



STATE OF NORTH CAROLINA

SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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, 2012

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Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
The General Assembly of North Carolina
Board of Trustees, Southwestern Community College

We have completed a financial statement audit of Southwestern Community College for the year ended June 30, 2012, 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*.

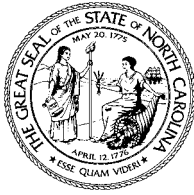
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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, 2012, 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.

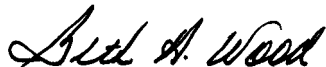
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2012, 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 February 12, 2013 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

February 12, 2013

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, 2012. The Management's 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. The College's net assets (the difference between assets and liabilities) are one indicator of the financial condition of the College.

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. Activities are reported as either operating or nonoperating.

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 2011-2012

Condensed Statement of Net Assets

Below is a condensed comparative analysis between the Statement of Net Assets for the fiscal year ending June 30, 2012 and the prior fiscal year.

	<u>FY 2011-2012</u>	<u>FY 2010-2011</u>	<u>Difference</u>	<u>% Difference</u>
ASSETS				
Current Assets	\$ 5,225,157.74	\$ 4,505,103.83	\$ 720,053.91	15.98%
Noncurrent Assets:				
Capital Assets, Net	25,640,617.47	19,924,051.66	5,716,565.81	28.69%
Other Noncurrent Assets	<u>2,986,450.81</u>	<u>8,602,764.31</u>	<u>(5,616,313.50)</u>	(65.28)%
Total Assets	<u>33,852,226.02</u>	<u>33,031,919.80</u>	<u>820,306.22</u>	2.48%
LIABILITIES				
Current Liabilities	2,269,170.98	1,568,647.81	700,523.17	44.66%
Noncurrent Liabilities	<u>786,905.12</u>	<u>690,669.11</u>	<u>96,236.01</u>	13.93%
Total Liabilities	<u>3,056,076.10</u>	<u>2,259,316.92</u>	<u>796,759.18</u>	35.27%
NET ASSETS				
Invested in Capital Assets	25,640,617.47	19,924,051.66	5,716,565.81	28.69%
Restricted	3,405,874.46	8,903,292.94	(5,497,418.48)	(61.75)%
Unrestricted	<u>1,749,657.99</u>	<u>1,945,258.28</u>	<u>(195,600.29)</u>	(10.06)%
Total Net Assets	<u>\$ 30,796,149.92</u>	<u>\$ 30,772,602.88</u>	<u>\$ 23,547.04</u>	0.08%

This condensed Statement of Net Assets reflects the financial position of the College. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, increased \$23,547.04 from the previous fiscal year.

Current Assets - consist of cash and 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 \$5,225,157.74 at June 30, 2012. The increase of \$720,053.91 in current assets is predominantly a result of increases in current cash and cash equivalents, offset by a reduction in current receivables.

The increase in current cash and cash equivalents of \$1,005,872.95 is primarily due to an increase in restricted cash on deposit caused by the reclassification of noncurrent cash to cover current plant liabilities in plant funds that did not exist in the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current receivables decreased by \$296,364.55 as a result of a reduction in the amount owed by intergovernmental agencies and a reduction in student receivables due to an increase in the allowance for doubtful accounts.

Noncurrent Assets - are comprised primarily of restricted cash, restricted receivables due from primary government, and capital assets, net of accumulated depreciation.

Restricted receivables and restricted due from primary government represent the residual amounts due from the 2000 State Construction Bond. The amounts due from these receivables decreased by a total of \$5,482,868.91 from the prior year as a result of the near completion of the new Jackson County Campus Classroom/Administration Building (Burrell Building).

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 general infrastructure, and 10 to 40 years for buildings. Capital assets, net of accumulated depreciation, totaled \$25,640,617.47 at June 30, 2012.

Capital Assets, Net As of June 30, 2012

	<u>FY 2011-2012</u>	<u>FY 2010-2011</u>
Capital Assets, Nondepreciable		
Land	\$ 2,126,784.33	\$ 2,126,784.33
Construction In Progress	8,290,525.12	1,912,214.07
Total Capital Assets, Nondepreciable	<u>10,417,309.45</u>	<u>4,038,998.40</u>
Capital Assets, Depreciable		
Buildings	22,998,616.89	22,964,642.89
General Infrastructure	1,753,288.48	1,748,188.48
Equipment	4,757,220.34	4,607,658.77
Total Capital Assets, Depreciable	<u>29,509,125.71</u>	<u>29,320,490.14</u>
Total Capital Assets	39,926,435.16	33,359,488.54
Less Accumulated Depreciation	<u>14,285,817.69</u>	<u>13,435,436.88</u>
Net Capital Assets	<u>\$ 25,640,617.47</u>	<u>\$ 19,924,051.66</u>

Significant capital activity in the current year consisted of:

