

# STATE OF NORTH CAROLINA

**SOUTHWESTERN COMMUNITY COLLEGE**

**SYLVA, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

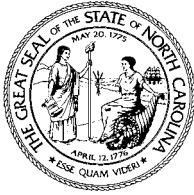
**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

STATE OF NORTH CAROLINA

# Office of the State Auditor



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## AUDITOR'S TRANSMITTAL

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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, 2014, 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".

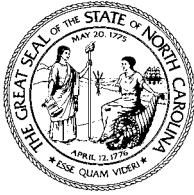
Beth A. Wood, CPA  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Southwestern Community College  
Sylva, North Carolina

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Southwestern Community College Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Southwestern Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the report of the 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

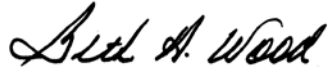
### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 7, 2015

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

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### **Introduction**

The purpose of this section of Southwestern Community College's (College) Financial Statements, "Management's Discussion and Analysis", is to provide an overview of the financial position and activities of the College for the year ended June 30, 2014. 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 the 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**

The 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 Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis* 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 Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Statement of Revenues, Expenses, and Changes in Net Position** - presents the revenues and expenses for the fiscal year as well as changes in net position. The College's net position (the difference between assets and deferred outflows of resources from liabilities and deferred inflows of resources) is one indicator of the financial condition of the College.

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

### Financial Highlights for Fiscal Year 2013/2014

#### Condensed Statement of Net Position

Below is a condensed comparative analysis between the Statement of Net Position for the fiscal year ending June 30, 2014 and the prior fiscal year.

<b>Condensed Statement of Net Position</b>				
<b>ASSETS</b>	<b>2013/14</b>	<b>2012/13</b>	<b>Difference</b>	<b>% Difference</b>
<b>Current Assets</b>	\$ 4,739,706.05	\$ 4,292,945.96	\$ 446,760.09	10.41%
<b>Noncurrent Assets:</b>				
Capital Assets, Net	26,869,096.34	25,968,297.31	900,799.03	3.47%
Other Noncurrent Assets	4,755,463.67	3,722,896.93	1,032,566.74	27.74%
<b>Total Assets</b>	<b>36,364,266.06</b>	<b>33,984,140.20</b>	<b>2,380,125.86</b>	7.00%
<b>Deferred Outflows of Resources</b>				
<b>Total Deferred Outflows of Resources</b>	0.00	0.00	0.00	0.00%
<b>LIABILITIES</b>				
<b>Current Liabilities</b>	2,602,885.26	987,499.43	1,615,385.83	163.58%
<b>Noncurrent Liabilities</b>				
Long-Term Liabilities	815,536.41	807,141.25	8,395.16	1.04%
Other Noncurrent Liabilities	201,421.85		201,421.85	100.00%
<b>Total Liabilities</b>	<b>3,619,843.52</b>	<b>1,794,640.68</b>	<b>1,825,202.84</b>	101.70%
<b>Deferred Inflows of Resources</b>				
<b>Total Deferred Inflows of Resources</b>	0.00	0.00	0.00	0.00%
<b>NET POSITION:</b>				
Net Investment in Capital Assets	25,704,445.86	25,968,297.31	(263,851.45)	-1.02%
Restricted	4,775,514.87	4,119,198.22	656,316.65	15.93%
Unrestricted	2,264,461.81	2,102,003.99	162,457.82	7.73%
<b>Total Net Position</b>	<b>\$ 32,744,422.54</b>	<b>\$ 32,189,499.52</b>	<b>\$ 554,923.02</b>	1.72%

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)**

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This condensed Statement of Net Position reflects the financial position of the College. Net position, which represent the residual interest in the College’s assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, increased \$554,923.02 from the previous fiscal year.

**Assets**

Current Assets – Current assets consist of cash, cash equivalents, receivables, and inventories expected to be collected within the next accounting cycle. The current assets of the College consisted primarily of cash and receivables and totaled \$4,739,706.05 at June 30, 2014. The increase of \$446,760.09 in current assets is predominantly a result of an increase in current cash and cash equivalents due mostly to the receipt of the Duke/Golden Leaf Grant and bookstore commissions.

Noncurrent Assets – Noncurrent assets are comprised primarily of restricted cash, restricted receivables, and capital assets, net of accumulated depreciation. Noncurrent assets increased by \$1,933,365.77. The increase was primarily due to a receivable for a grant from Golden Leaf for equipment relating to the Mechatronics Program totaling \$1,329,780.00. Restricted due from primary government represents the residual amount due from the 2000 State Construction Bond as well as state capital aid which was reallocated in FY 2011/12 and FY 2012/13 for the use of capital construction. The amount reflected on the Statement of Net Position for the 2000 State Construction Bond totaled \$498,714.96, of which \$312,931.44 was due from State Construction and \$185,783.52 due from Jackson County. The college also had an additional \$1,160,000.00 available for construction projects as a result of reallocations made from state capital aid to state construction in fiscal years 2011/12 and 2012/13.

Capital assets (land, construction in progress, buildings, general infrastructure, machinery 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 machinery and equipment, 10 to 75 years for infrastructure and 10 to 100 years for buildings. Capital assets net of accumulated depreciation totaled \$26,869,096.34 at June 30, 2014.

