipment and vehicles.

Capital Assets, Net As of June 30, 2010

	<u>FY 2009-2010</u>	<u>FY 2008-2009</u>
Capital Assets		
Land	\$ 2,126,784.33	\$ 1,491,654.33
Construction In Progress	875,605.04	373,182.90
Buildings	22,920,939.85	22,877,957.56
Infrastructure	1,721,082.42	1,721,082.42
Equipment	4,289,180.48	3,869,981.87
Total	<u>31,933,592.12</u>	<u>30,333,859.08</u>
Less Accumulated Depreciation	<u>12,644,959.89</u>	<u>11,685,196.30</u>
Net Capital Assets	<u>\$ 19,288,632.23</u>	<u>\$ 18,648,662.78</u>

During fiscal year 2009-2010, the net amount invested in capital assets increased by \$639,969.45.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant capital activity in the current year consisted of:

- The College continued with the planning stages and site work for the construction of a new classroom/administration building (Burrell Building) at the Jackson Campus. This investment added \$236,171.64 to construction in progress during fiscal year 2009-10.
- The College also addressed other renovation/repair projects which added an additional \$309,232.79 to construction in progress.
- Buildings increased by \$42,982.29. This increase was attributable to upgrades to the HVAC systems located in the Bradford, Founders and Oaks Hall Buildings.
- The College acquired \$519,948.61 in equipment; however, \$100,750.00 in equipment was sold or surplused through the NCCCS Department of Administration - State Surplus Agency in Fiscal Year 2009-10.
- Jackson County transferred a parcel of land located adjacent to the main campus to the college in FY 2009/10. The parcel of land is valued at \$635,130.00.
- Depreciation expense for the year ended June 30, 2010 totaled \$1,020,862.69.

Depreciable capital assets are reported net of accumulated depreciation. At June 30, 2010, the College had investments in both nondepreciable and depreciable assets.

Nondepreciable assets consist of land and construction in progress while buildings, general infrastructure, and machinery/equipment are considered depreciable assets.

The majority of the College's capital assets are in the form of completed buildings. At the end of fiscal year 2009/2010, Southwestern Community College had \$875,605.04 in construction in progress, the majority of which represents the amount invested in the new administration/classroom building (Burrell Building) which will be located on the Jackson County campus.

Southwestern Community College continues to address its building and infrastructure needs through ongoing capital improvement planning. Projects planned for fiscal year 2010-2011 include:

- Construction of the administrative/classroom building (Burrell Building) to be located on the Jackson County campus;
- Myers Auditorium upgrades;
- Resurfacing of the Balsam Building parking lot.

Projects are approved and funded from State capital improvement and local funds. It should be noted that these projects are contingent upon available funding. The College does not secure debt to fund capital projects.

The College's Financial Position and Economic Future

Southwestern Community College's economic condition remains strong despite the economic recession and impact this has had on the allocation of state resources. During fiscal year 2009/10 the State reduced the College's budget by three percent. However this reduction was partially offset by additional pass through ARRA federal funding and special State tax assessments. Despite this reduction, the College was still able to adequately provide needed resources to the College's educational programs.

This economic trend is expected to continue into the next fiscal year. It is understood that the State will continue to receive federal recovery funds as well as special tax assessments which will help fund the 2010/11 budget.

Early indicators predict that State's budget will become even more limited in the following fiscal year (2011/12) as one time State tax revenues and federal recovery funds become unavailable. Management feels that even during these tough economic times, the College will be able to meet the educational needs of the community.

In fiscal year 2009/10 the College received additional funding for the advancement of educational programs and capital purchases through the Title III grant. Title III grant funding will continue into the next fiscal year to fund equipment acquisitions and services as outlined in the grant application. The College will continue to seek alternative resource streams through the application of grants and federally funded programs.

Management continues to evaluate and update its long range strategic plan to ensure that it is meeting the goals and objectives defined in the College's vision for the future. The College's ability to carry out its mission and maintain a solid financial foundation is directly influenced by State, federal and county support, student enrollment as well as the availability of financial aid for students.

Each year management updates the College's Institutional Effectiveness Plan which outlines the mission and goals of the College and then evaluates and makes recommendations for achieving them. As part of this process, Management identifies priorities and/or projects each year that not only meet the immediate needs of the College but those that also support the long-term goals of the institution.