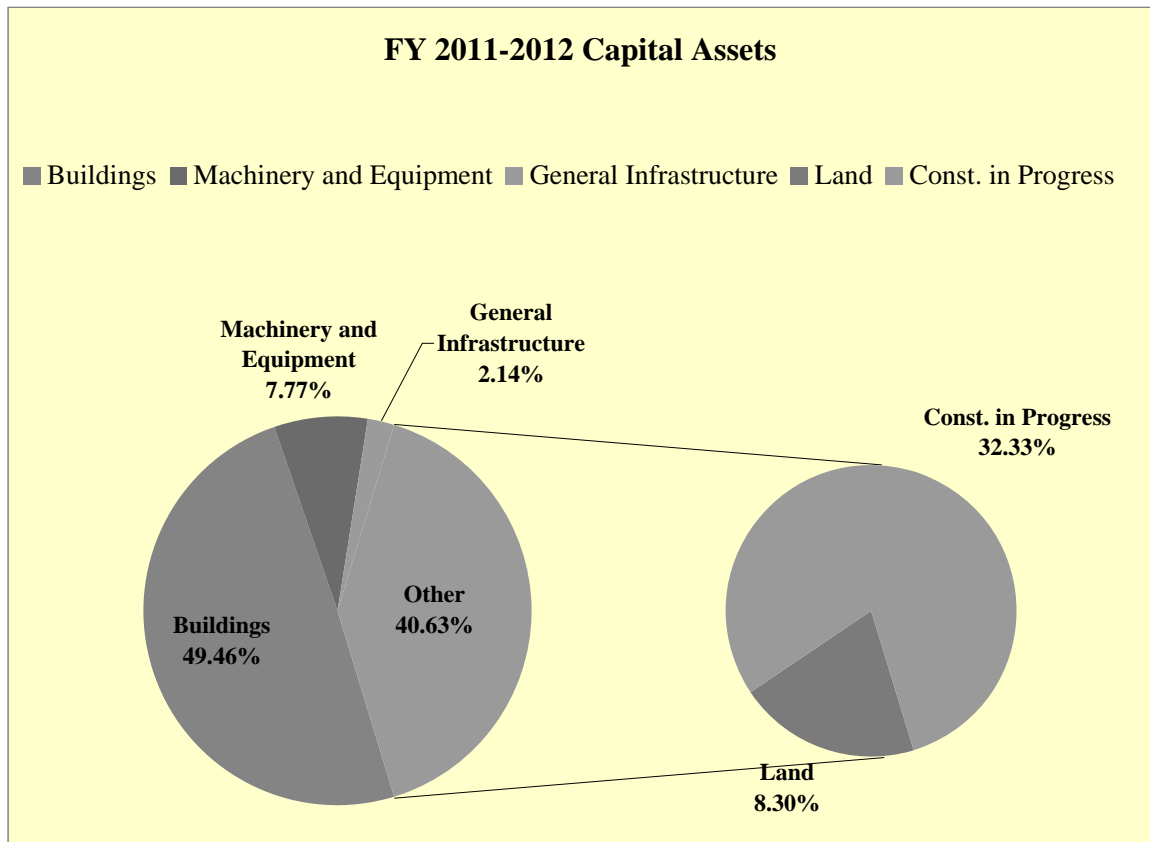
- The College continued construction of the new classroom/administration building (Burrell Building) at the Jackson Campus. This investment added \$6,395,849.27 to construction in progress during fiscal year 2011-2012.
- Buildings increased by \$33,974.00. This increase was attributable to construction costs associated with the Balsam and Macon Campus buildings.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- The College acquired \$343,070.90 in new equipment; however, \$193,509.33 of the existing equipment was disposed of during fiscal year 2011-2012.
- Depreciation expense for the year ended June 30, 2012 totaled \$1,041,357.16.

Depreciable capital assets are reported net of accumulated depreciation. At June 30, 2012, 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 and equipment are considered depreciable assets.



Liabilities

Current Liabilities - are comprised of accounts payable, accrued compensation, due to primary government, unearned revenue, funds held for others, and current portions of long-term liabilities. Current liabilities at June 30, 2012 included:

- Accrued Compensation - \$394,513.82
- Accounts Payable (Construction) - \$677,304.68
- Accounts Payable (Nonconstruction) - \$82,974.63
- Contract Retainage (Construction) - \$367,708.36

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Due to Primary Government - \$212,406.00
- Unearned Revenue and Funds Held for Others - \$454,246.58
- Current Portion of Long Term Liabilities (Accrued Vacation Leave) - \$80,016.91

Total current liabilities at year-end were \$2,269,170.98 and represented an increase of \$700,523.17 (44.66%) from the previous year. This increase was mainly attributed to current payables due for the construction of the Jackson County Classroom/Administration Building.

Noncurrent Liabilities - Long-term liabilities consisted of accrued vacation and bonus leave not expected to be used within the next twelve months and totaled \$786,905.12 at June 30, 2012. Noncurrent liabilities increased by 13.93% from the prior fiscal year.