**Capital Assets, Net**

	FY 2013/2014	FY 2012/2013 (as restated)
Capital Assets, Nondepreciable		
Land	\$ 2,126,784.33	\$ 2,126,784.33
Construction In Progress	145,920.51	57,034.01
Total Capital Assets, Nondepreciable	2,272,704.84	2,183,818.34
Capital Assets, Depreciable		
Buildings	30,790,240.12	30,790,240.12
General Infrastructure	3,043,173.48	2,956,474.63
Machinery and Equipment	5,804,223.29	4,810,206.49
Total Capital Assets, Depreciable	39,637,636.89	38,556,921.24
Total	41,910,341.73	40,740,739.58
Less Accumulated Depreciation	15,041,245.39	14,772,442.27
Net Capital Assets	\$ 26,869,096.34	\$ 25,968,297.31

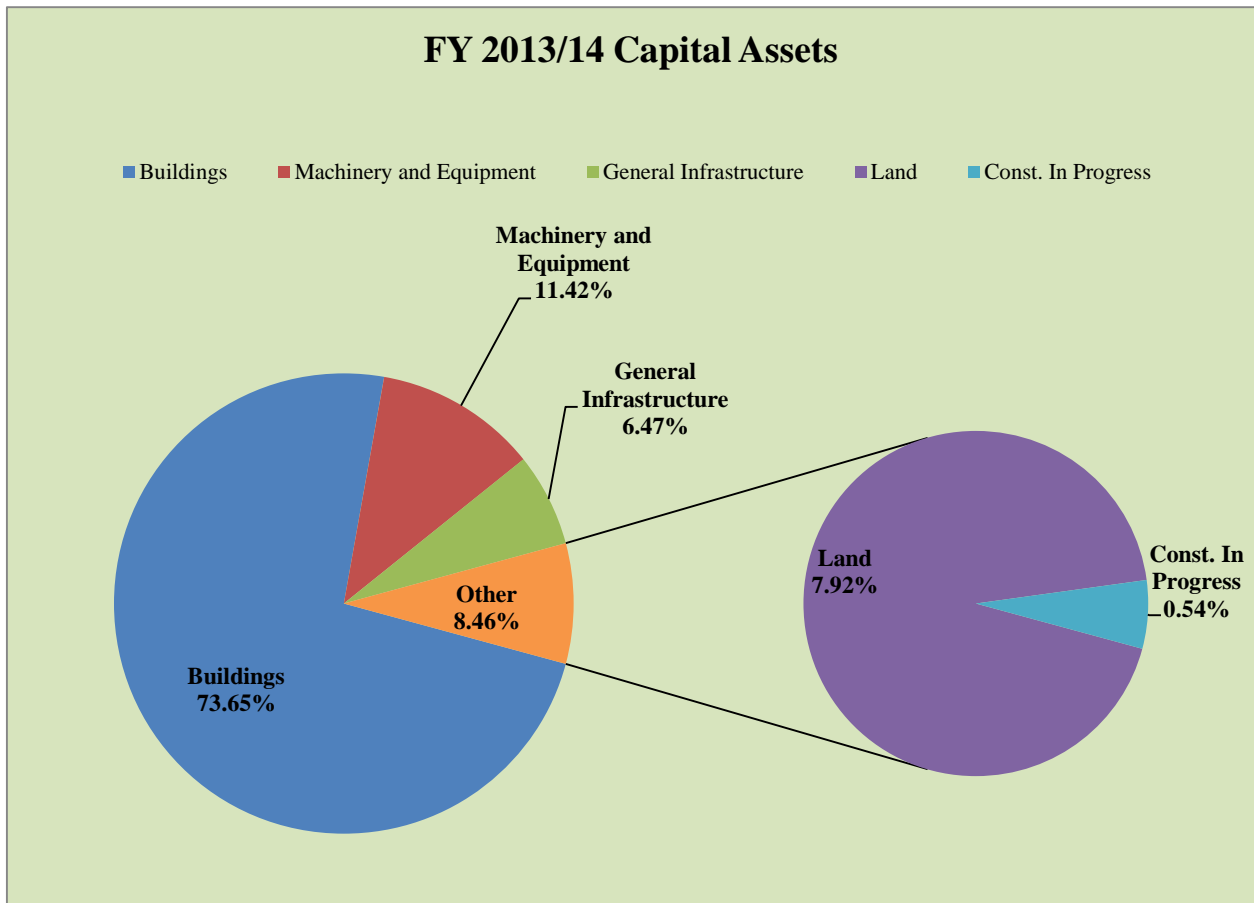
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Significant capital activity in the current year consisted of:

- The College completed construction of water system improvements for the new classroom/administration building (Burrell Building) at the Jackson Campus. The completion led to the reclassification of \$86,698.85 from construction in progress to general infrastructure.
- The college purchased \$1,452,708.94 in equipment most of which was acquired from funding provided by the Golden Leaf Foundation and Duke Energy grants for the Mechatronics Programs.
- Depreciation expense for the year ended June 30, 2014 totaled \$708,197.71, an increase of \$8,257.53 from the prior year.