For fiscal year 2010/11, the College has identified the following priorities that will contribute to the enrollment and economic growth of the College:

- College administration has developed a plan to manage college resources wisely during the economic recession. As part of this plan the College will:
 - develop its budget based upon State appropriations;
 - quantify resource needs of the College through the budgeting process;
 - seek additional funding sources to supplement college resources;
 - implement a resource development plan to identify college resource needs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

- The College will continue to pursue enrollment growth by:
 - achieving curriculum growth which concentrates on programs with strong and sustainable growth potential;
 - achieving continuing education growth by increasing continuing education distance learning and vocational training programs with particularly strong and sustainable growth potential relative to cost;
 - further refining the college-wide marketing plan by integrating it with the recruiting plan and alignment with College priorities.
- Effectively implement and integrate the Title III grant into College operations.
- Enhance student learning, faculty teaching and business operations through technology.
- The College will continue with the Early College initiative. Fiscal year 2010/11 represents the third year of Early College at the Jackson County campus and fourth year at the Macon County campus. The Early College initiative is a collaborative effort between the public school systems and community colleges which offers high school students the opportunity to earn both their high school diploma and an associates degree (or two years of college credit) within their five years of enrollment in Early College High School. As a high school student progresses through the Early College Program, the College will receive Full Time Equivalent (FTE) credit for enrollment in the college level classes offered through the program. An increase in FTE from the Early College initiative would result in additional State revenue, as the majority of State funding is allocated based upon FTE.

Additionally, Southwestern Community College will continue to address its infrastructure and capital needs. During fiscal year 2009-2010, the College completed updating its communication system and continued with the initial planning and site work for the new administration/classroom building (Burrell Building) which will be located on the Jackson Campus.

- For fiscal year 2010/11, the College will continue to develop College facilities by:
 - pursuing additional facilities to support programs at the Public Safety Training Center;
 - proceeding with construction of the Burrell Building on the Jackson Campus;
 - working jointly with N.C. DOT on Project R-5000 (connector road between Highway 107 and Highway 116);
 - initiate capital upgrades to the Jackson Campus (Bradford Hall elevator, Myers Auditorium upgrades, Holt Library renovation and the repaving of Parking Lot A).

As mentioned above, Southwestern Community College's economic condition remains strong due to careful planning and allocation of resources. Management believes the College is well positioned to continue its strong financial condition and the superior level of service it provides to the residents of Jackson, Macon and Swain counties of North Carolina.

Southwestern Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,838,245.56
Restricted Cash and Cash Equivalents	672,435.32
Receivables, Net (Note 3)	149,787.03
Inventories	73,845.70
Total Current Assets	<u>3,734,313.61</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	758,615.03
Restricted Due from Primary Government	5,912,328.75
Capital Assets - Nondepreciable (Note 4)	3,002,389.37
Capital Assets - Depreciable, Net (Note 4)	16,286,242.86
Total Noncurrent Assets	<u>25,959,576.01</u>

Total Assets	<u>29,693,889.62</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	600,335.28
Unearned Revenue	404,534.62
Long-Term Liabilities - Current Portion (Note 6)	126,145.20
Total Current Liabilities	<u>1,131,015.10</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>883,016.63</u>
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Total Liabilities	<u>2,014,031.73</u>
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NET ASSETS

Invested in Capital Assets	19,288,632.23
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	25,500.00
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Expendable:

Scholarships and Fellowships	7,952.50
Loans	5,739.37
Capital Projects	6,541,730.28
Other	231,860.84

Unrestricted	<u>1,578,442.67</u>
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Total Net Assets	<u>\$ 27,679,857.89</u>
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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, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 1,747,610.19
Federal Grants and Contracts	164,279.26
State and Local Grants and Contracts	160,132.08
Sales and Services	101,897.49
Other Operating Revenues	48,494.24

Total Operating Revenues	<u>2,222,413.26</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	13,952,115.54
Supplies and Materials	1,601,993.60
Services	1,666,295.81
Scholarships and Fellowships	3,694,380.56
Utilities	462,240.21
Depreciation	1,020,862.69

Total Operating Expenses	<u>22,397,888.41</u>
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Operating Loss	<u>(20,175,475.15)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	10,030,334.91
County Appropriations	1,928,621.75
Noncapital Grants - Federal Student Financial Aid	4,216,417.38
Noncapital Grants	3,093,174.60
Noncapital Gifts	65,375.00
Investment Income	64,423.72
Other Nonoperating Expenses	(26,912.60)

Net Nonoperating Revenues	<u>19,371,434.76</u>
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Loss Before Other Revenues	(804,040.39)
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State Capital Aid	569,812.86
County Capital Aid	216,284.60
Capital Grants	55,908.41
Capital Gifts	635,130.00

Increase in Net Assets	673,095.48
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NET ASSETS

Net Assets, July 1, 2009	<u>27,006,762.41</u>
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Net Assets, June 30, 2010	<u><u>\$ 27,679,857.89</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, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,289,481.23
Payments to Employees and Fringe Benefits	(14,065,858.01)
Payments to Vendors and Suppliers	(3,745,691.34)
Payments for Scholarships and Fellowships	(3,688,181.71)
Other Receipts	6,741.35
Net Cash Used by Operating Activities	(19,203,508.48)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	10,030,334.91
County Appropriations	1,928,621.75
Noncapital Grants - Federal Student Financial Aid	4,212,928.98
Noncapital Grants Received	3,083,797.35
Noncapital Gifts and Endowments Received	65,375.00
Cash Provided by Noncapital Financing Activities	19,321,057.99