At June 30, 2012, total liabilities were \$796,759.18 more than the previous fiscal year. The increase in liabilities was primarily due to the current amount owed for the construction of the Jackson County Classroom/Administration Building.

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, 2012 were \$30,796,149.92, and represented a slight increase of \$23,547.04 from fiscal year 2010-2011. 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, general infrastructure, and machinery and equipment with a unit cost of \$5,000 or greater. Of the \$30,796,149.92 in net assets this year, \$25,640,617.47 was attributable to Southwestern Community College's investment in capital assets. The increase of \$5,716,565.81 in capital assets is the net result of increases to construction in progress of 6,378,311.05 and additions to machinery and equipment of \$149,561.57.

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 these restricted 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 \$5,497,418.48 in fiscal year 2011-2012. The decrease in restricted net assets is primarily due to a reduction in noncurrent receivables related to the amount due from the State and Jackson County for construction of the Jackson County Classroom/Administration Building, as the building was nearly completed at June 30, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2012, unrestricted net assets totaled \$1,749,657.99 and represented a 10.06% decrease from the prior fiscal year.

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.

Statement of Revenues, Expenses, and Changes in Net Assets Fiscal Year 2011-2012

	FY 2011-2012	FY 2010-2011	Difference	Difference
Operating Revenues				
Student Tuition and Fees, Net	\$ 2,209,190.29	\$ 1,879,269.98	\$ 329,920.31	17.56%
Federal Grants and Contracts	170,192.57	168,182.65	2,009.92	1.20%
State and Local Grants and Contracts	152,325.81	91,710.77	60,615.04	66.09%
Sales and Services	102,676.41	108,485.93	(5,809.52)	(5.36)%
Other Operating Revenues	42,491.24	51,343.63	(8,852.39)	(17.24)%
Total Operating Revenues	2,676,876.32	2,298,992.96	377,883.36	16.44%
Operating Expenses				
Salaries and Benefits	13,790,278.51	14,485,771.67	(695,493.16)	(4.80)%
Supplies and Materials	1,951,347.19	1,813,514.94	137,832.25	7.60%
Services	1,869,417.43	1,986,158.28	(116,740.85)	(5.88)%
Scholarships and Fellowships	3,798,099.91	4,232,021.81	(433,921.90)	(10.25)%
Utilities	459,515.37	467,773.02	(8,257.65)	(1.77)%
Depreciation	1,041,357.16	1,029,346.48	12,010.68	1.17%
Total Operating Expenses	22,910,015.57	24,014,586.20	(1,104,570.63)	(4.60)%
Operating Loss	(20,233,139.25)	(21,715,593.24)	1,482,453.99	(6.83)%
Nonoperating Revenues (Expenses)				
State Aid	9,409,840.94	10,266,813.18	(856,972.24)	(8.35)%
County Appropriations	1,976,753.00	1,945,597.00	31,156.00	1.60%
Noncapital Grants - Federal Student Financial Aid	5,107,117.35	5,312,523.54	(205,406.19)	(3.87)%
Noncapital Grants - Other	1,631,842.71	2,983,617.64	(1,351,774.93)	(45.31)%
Noncapital Gifts	71,953.23	76,912.00	(4,958.77)	(6.45)%
Investment Income	31,817.71	41,941.04	(10,123.33)	(24.14)%
Other Nonoperating Expenses	(71,616.63)	(49,264.46)	(22,352.17)	45.37%
Net Nonoperating Revenues	18,157,708.31	20,578,139.94	(2,420,431.63)	(11.76)%
Loss Before Other Revenues	(2,075,430.94)	(1,137,453.30)	(937,977.64)	82.46%
State Capital Aid	1,833,894.48	847,407.23	986,487.25	116.41%
County Capital Aid	265,083.50	3,628,967.31	(3,363,883.81)	(92.70)%
Capital Grants	12,542.85	12,542.85	(12,542.85)	(100.00)%
Total Other Revenues	2,098,977.98	4,488,917.39	(2,389,939.41)	(53.24)%
Increase in Net Assets	23,547.04	3,351,464.09	(3,327,917.05)	(99.30)%
Net Assets				
Net Assets - Beginning of Year	30,772,602.88	27,421,138.79	3,351,464.09	
Net Assets - End of Year	\$ 30,796,149.92	\$ 30,772,602.88	\$ 23,547.04	0.08%