Depreciable capital assets are reported net of accumulated depreciation. At June 30, 2014, 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Liabilities

Current Liabilities – Current liabilities are comprised mostly of accounts payable, accrued compensation, unearned revenue and current portions of long-term liabilities. Current liabilities at June 30, 2014 included:

- Accrued Compensation - \$594,867.79
- Accounts payable - \$1,354,723.51
- Intergovernmental payable (noncapital) - \$113,238.00
- Due to state of North Carolina component unit - \$220,000.00
- Unearned revenue & funds held for others - \$227,523.77
- Current portion of long term liabilities (accrued vacation leave) - \$92,532.19

Total current liabilities at year-end were \$2,602,885.26 and represented an increase of \$1,615,385.83 (163.58%) from the previous year. This increase was mainly attributed to an increase in current payables due to the acquisition of equipment acquired through the assumption of a liability.

Noncurrent Liabilities - Noncurrent liabilities consisted of accrued vacation and bonus leave not expected to be used within the next twelve months totaling \$815,536.41 and funds held for others totaling \$201,421.85 at June 30, 2014.

At June 30, 2014 total liabilities were \$1,825,202.84 more than the previous fiscal year. The increase in liabilities was primarily due to a grant received for the Mechatronics Program. As part of the grant the College has incurred liabilities due to vendors for equipment purchased in FY 13/14 (\$1,177,298.12), other Community Colleges (\$220,000.00), and other counties (\$113,238.00).

### Net Position

Net position represents the difference between total assets and total deferred outflows of resources from total liabilities and total deferred outflows of resources and is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year. Total net position at June 30, 2014 was \$32,744,422.54, and represented a 1.72% increase of \$554,923.02 from fiscal year 2012/2013.

For reporting purposes the net position is divided into four categories: invested in capital assets, restricted - nonexpendable, restricted – expendable, and unrestricted.

Net Investment in Capital Assets - Net investment in capital assets represent the College's capital assets net of accumulated depreciation and any outstanding liabilities incurred in the acquisition of capital assets. Net investment 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 \$32,744,422.54 in net position this year, \$25,704,445.86 was attributable to the College's net investment in capital assets. The decrease of \$263,851.45 in net investment in

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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capital assets is the net result of, additions and retirements to machinery and equipment \$994,016.80; increases to construction in progress - \$175,585.35, a net increase in accumulated depreciation \$268,803.12, and incurring \$1,164,650.48 in accounts payable for the purchase of equipment.

Restricted - Nonexpendable - Nonexpendable restricted net position 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 position.

Restricted - Expendable - Expendable restricted net position 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 position – expendable increase by \$656,316.65 in Fiscal Year 2013/2014. The increase in restricted net position - expendable is primarily due to a increase in net position available for capital projects.

Unrestricted - Unrestricted net position include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. At June 30, 2014, the unrestricted net Position totaled \$2,264,461.81 and represented an increase of \$162,457.82 from the prior fiscal year.

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

The activity presented on the Statement of Revenues, Expenses, and Changes in Net Position represent the change in total net position. 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

<b>Operating Revenues</b>	<b>FY 2013-2014</b>	<b>FY 2012-2013 (as restated)</b>	<b>Difference</b>	<b>% Difference</b>
Student Tuition and Fees, Net	\$ 1,921,331.65	\$ 2,228,061.48	\$ (306,729.83)	(13.77)%
Federal Grants and Contracts	176,531.44	182,580.62	(6,049.18)	(3.31)%
State and Local Grants and Contracts	16,444.11	63,183.42	(46,739.31)	(73.97)%
Sales and Services	194,283.28	208,984.15	(14,700.87)	(7.03)%
Other Operating Revenues	39,060.54	36,961.23	2,099.31	5.68%
<b>Total Operating Revenues</b>	<b>2,347,651.02</b>	<b>2,719,770.90</b>	<b>(372,119.88)</b>	<b>(13.68)%</b>
<b>Operating Expenses</b>				
Salaries and Benefits	15,187,503.57	14,535,231.67	652,271.90	4.49%
Supplies and Materials	1,845,905.08	1,855,983.46	(10,078.38)	(0.54)%
Services	2,159,470.78	1,516,017.51	643,453.27	42.44%
Scholarships and Fellowships	3,157,212.38	3,769,921.67	(612,709.29)	(16.25)%
Utilities	592,544.77	588,869.69	3,675.08	0.62%
Depreciation	708,197.71	699,940.18	8,257.53	1.18%
<b>Total Operating Expenses</b>	<b>23,650,834.29</b>	<b>22,965,964.18</b>	<b>684,870.11</b>	<b>2.98%</b>
Operating Loss	(21,303,183.27)	(20,246,193.28)	(1,056,989.99)	5.22%
<b>Non-Operating Revenues(Expenses)</b>				
State Aid	11,361,852.47	10,221,196.66	1,140,655.81	11.16%
County Appropriations	2,175,023.00	2,126,023.00	49,000.00	2.30%
Noncapital Grants - Student Financial Aid	4,991,756.79	5,565,520.87	(573,764.08)	(10.31)%
Noncapital Grants	1,104,108.53	1,144,666.28	(40,557.75)	(3.54)%
Noncapital Gifts	78,273.63	70,689.00	7,584.63	10.73%
Investment Income	24,759.62	23,093.82	1,665.80	7.21%
Other Nonoperating Revenues	44,841.55	815,900.00	(771,058.45)	(94.50)%
Other Nonoperating Expenses		(58,548.21)	58,548.21	(100.00)%
<b>Net Nonoperating Revenues</b>	<b>19,780,615.59</b>	<b>19,908,541.42</b>	<b>(127,925.83)</b>	<b>(0.64)%</b>
Loss Before Other Revenues	(1,522,567.68)	(337,651.86)	(1,184,915.82)	350.93%
State Capital Aid	724,220.25	1,531,123.94	(806,903.69)	(52.70)%
County Capital Aid	151,817.00	182,094.50	(30,277.50)	(16.63)%
Capital Grants	1,201,453.45	17,783.02	1,183,670.43	6656.18%
<b>Total Other Revenues</b>	<b>2,077,490.70</b>	<b>1,731,001.46</b>	<b>346,489.24</b>	<b>20.02%</b>
Increase-in Net Position	554,923.02	1,393,349.60	(838,426.58)	(60.17)%
<b>Net Position</b>				
Net Position - Beginning of Year	32,189,499.52	30,796,149.92	1,393,349.60	
Net Position - End of Year	\$ 32,744,422.54	\$ 32,189,499.52	\$ 554,923.02	1.72%
<b>Reconciliation of Increase in Net Position</b>				
Total Revenue	\$ 24,205,757.31	\$ 24,417,861.99	\$ (212,104.68)	(0.87)%
Less: Total Expenses	23,650,834.29	23,024,512.39	626,321.90	2.72%
<b>Increase in Net Position</b>	<b>\$ 554,923.02</b>	<b>\$ 1,393,349.60</b>	<b>\$ (838,426.58)</b>	<b>(60.17)%</b>