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	741,288.19
County Capital Aid	238,704.51
Capital Grants Received	248,810.50
Acquisition and Construction of Capital Assets	(928,267.50)
Net Cash Provided by Capital and Related Financing Activities	300,535.70

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	64,423.72
Net Increase in Cash and Cash Equivalents	482,508.93
Cash and Cash Equivalents, July 1, 2009	3,786,786.98
Cash and Cash Equivalents, June 30, 2010	\$ 4,269,295.91

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (20,175,475.15)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,020,862.69
Miscellaneous Nonoperating Income	12,738.30
Changes in Assets and Liabilities:	
Receivables, Net	(4,308.10)
Inventories	(6,085.22)
Accounts Payable and Accrued Liabilities	(27,788.42)
Unearned Revenue	77,574.92
Funds Held for Others	(5,996.95)
Compensated Absences	(95,030.55)
Net Cash Used by Operating Activities	\$ (19,203,508.48)

***Southwestern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010***

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$ 2,838,245.56
Restricted Cash and Cash Equivalents	672,435.32

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>758,615.03</u>
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Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 4,269,295.91</u></u>
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 137,085.54
Assets Acquired through a Gift	635,130.00

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, 2010

Exhibit B-1

ASSETS

Cash and Cash Equivalents	
Cash held by College	\$ 219,135
Cash in Investment Account	261,270
	<hr/>
Total Cash and Cash Equivalents	480,405
	<hr/>
Receivables	
Pledges Receivable	68,333
	<hr/>
Total Current Receivables	68,333
	<hr/>
Investments	
Marketable Securities	1,150,616
	<hr/>
Endowment Assets	
Cash held by College	21,314
Marketable Securities	983,786
	<hr/>
Total Endowment Assets	1,005,100
	<hr/>
Total Assets	\$ 2,704,454
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 36
	<hr/>
Total Current Liabilities	36
	<hr/>
Net Assets	
Unrestricted	10,385
Temporarily Restricted	1,688,933
Permanently Restricted	1,005,100
	<hr/>
Total Net Assets	2,704,418
	<hr/>
Total Liabilities and Net Assets	\$ 2,704,454
	<hr/> <hr/>

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

Southwestern Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 12,676	\$ 42,397	\$ 2,570	\$ 57,643
Special Events Revenue	17,196	22,882		40,078
Investment Gains		260,815		260,815
Interest Income	303	1,968		2,271
In Kind Contributions	94,781			94,781
Subtotal	124,956	328,062	2,570	455,588
Net Assets Released from Restriction and Reclassifications:				
Released from Expenditure	70,342	(70,342)		
Transfers to Endowment		(4,159)	4,159	
Total Support and Revenue	195,298	253,561	6,729	455,588
EXPENSES				
Program Expenses				
Scholarship and Grants	73,003			73,003
Facilities-Macon Campus	826			826
Contributed Services Utilized:				
Services/Facilities	44,628			44,628
Other Program Activities	1,495			1,495
Total Program Expenses	119,952			119,952
Supporting Services				
Management and General	23,926			23,926
Fundraising	54,705			54,705
Total Supporting Services	78,631			78,631
Total Expenses	198,583			198,583
Change in Net Assets	(3,285)	253,561	6,729	257,005
Net Assets, Beginning of Year	13,670	1,435,372	998,371	2,447,413
Net Assets, End of Year	\$ 10,385	\$ 1,688,933	\$ 1,005,100	\$ 2,704,418

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

**SOUTHWESTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's 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 - Southwestern Community College Foundation, Inc. (Foundation) is a 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 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 nor 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenue recognition criteria and presentation features are different from the 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, 2010, the Foundation distributed \$75,572.17 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) 339-4218.

- 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, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 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.
- 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 35 years for general infrastructure, 10 to 40 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

- 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, net of outstanding debt obligations related to those 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$2,000.00, and deposits in private financial institutions with a carrying value of \$270,560.30 and a bank balance of \$500,239.84.