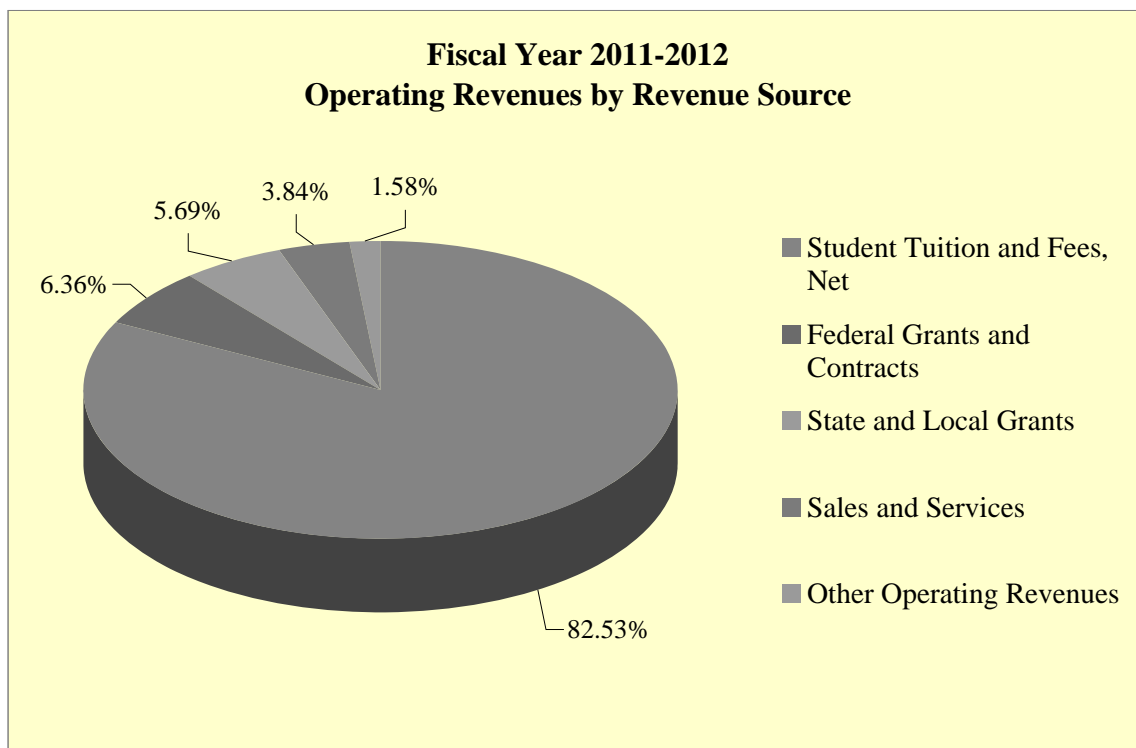
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating Revenues - totaled \$2,676,876.32 and consisted of five areas: student tuition and fees, net; federal grants and contracts; state and local grants and contracts; sales and services; and other operating revenues.

The increase of \$377,883.36 in operating revenues is mainly attributed to:

1. An increase of \$329,920.31 in student tuition and fee revenue due to an increase in tuition rates.
2. A slight increase of \$2,009.92 in federal grants and contracts, which resulted from revenues earned by providing instructional services to the Oconaluftee and Lyndon B. Johnson Job Corps Centers.
3. An increase of \$60,615.04 in state and local grants and contracts, which was due to additional grant funding received for the Cherokee Fine Arts/Start Up and STEP Program Grants.

The chart below illustrates operating revenues for fiscal year 2011-2012 by revenue source:



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

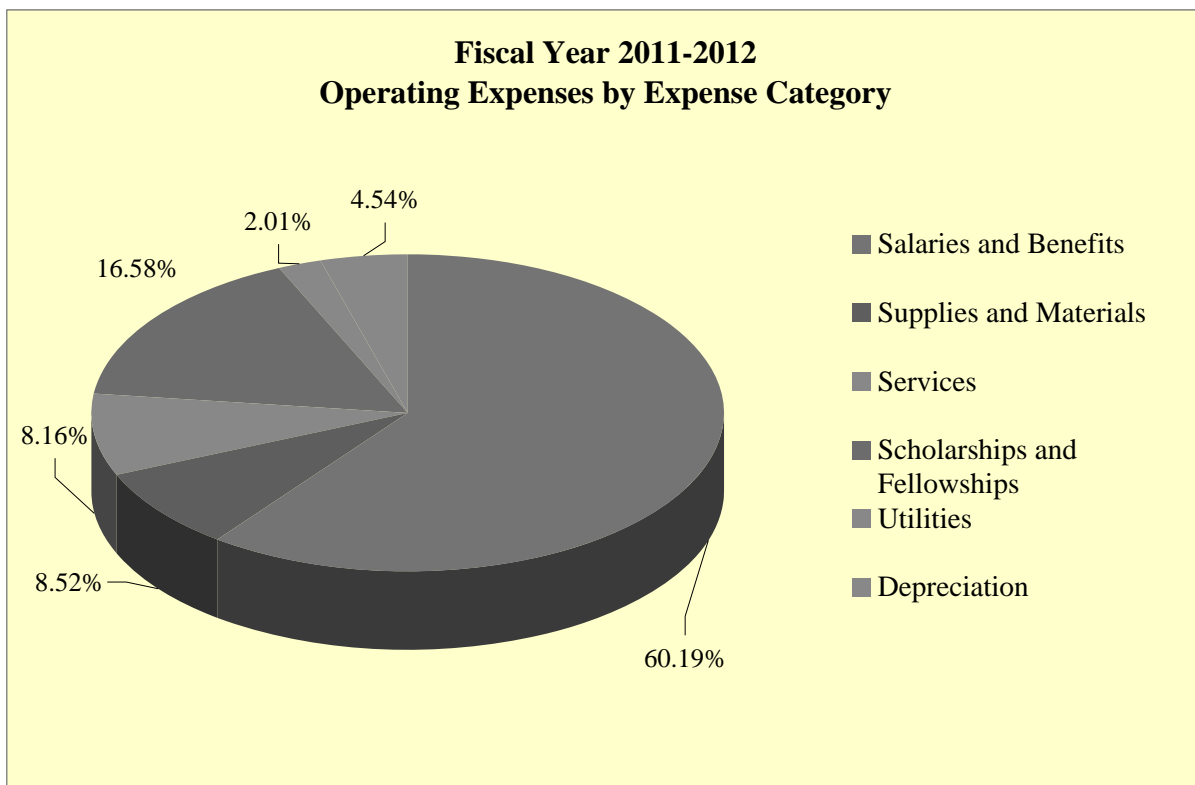
Operating expenses for fiscal year 2011-2012 totaled \$22,910,015.57 and consisted of six categories: salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