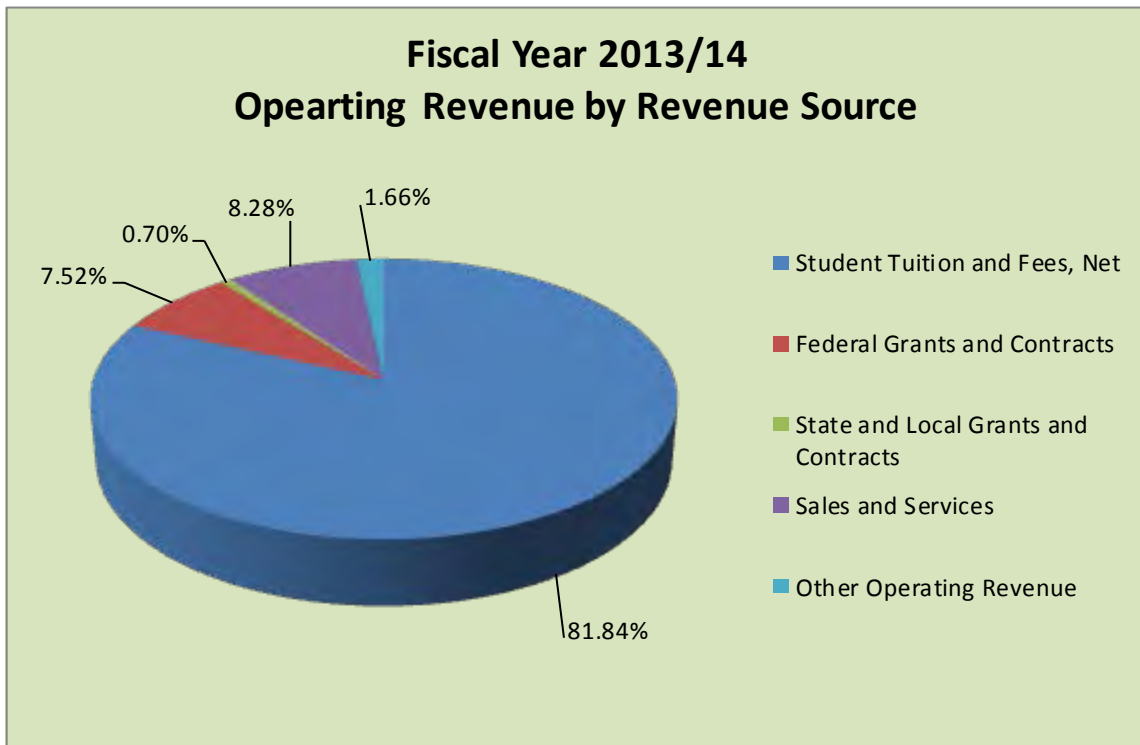
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Operating Revenues** – Operating revenues totaled \$2,347,651.02 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.

The decrease of \$372,119.88 in operating revenue is mainly attributed to:

1. A decrease of \$306,729.83 in student tuition and fee revenue due to a slight decrease in student enrollment and increase in tuition waivers.
2. A decrease of \$46,739.31 in state and local grants and contracts which was primarily due to the completion of the Cherokee Fine Arts Program Grant.