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, 2010, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,996,735.61 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$ 2,000.00
Carrying Amount of Deposits with Private Financial Institutions	270,560.30
Investments in the Short Term Investment Fund	<u>3,996,735.61</u>
Total Deposits and Investments	<u><u>\$ 4,269,295.91</u></u>
Current:	
Cash and Cash Equivalents	\$ 2,838,245.56
Restricted Cash and Cash Equivalents	672,435.32
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>758,615.03</u>
Total	<u><u>\$ 4,269,295.91</u></u>

Component Unit - Investments of the College's discretely presented component unit, the Southwestern Community College Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Southwestern Community College Foundation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

As of June 30:

Equity Securities	\$ 1,469,352
Fixed Income Funds	665,049
Money Funds	<u>261,270</u>
Total Investments	<u><u>\$ 2,395,671</u></u>

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 unrealized gains for the audit year were \$260,815, which is net of investment management fees of \$15,667.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 211,229.19	\$ 150,962.47	\$ 60,266.72
Accounts	10,131.70	10,114.20	17.50
Intergovernmental	<u>89,502.81</u>	<u></u>	<u>89,502.81</u>
Total Current Receivables	<u><u>\$ 310,863.70</u></u>	<u><u>\$ 161,076.67</u></u>	<u><u>\$ 149,787.03</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 1,491,654.33	\$ 635,130.00	\$ 0.00	\$ 2,126,784.33
Construction in Progress	373,182.90	545,404.43	42,982.29	875,605.04
Total Capital Assets, Nondepreciable	1,864,837.23	1,180,534.43	42,982.29	3,002,389.37
Capital Assets, Depreciable:				
Buildings	22,877,957.56	42,982.29		22,920,939.85
Machinery and Equipment	3,840,995.50	519,948.61	100,750.00	4,260,194.11
General Infrastructure	1,721,082.42			1,721,082.42
Total Capital Assets, Depreciable	28,440,035.48	562,930.90	100,750.00	28,902,216.38
Less Accumulated Depreciation for:				
Buildings	8,481,215.02	619,046.15		9,100,261.17
Machinery and Equipment	2,219,888.30	318,234.30	61,099.10	2,477,023.50
General Infrastructure	955,106.61	83,582.24		1,038,688.85
Total Accumulated Depreciation	11,656,209.93	1,020,862.69	61,099.10	12,615,973.52
Total Capital Assets, Depreciable, Net	16,783,825.55	(457,931.79)	39,650.90	16,286,242.86
Capital Assets, Net	\$ 18,648,662.78	\$ 722,602.64	\$ 82,633.19	\$ 19,288,632.23

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 70,974.97
Accrued Payroll	400,781.81
Contract Retainage	128,578.50
Total Accounts Payable and Accrued Liabilities	\$ 600,335.28

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 1,104,192.38	\$ 479,771.92	\$ 574,802.47	\$ 1,009,161.83	\$ 126,145.20

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Amount</u>
2011	\$ 15,185.16
2012	15,185.16
2013	10,438.18
Total Minimum Lease Payments	<u>\$ 40,808.50</u>

Rental expense for all operating leases during the year was \$15,186.16.

NOTE 8 - REVENUES

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	<u>\$ 2,967,811.33</u>	<u>\$ 1,189,030.66</u>	<u>\$ 31,170.48</u>	<u>\$ 1,747,610.19</u>

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 8,998,604.30	\$ 825,607.75	\$ 668,529.13	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,492,741.18
Academic Support	1,014,520.07	100,834.87	139,934.81				1,255,289.75
Student Services	900,279.84	54,040.61	73,395.34				1,027,715.79
Institutional Support	2,190,653.00	205,004.87	306,662.08				2,702,319.95
Operations and Maintenance of Plant	848,058.33	416,505.50	477,694.56		462,240.21		2,204,498.60
Student Financial Aid				3,694,380.56			3,694,380.56
Auxiliary Enterprises			79.89				79.89
Depreciation						1,020,862.69	1,020,862.69
Total Operating Expenses	<u>\$ 13,952,115.54</u>	<u>\$ 1,601,993.60</u>	<u>\$ 1,666,295.81</u>	<u>\$ 3,694,380.56</u>	<u>\$ 462,240.21</u>	<u>\$ 1,020,862.69</u>	<u>\$ 22,397,888.41</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,587,101.26, of which \$9,674,848.17 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$345,392.08 and \$580,490.91, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$345,392.08, \$321,742.20, and \$276,927.03, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$79,458.00 for the year ended June 30, 2010.

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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to \$59,318.00 for the year ended June 30, 2010.

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 \$0.00 for the year ended June 30, 2010.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. **Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$435,368.17, \$392,602.09, and \$372,262.57, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$50,309.21, \$49,793.44, and \$47,213.79, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

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 retains the risk for the \$10 million 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Employee dishonesty insurance for employees paid from non-State funds is purchased from Penn National with coverage of \$50,000 per occurrence and no deductible.

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance for institutionally owned vehicles and equipment, as well as, additional educator's legal liability insurance and liability insurance for incidents which could arise at the College's law enforcement firearms training range.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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.

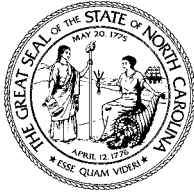
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 13 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.



Beth A. Wood, CPA
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, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated April 4, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 13 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions,

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

April 4, 2011

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