The decrease of \$1,104,570.63 in operating expenses from the prior fiscal year is attributed to:

1. Salaries and benefits expense decreased by \$695,493.16 due to:
 - a. A reduction in full and part-time personnel stemming from the completion of the Gear-Up Grant which resulted in a decrease of \$569,194.95 in salaries and benefits.
 - b. Three full-time positions left unfilled after retirements or departures.

During the fiscal year, there were no increases to salaries.

2. Scholarships and fellowships expense decreased by \$433,921.90 due to a decrease of \$105,669.49 in the amount of Pell Grants awarded and the elimination of the Federal Academic Competiveness Grant funding of \$94,158.11, as well as, the NC Student Incentive Grant of \$30,800.00.
3. Services expense decreased by \$116,740.85. This decrease is also attributable to the completion of the Gear-Up Grant.



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Nonoperating Revenues and Expenses - In fiscal year 2011-2012, net nonoperating revenues decreased by \$2,420,431.63. The majority of this decrease is due to the following:

1. A decrease of \$856,972.24 in the amount of state aid (current). This reduction was a result of a \$580,000 transfer from state aid (current) to state capital aid made in fiscal year 2011-2012 and a reversion of \$365,830 made to the North Carolina Community College System for the repayment of unearned FTE revenue from prior years.
2. A decrease of \$1,351,774.93 in noncapital grants, which is mainly attributable to the completion of the Gear-Up Grant of \$924,295.61 and reduced Title III grant revenue of \$144,118.63.
3. County appropriations used to fund plant salaries and operating expenses increased marginally by \$31,156.00.

Capital Contributions - 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 \$2,098,977.98 in state capital aid and county capital aid. This amount represented a decrease of \$2,377,396.56 from the previous fiscal year. The majority of this decrease is attributed to a reduction in capital aid resulting from the near completion of the Jackson County Classroom/Administration Building.

Condensed Statement of Cash Flows

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

	FY 2011-2012	FY 2010-2011	Difference	% Difference
Cash Provided (Used) By				
Operating Activities	\$ (19,080,217.79)	\$ (21,012,812.92)	\$ 1,932,595.13	(9.20)%
Noncapital Financing	18,344,617.70	20,436,479.54	(2,091,861.84)	(10.24)%
Capital Financing	1,576,210.74	362,501.52	1,213,709.22	334.81%
Investing Activities	31,817.71	41,941.04	(10,123.33)	(24.14)%
Net Change in Cash	872,428.36	(171,890.82)	1,044,319.18	(607.55)%
Cash - Beginning of Year	4,097,405.09	4,269,295.91	(171,890.82)	(4.03)%
Cash - End of Year	<u>\$ 4,969,833.45</u>	<u>\$ 4,097,405.09</u>	<u>\$ 872,428.36</u>	21.29%

Cash had increased by \$872,428.36 at the end of fiscal year 2011-2012.

The College's Financial Position and Economic Future

Southwestern Community College's economic condition remains strong despite the continuation of the economic recession and impact this has had on the allocation of state and county resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

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.

Management continually evaluates and updates its long range strategic plan to ensure that it is meeting the goals and objectives defined in the College's vision and is prepared for the future.

In the past, management had updated the College's Institutional Effectiveness Plan annually by outlining the mission and goals of the College for the upcoming year. This year; however, management revised its planning process and developed a new long-term strategic plan - Vision 2017. The Vision 2017 Strategic Plan identified goals, initiatives, and strategies that will contribute to the enrollment and economic growth of the College. Initiatives included identifying and seeking additional funding from external sources, including grants and resources from the College Foundation, for projects and initiatives, as well as to supplement and reduce dependence on state and local funding.