The chart below illustrates Operating Revenues for Fiscal Year 2013/14 by revenue source:



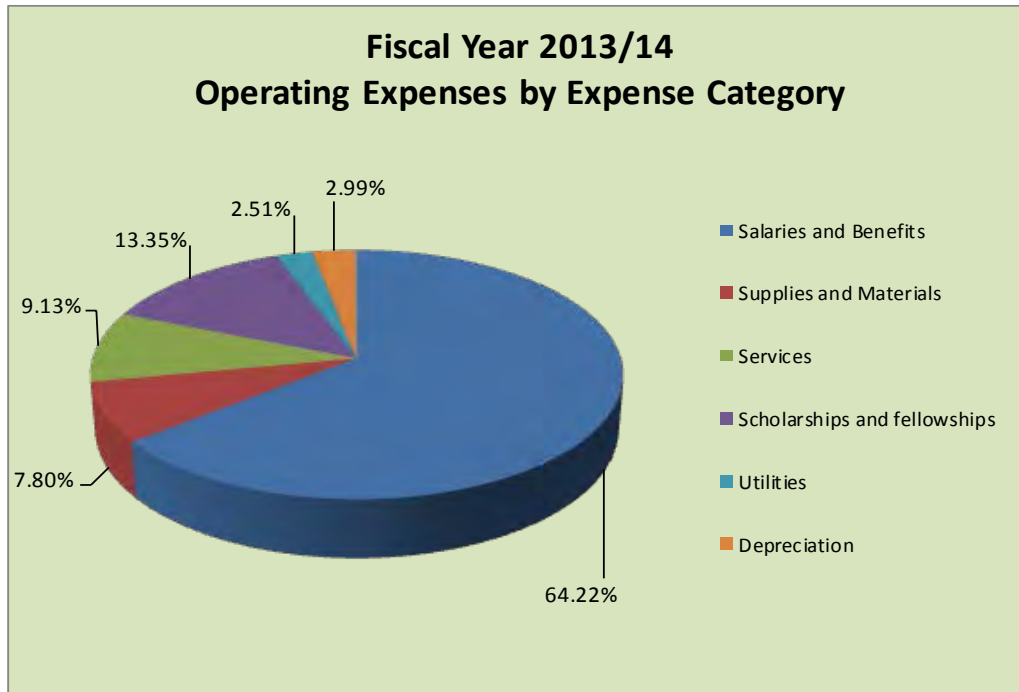
**Operating Expenses** – Operating expenses are expenses used to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. The majority of operating expenses are for direct cost of salaries and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College.

Operating expenses for fiscal year 2013/2014 totaled \$23,650,834.29 and consisted of six categories: salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The increase of \$684,870.11 in operating expenses from the prior fiscal year is mostly attributed to the net result of:

1. Salaries and benefits expenses increased by \$652,271.90 due to:
  - a. The addition of five new full-time positions; Director of Institutional Development, Occupational Therapy Assistant Program Coordinator, a second Automotive Program Instructor, Transitional Instructor, and Career Readiness Instructor.
  - b. Additional part-time salaries incurred for Public Safety and Workforce Development Programs.
2. Scholarship and fellowship expenses decreased by \$612,709.29 due to a reduction in the amount of Pell Grants awarded which is attributable to the decrease in enrollment.
3. Service expenses increased by \$643,453.27. This increase is attributable to an additional \$118,900.12 in advertising/marketing costs; \$46,993.47 in faculty/staff training/travel expenses; \$109,230.32 in contracted service costs and increased program and student activity expenses.
4. Utilities increased marginally by \$3,675.08.





## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Nonoperating Revenues and Expenses** – In fiscal year 2013/14, net nonoperating revenues decreased by \$127,925.83. The net decrease is due to the following:

1. An increase of \$1,140,655.81 in the amount of state aid (current). This increase was a result of additional funding related to enrollment growth (in prior periods in which the amount is calculated) as well as a reduction in mandatory reversions.
2. A decrease of \$573,764.08 in noncapital grants for student financial aid which is attributable to a reduction in Federal Pell Grant Fund Revenue (\$623,575.21).
3. A decrease of \$771,058.45 in other non-operating revenues as the college had received a payment in the prior fiscal year from the Department of Transportation for a right-of-way that was not repeated in the current fiscal year.

**Capital Contributions** – Capital contributions are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the Statement of Revenues, Expenses, and Changes in Net Position.

The College received \$876,037.25 in state capital aid and county capital appropriations. This amount represented a decrease of \$837,181.19 from the previous fiscal year. The majority of this decrease is attributed to reduction in state capital aid. The decrease is due to a non-recurring allocation of \$580,000 from state aid for construction projects in the prior fiscal year, not made in the current fiscal year, as well as a reduction in capital allocation.

The College also received \$1,201,453.45 in capital grants from the State of North Carolina Golden Leaf funds and Duke Energy. The funds are to be used for the purchase of equipment for the Mechatronics Instructional Program.