For 2012-2013, management has committed to identifying and obtaining grants and other resources to supplement funding for the operational and capital needs of the College. Specifically, the College will undertake a capital campaign through the Southwestern Community College Foundation for the purposes of creating an endowment that will benefit academic programs and college initiatives. Every dollar raised (up to a maximum of \$350,000) will be matched by Title III Grant Funds.

In addition to prudent fiscal management and efforts to seek alternative funding, management recognizes the importance of continually evaluating and addressing its infrastructure and capital needs. For fiscal year 2012-2013, the College will continue to develop facilities by:

- Working jointly with N.C. DOT on Project R-5000 (connector road between Highway 107 and Highway 116);
- Completion of the Classroom/Administration building (Burrell Building) to be located on the Jackson County campus;
- Renovation of the Founders Hall Building to expand the Cosmetology Program classrooms and add a Student Food Service area;
- Expansion of the Burrell 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.

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, 2012

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,045,209.05
Restricted Cash and Cash Equivalents	1,844,227.95
Receivables, Net (Note 4)	260,372.71
Due from State of North Carolina Component Units	4,132.62
Inventories	71,215.41
	<hr/>
Total Current Assets	5,225,157.74

Noncurrent Assets:

Restricted Cash and Cash Equivalents	80,396.45
Receivables	788,181.74
Restricted Due from Primary Government	2,117,872.62
Capital Assets - Nondepreciable (Note 5)	10,417,309.45
Capital Assets - Depreciable, Net (Note 5)	15,223,308.02
	<hr/>
Total Noncurrent Assets	28,627,068.28

Total Assets	<hr/> 33,852,226.02 <hr/>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	1,522,501.49
Due to Primary Government	212,406.00
Unearned Revenue	442,587.68
Funds Held for Others	11,658.90
Long-Term Liabilities - Current Portion (Note 7)	80,016.91
	<hr/>
Total Current Liabilities	2,269,170.98

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	786,905.12
	<hr/>
Total Liabilities	3,056,076.10

NET ASSETS

Invested in Capital Assets	25,640,617.47
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Restricted for:

Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	3,742.19
Loans	21,852.18
Capital Projects	2,958,956.80
Restricted for Specific Programs	321,435.36
Other	74,387.93

Unrestricted	<hr/> 1,749,657.99
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Total Net Assets	<hr/> \$ 30,796,149.92 <hr/>
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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, 2012***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 2,209,190.29
Federal Grants and Contracts	170,192.57
State and Local Grants and Contracts	152,325.81
Sales and Services	102,676.41
Other Operating Revenues	42,491.24

Total Operating Revenues	<u>2,676,876.32</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	13,790,278.51
Supplies and Materials	1,951,347.19
Services	1,869,417.43
Scholarships and Fellowships	3,798,099.91
Utilities	459,515.37
Depreciation	1,041,357.16

Total Operating Expenses	<u>22,910,015.57</u>
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Operating Loss	<u>(20,233,139.25)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	9,409,840.94
County Appropriations	1,976,753.00
Noncapital Grants - Federal Student Financial Aid	5,107,117.35
Noncapital Grants	1,631,842.71
Noncapital Gifts	71,953.23
Investment Income	31,817.71
Other Nonoperating Expenses	(71,616.63)

Net Nonoperating Revenues	<u>18,157,708.31</u>
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Loss Before Other Revenues	(2,075,430.94)
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State Capital Aid	1,833,894.48
County Capital Aid	265,083.50

Increase in Net Assets	23,547.04
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NET ASSETS

Net Assets, July 1, 2011	<u>30,772,602.88</u>
Net Assets, June 30, 2012	<u>\$ 30,796,149.92</u>

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,675,415.69
Payments to Employees and Fringe Benefits	(13,826,871.43)
Payments to Vendors and Suppliers	(4,072,341.28)
Payments for Scholarships and Fellowships	(3,790,402.33)
Other Payments	(66,018.44)
	<hr/>
Net Cash Used by Operating Activities	(19,080,217.79)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	9,409,840.94
County Appropriations	1,976,753.00
Noncapital Grants - Federal Student Financial Aid	5,114,555.99
Noncapital Grants Received	1,771,514.54
Noncapital Gifts and Endowments Received	71,953.23
William D. Ford Direct Lending Receipts	2,201,014.00
William D. Ford Direct Lending Disbursements	(2,201,014.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	18,344,617.70

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

State Capital Aid Received	5,176,342.91
County Capital Aid	2,642,831.98
Capital Grants Received	104,785.80
Acquisition and Construction of Capital Assets	(6,347,749.95)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	1,576,210.74