### 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.

Condensed Statement of Cash Flows				
Cash Provided (Used) By	2013/14	2012/13	Difference	% Difference
Operating Activities	\$ (20,192,465.98)	\$ (18,808,576.24)	\$ (1,383,889.74)	7.36%
Noncapital Financing	19,671,959.86	19,130,129.78	541,830.08	2.83%
Capital and Related Financing	703,410.16	732,930.14	(29,519.98)	-4.03%
Investing Activities	24,759.62	23,093.82	1,665.80	7.21%
Net Increase in Cash and Cash Equivalents	207,663.66	1,077,577.50	(869,913.84)	-80.73%
<b>Cash Beginning of Year</b>	<b>6,047,410.95</b>	<b>4,969,833.45</b>	<b>1,077,577.50</b>	<b>21.68%</b>
<b>Cash End of Year</b>	<b>\$ 6,255,074.61</b>	<b>\$ 6,047,410.95</b>	<b>\$ 207,663.66</b>	<b>3.43%</b>

Cash increased by \$207,663.66 at the end of Fiscal Year 2013/14.

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

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### **The College's Financial Position and Economic Future**

The College's economic condition remains strong. 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. Additionally, the College actively pursues other resources and grants to supplement its core funding. For 2013/14, management continued its commitment to identifying and obtaining grants and other resources to supplement funding for the operational and capital needs of the College. Specifically, the College applied for and received three manufacturing training grants from the Golden Leaf Foundation and Duke Energy which were used to purchase instructional equipment and fund training.

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 2014/15, the College will continue to develop college facilities by:

- Continuing to work jointly with N.C. DOT on Project R-5000 (connector road between Highway 107 and Highway 116);
- Renovation of the Founders Hall Building to expand the Cosmetology Program classrooms and add a Student Food Service area;
- Resurfacing and expanding parking lots on the Jackson County campus.

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, the 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 Position**  
**June 30, 2014**

**Exhibit A-1**  
**Page 1 of 2**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,831,890.16
Restricted Cash and Cash Equivalents	656,215.74
Receivables, Net (Note 4)	193,055.88
Inventories	58,544.27

Total Current Assets	4,739,706.05
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,766,968.71
Receivables	185,783.52
Restricted Due from Primary Government	1,472,931.44
Restricted Due from State of North Carolina Component Units	1,329,780.00
Capital Assets - Nondepreciable (Note 5)	2,272,704.84
Capital Assets - Depreciable, Net (Note 5)	24,596,391.50

Total Noncurrent Assets	31,624,560.01
-------------------------	---------------

Total Assets	36,364,266.06
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**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	0.00
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	2,062,829.30
Due to State of North Carolina Component Unit	220,000.00
Unearned Revenue	217,484.39
Funds Held for Others	10,039.38
Long-Term Liabilities - Current Portion (Note 7)	92,532.19

Total Current Liabilities	2,602,885.26
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Noncurrent Liabilities:

Funds Held for Others	201,421.85
Long-Term Liabilities (Note 7)	815,536.41

Total Noncurrent Liabilities	1,016,958.26
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Total Liabilities	3,619,843.52
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**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	0.00
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***Southwestern Community College  
Statement of Net Position  
June 30, 2014***

***Exhibit A-1  
Page 2 of 2***

**NET POSITION**

Net Investment in Capital Assets	25,704,445.86
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	3,284.50
Loans	25,513.77
Capital Projects	4,379,791.71
Restricted for Specific Programs	266,150.87
Other	75,274.02
Unrestricted	<u>2,264,461.81</u>
Total Net Position	<u><u>\$ 32,744,422.54</u></u>

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 Position  
For the Fiscal Year Ended June 30, 2014***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 1,921,331.65
Federal Grants and Contracts	176,531.44
State and Local Grants and Contracts	16,444.11
Sales and Services	194,283.28
Other Operating Revenues	39,060.54
	<hr/>
Total Operating Revenues	2,347,651.02
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	15,187,503.57
Supplies and Materials	1,845,905.08
Services	2,159,470.78
Scholarships and Fellowships	3,157,212.38
Utilities	592,544.77
Depreciation	708,197.71
	<hr/>
Total Operating Expenses	23,650,834.29
	<hr/>
Operating Loss	(21,303,183.27)
	<hr/>

**NONOPERATING REVENUES**

State Aid	11,361,852.47
County Appropriations	2,175,023.00
Noncapital Grants - Student Financial Aid	4,991,756.79
Noncapital Grants	1,104,108.53
Noncapital Gifts	78,273.63
Investment Income	24,759.62
Other Nonoperating Revenues	44,841.55
	<hr/>
Total Nonoperating Revenues	19,780,615.59
	<hr/>
Loss Before Other Revenues	(1,522,567.68)
	<hr/>
State Capital Aid	724,220.25
County Capital Aid	151,817.00
Capital Grants	1,201,453.45
	<hr/>
Increase in Net Position	554,923.02

**NET POSITION**

Net Position, July 1, 2013	<hr/> 32,189,499.52
Net Position, June 30, 2014	<hr/> \$ 32,744,422.54
	<hr/> <hr/>

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

***Southwestern Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2014***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,337,084.05
Payments to Employees and Fringe Benefits	(15,065,149.37)
Payments to Vendors and Suppliers	(4,567,557.84)
Payments for Scholarships and Fellowships	(3,158,759.38)
Other Receipts	261,916.56
	<hr/>
Net Cash Used by Operating Activities	(20,192,465.98)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	11,361,852.47
County Appropriations	2,175,023.00
Noncapital Grants - Student Financial Aid	4,998,434.91
Noncapital Grants	1,058,375.85
Noncapital Gifts	78,273.63
William D. Ford Direct Lending Receipts	1,914,378.00
William D. Ford Direct Lending Disbursements	(1,914,378.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	19,671,959.86

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

State Capital Aid Received	788,179.53
County Capital Aid	151,817.00
Capital Grants	225,403.45
Acquisition and Construction of Capital Assets	(461,989.82)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	703,410.16

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	24,759.62
	<hr/>
Net Increase in Cash and Cash Equivalents	207,663.66
Cash and Cash Equivalents, July 1, 2013	6,047,410.95
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 6,255,074.61

***Southwestern Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2014***

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

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

Operating Loss	\$ (21,303,183.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	708,197.71
Nonoperating Other Income	64,139.10
Changes in Assets and Liabilities:	
Receivables, Net	(10,574.07)
Inventories	(2,648.13)
Accounts Payable and Accrued Liabilities	152,569.34
Unearned Revenue	(1,539.90)
Funds Held for Others	197,777.46
Compensated Absences	2,795.78
	<u>2,795.78</u>
Net Cash Used by Operating Activities	<u>\$ (20,192,465.98)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,831,890.16
Restricted Cash and Cash Equivalents	656,215.74
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,766,968.71</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 6,255,074.61</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 1,177,298.12
Increase in Receivables Related to Nonoperating Income	1,329,780.00
Loss on Disposal of Capital Assets	19,297.55

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, 2014***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	
Cash Held by College	\$ 178,717
Cash and Equivalents	10,000
Cash in Investment Account	46,820
	<hr/>
Total Cash and Cash Equivalents	235,537
	<hr/>
Receivables	
Pledges Receivable	3,283
	<hr/>
Investments	
Marketable Securities	2,064,094
	<hr/>
Endowment Assets	
Cash Held by College	51,260
Marketable Securities	1,744,811
Endowment Pledges Receivable, Net	85,148
	<hr/>
Total Endowment Assets	1,881,219
	<hr/>
Total Assets	<u>\$ 4,184,133</u>

**LIABILITIES**

Current Liabilities	
Accounts Payable	\$ 704
	<hr/>

**NET ASSETS**

Unrestricted	73,231
Temporarily Restricted	2,228,979
Permanently Restricted	1,881,219
	<hr/>
Total Net Assets	4,183,429
	<hr/>
Total Liabilities and Net Assets	<u>\$ 4,184,133</u>

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, 2014**

**Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 57,704	\$ 164,427	\$ 300	\$ 222,431
Grants		1,000		1,000
Special Events Revenue	7,959	31,398		39,357
Net Investment Gains		364,335	172,224	536,559
Interest Income	92	646		738
Loss on Sale of Asset	(25,445)			(25,445)
In Kind Contributions	168,154			168,154
Subtotal	<u>208,464</u>	<u>561,806</u>	<u>172,524</u>	<u>942,794</u>
Net Assets Released from Restrictions:				
By Expenditure	103,186	(103,186)		
By Reclassification		(540,435)	540,435	
Total Support and Revenue	<u>311,650</u>	<u>(81,815)</u>	<u>712,959</u>	<u>942,794</u>
<b>EXPENSES</b>				
Program Expenses:				
Scholarships and Grants	95,204			95,204
Facilities-Macon Campus	1,668			1,668
Contributed Services/Facilities	30,806			30,806
Other Program Activities	3,637			3,637
Total Program Expenses	<u>131,315</u>			<u>131,315</u>
Supporting Services				
Management and General	81,007			81,007
Fundraising	76,606			76,606
Total Supporting Services	<u>157,613</u>			<u>157,613</u>
Total Expenses	<u>288,928</u>			<u>288,928</u>
Change in Net Assets	22,722	(81,815)	712,959	653,866
Net Assets, Beginning of Year	50,509	2,310,794	1,168,260	3,529,563
Net Assets, End of Year	<u>\$ 73,231</u>	<u>\$ 2,228,979</u>	<u>\$ 1,881,219</u>	<u>\$ 4,183,429</u>

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

**SOUTHWESTERN COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 (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. See below for further discussion of the College's component unit.

**Discretely Presented Component Unit** – Southwestern Community College Foundation, Inc. (Foundation) is a legally separate nonprofit corporation and is reported as a discretely presented component unit based on the nature and significance of their 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 13 or no more than 25 elected members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2014, the Foundation distributed \$96,872.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by contacting Ms. Mary Otto Selzer, Executive Director of the 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.

- 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 (STIF). The STIF 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for machinery and 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, and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 Position** - The College's net position is classified as follows:

**Investment 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 Position - Nonexpendable** - Nonexpendable restricted net position includes 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 Position - Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Position** - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

**L. Scholarship Discounts** - Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Revenues, Expenses, and Changes in Net Position. 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 Position. 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 Statement of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Net Position as cash and cash equivalents includes cash on hand totaling \$2,280.00, and deposits in private financial institutions with a carrying value of \$349,254.82 and a bank balance of \$344,817.82.