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	31,817.71
	<hr/>
Net Increase in Cash and Cash Equivalents	872,428.36
Cash and Cash Equivalents, July 1, 2011	4,097,405.09
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 4,969,833.45

Southwestern Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (20,233,139.25)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,041,357.16
Miscellaneous Nonoperating Expense	(69,083.65)
Changes in Assets and Liabilities:	
Receivables, Net	21,314.54
Inventories	(10,545.51)
Accounts Payable and Accrued Liabilities	(13,097.29)
Due to Primary Government	212,406.00
Unearned Revenue	(15,077.59)
Funds Held for Others	3,065.21
Compensated Absences	(17,417.41)
Net Cash Used by Operating Activities	<u><u>\$ (19,080,217.79)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 3,045,209.05
Restricted Cash and Cash Equivalents	1,844,227.95
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>80,396.45</u>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 4,969,833.45</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 1,045,013.04
Increase in Receivables Related to Nonoperating Income	4,132.62
Loss on Disposal of Capital Assets	2,532.98

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, 2012

Exhibit B-1

ASSETS

Cash and Cash Equivalents	
Cash Held by College	\$ 176,939
Cash in Investment Account	84,516
	<hr/>
Total Cash and Cash Equivalents	261,455
	<hr/>
Receivables	
Pledges Receivable	68,333
	<hr/>
Investments	
Marketable Securities	1,819,375
	<hr/>
Assets Held for Sale	
Land	54,000
	<hr/>
Endowment Assets	
Cash Held by College	21,850
Marketable Securities	984,211
	<hr/>
Total Endowment Assets	1,006,061
	<hr/>
Total Assets	\$ 3,209,224
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 918
	<hr/>
Total Current Liabilities	918
	<hr/>
Net Assets	
Unrestricted	17,397
Temporarily Restricted	2,184,866
Permanently Restricted	1,006,043
	<hr/>
Total Net Assets	3,208,306
	<hr/>
Total Liabilities and Net Assets	\$ 3,209,224
	<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, 2012

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	\$ 20,408	\$ 34,303	\$ 500	\$ 55,211
Contributed Land		54,000		54,000
Special Events Revenue	10,211	21,178		31,389
Net Investment Losses		(8,136)		(8,136)
Interest Income	91	820		911
In Kind Contributions	76,562			76,562
Subtotal	107,272	102,165	500	209,937
Net Assets Released from Restrictions	105,647	(105,647)		
Total Support and Revenue	212,919	(3,482)	500	209,937
EXPENSES				
Program Expenses				
Scholarship and Grants	106,963			106,963
Facilities-Macon Campus	1,739			1,739
Contributed Services/Facilities	35,020			35,020
Other Program Activities	685			685
Total Program Expenses	144,407			144,407
Supporting Services				
Management and General	43,354			43,354
Fundraising	22,625			22,625
Total Supporting Services	65,979			65,979
Total Expenses	210,386			210,386
Change in Net Assets	2,533	(3,482)	500	(449)
Net Assets, Beginning of Year	14,864	2,188,348	1,005,543	3,208,755
Net Assets, End of Year	\$ 17,397	\$ 2,184,866	\$ 1,006,043	\$ 3,208,306

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

**SOUTHWESTERN COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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 is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of not less than nine or no 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 revenue recognition criteria and presentation features are different from

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2012, the Foundation distributed \$88,229.90 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by contacting Mr. Gregory Bauguess, Executive Director of Institutional Advancement and College Foundation, 447 College Drive, Sylva, North Carolina 28779, (828) 339-4241.

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

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

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 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

- 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 for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, and endowment and other restricted investments.
- 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 fiscal year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

K. Net Assets - The College's net assets are classified as follows:

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

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

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

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

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. Scholarship Discounts - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students'

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$1,950.00, and deposits in private financial institutions with a carrying value of \$84,463.26 and a bank balance of \$350,033.60.

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, 2012, 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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to 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; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,883,420.19 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 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$ 1,950.00
Carrying Amount of Deposits with Private Financial Institutions	84,463.26
Investments in the Short-Term Investment Fund	<u>4,883,420.19</u>
Total Deposits and Investments	<u>\$ 4,969,833.45</u>
Current:	
Cash and Cash Equivalents	\$ 3,045,209.05
Restricted Cash and Cash Equivalents	1,844,227.95
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>80,396.45</u>
Total	<u>\$ 4,969,833.45</u>

Component Unit - Investments of the College's discretely presented component unit, the Southwestern Community College Foundation, Inc., 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 Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

As of June 30:

Equity Securities	\$ 1,601,234
Fixed Income Funds	845,486
Real Estate/Real Assets Mutual Funds	<u>356,866</u>
Total Investments	<u>\$ 2,803,586</u>

NOTE 3 - DONOR RESTRICTED ENDOWMENTS

The College's endowment assets are pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool and are reported as restricted cash and cash equivalents - noncurrent on the accompanying financial statements. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized, and unrealized, of the assets of the endowment funds. Annual payouts from the College's