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, 2014, 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 of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$5,903,539.79 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF are

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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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 STIF) 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.

**Component Unit** - Investments of the College’s discretely presented component unit, the 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 Foundation report 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	\$ 2,658,292
Fixed Income Funds	732,586
Real Estate/Real Assets Mutual Funds	418,027
Money Funds	<u>46,820</u>
Total Investments	<u>\$ 3,855,725</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 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, 2014, net appreciation of \$13,570.56 was available to be spent, of which \$2,770.59 was classified in net position 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 position.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 429,853.94	\$ 358,024.28	\$ 71,829.66
Student Sponsors	22,831.29	222.50	22,608.79
Intergovernmental	98,617.43		98,617.43
<b>Total Current Receivables</b>	<b>\$ 551,302.66</b>	<b>\$ 358,246.78</b>	<b>\$ 193,055.88</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013 (as restated)	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 2,126,784.33	\$ 0.00	\$ 0.00	\$ 2,126,784.33
Construction in Progress	57,034.01	175,585.35	86,698.85	145,920.51
<b>Total Capital Assets, Nondepreciable</b>	<b>2,183,818.34</b>	<b>175,585.35</b>	<b>86,698.85</b>	<b>2,272,704.84</b>
Capital Assets, Depreciable:				
Buildings	30,790,240.12			30,790,240.12
Machinery and Equipment	4,810,206.49	1,452,708.94	458,692.14	5,804,223.29
General Infrastructure	2,956,474.63	86,698.85		3,043,173.48
<b>Total Capital Assets, Depreciable</b>	<b>38,556,921.24</b>	<b>1,539,407.79</b>	<b>458,692.14</b>	<b>39,637,636.89</b>
Less Accumulated Depreciation for:				
Buildings	10,659,790.61	342,622.79		11,002,413.40
Machinery and Equipment	2,860,124.39	314,551.12	439,394.59	2,735,280.92
General Infrastructure	1,252,527.27	51,023.80		1,303,551.07
<b>Total Accumulated Depreciation</b>	<b>14,772,442.27</b>	<b>708,197.71</b>	<b>439,394.59</b>	<b>15,041,245.39</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>23,784,478.97</b>	<b>831,210.08</b>	<b>19,297.55</b>	<b>24,596,391.50</b>
<b>Capital Assets, Net</b>	<b>\$ 25,968,297.31</b>	<b>\$ 1,006,795.43</b>	<b>\$ 105,996.40</b>	<b>\$ 26,869,096.34</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	Amount
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 1,354,723.51
Accrued Payroll	594,867.79
Intergovernmental Payables	113,238.00
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 2,062,829.30</b>

### NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 905,272.82	\$ 476,533.83	\$ 473,738.05	\$ 908,068.60	\$ 92,532.19

### NOTE 8 - 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
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 3,816,226.57	\$ 1,884,581.71	\$ 10,313.21	\$ 1,921,331.65

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,310,311.93	\$ 945,697.80	\$ 580,776.80	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,836,786.53
Academic Support	1,541,189.60	359,865.14	328,679.48				2,229,734.22
Student Services	1,272,086.02	60,607.37	137,854.88				1,470,548.27
Institutional Support	2,102,475.55	163,723.29	432,747.40				2,698,946.24
Operations and Maintenance of Plant	961,440.47	316,011.48	679,139.46		592,544.77		2,549,136.18
Student Financial Aid				3,157,212.38			3,157,212.38
Auxiliary Enterprises			272.76				272.76
Depreciation						708,197.71	708,197.71
<b>Total Operating Expenses</b>	<b>\$ 15,187,503.57</b>	<b>\$ 1,845,905.08</b>	<b>\$ 2,159,470.78</b>	<b>\$ 3,157,212.38</b>	<b>\$ 592,544.77</b>	<b>\$ 708,197.71</b>	<b>\$ 23,650,834.29</b>

### NOTE 10 - PENSION PLAN

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$11,920,562.41, of which \$9,844,675.33 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$855,502.29 and \$590,680.52, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$855,502.29, \$779,090.30, and \$666,990.84, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The TSERS 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.

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

The Plan's benefit and contribution provisions are established by Chapter 135, Article 3B, 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$531,612.47, \$495,699.71, and \$448,246.53, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$43,316.57, \$41,152.43, and \$46,617.64, 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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$10,000,000 deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10,000,000 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 \$10,000,000 per occurrence. The 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 Auto Owners Insurance with coverage of \$50,000 per occurrence less a \$500 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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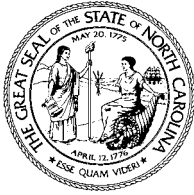
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries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

### NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were \$18,907.35 at June 30, 2014.

**Office of the State Auditor**

**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**

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Board of Trustees  
Southwestern Community College  
Sylva, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southwestern Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 7, 2015. Our report includes a reference to other auditors who audited the financial statements of Southwestern Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Southwestern Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Southwestern Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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



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

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possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 7, 2015

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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

Telephone: 919-807-7500

Facsimile: 919-807-7647

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To report alleged incidents of fraud, waste or abuse in state government contact the:

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For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513