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

endowment funds are based on an adopted spending policy, which limits spending to 100% of the interest earnings unless the donor has stipulated otherwise. At June 30, 2012, net appreciation of \$13,303.07 was available to be spent, of which \$2,277.19 was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 332,759.69	\$ 283,172.15	\$ 49,587.54
Student Sponsors	39,834.24	2,082.12	37,752.12
Intergovernmental	173,033.05		173,033.05
Total Current Receivables	<u>\$ 545,626.98</u>	<u>\$ 285,254.27</u>	<u>\$ 260,372.71</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 2,126,784.33	\$ 0.00	\$ 0.00	\$ 2,126,784.33
Construction in Progress	1,912,214.07	6,417,385.05	39,074.00	8,290,525.12
Total Capital Assets, Nondepreciable	<u>4,038,998.40</u>	<u>6,417,385.05</u>	<u>39,074.00</u>	<u>10,417,309.45</u>
Capital Assets, Depreciable:				
Buildings	22,964,642.89	33,974.00		22,998,616.89
Machinery and Equipment	4,607,658.77	343,070.90	193,509.33	4,757,220.34
General Infrastructure	1,748,188.48	5,100.00		1,753,288.48
Total Capital Assets, Depreciable	<u>29,320,490.14</u>	<u>382,144.90</u>	<u>193,509.33</u>	<u>29,509,125.71</u>
Less Accumulated Depreciation for:				
Buildings	9,711,863.16	605,304.66		10,317,167.82
Machinery and Equipment	2,601,986.74	353,535.04	190,976.35	2,764,545.43
General Infrastructure	1,121,586.98	82,517.46		1,204,104.44
Total Accumulated Depreciation	<u>13,435,436.88</u>	<u>1,041,357.16</u>	<u>190,976.35</u>	<u>14,285,817.69</u>
Total Capital Assets, Depreciable, Net	<u>15,885,053.26</u>	<u>(659,212.26)</u>	<u>2,532.98</u>	<u>15,223,308.02</u>
Capital Assets, Net	<u>\$ 19,924,051.66</u>	<u>\$ 5,758,172.79</u>	<u>\$ 41,606.98</u>	<u>\$ 25,640,617.47</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 760,279.31
Accrued Payroll	394,513.82
Contract Retainage	367,708.36
Total Accounts Payable and Accrued Liabilities	\$ 1,522,501.49

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 884,339.44	\$ 423,886.10	\$ 441,303.51	\$ 866,922.03	\$ 80,016.91

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for a copier and security system. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

Fiscal Year	Amount
2013	\$ 10,438.18

Rental expense for all operating leases during the year was \$15,185.16.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 4,007,726.91	\$ 1,730,321.55	\$ 68,215.07	\$ 2,209,190.29

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 8,697,818.30	\$ 825,339.73	\$ 572,753.06	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,095,911.09
Academic Support	1,306,999.67	172,898.92	383,176.27				1,863,074.86
Student Services	951,143.08	42,918.24	107,819.46				1,101,880.78
Institutional Support	1,952,944.37	262,376.46	328,843.45				2,544,164.28
Operations and Maintenance of Plant	881,373.09	647,813.84	476,735.73		459,515.37		2,465,438.03
Student Financial Aid				3,798,099.91			3,798,099.91
Auxiliary Enterprises			89.46				89.46
Depreciation						1,041,357.16	1,041,357.16
Total Operating Expenses	\$ 13,790,278.51	\$ 1,951,347.19	\$ 1,869,417.43	\$ 3,798,099.91	\$ 459,515.37	\$ 1,041,357.16	\$ 22,910,015.57

NOTE 11 - 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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,046,926.14, of which \$8,964,930.59 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$666,990.84 and \$537,895.84, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$666,990.84, \$479,193.31, and \$345,392.08, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$49,256.00 for the year ended June 30, 2012.

Internal Revenue Code 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 \$52,833.00 for the year ended June 30, 2012.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$448,246.53, \$476,277.32, and \$435,368.17, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2011, and 2010, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$46,617.64, \$50,543.72, and \$50,309.21, 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 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via 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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$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 for institutionally owned vehicles and equipment, as well as, additional educator's legal liability insurance, student medical malpractice insurance for students enrolled in health science programs working at clinical sites, 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 discretely presented component unit of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

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

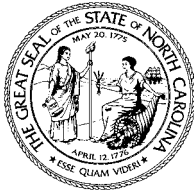
Additional details on the state-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - 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 \$226,761.90 and on other purchases were \$22,096.76 at June 30, 2012.

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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, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 12, 2013. 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 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

The College's management is responsible for establishing and maintaining effective 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, 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.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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 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

February 12, 2013

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:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

This audit required 503.5 audit hours at an approximate cost of \$36,252. The cost represents .11% of the College's total assets and .16% of total expenses subjected to audit.