

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## SOUTHWESTERN COMMUNITY COLLEGE

SYLVA, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA



**NCOSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
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, 2015, 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 ways listed in the back of this report.

A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor



Beth A. Wood, CPA  
State Auditor

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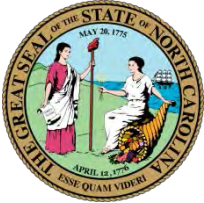
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Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the 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, 2015, 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 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, 2015, 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.

### Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2015, Southwestern Community College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, 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 October 6, 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 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.

A handwritten signature in black ink, reading "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

October 6, 2015



# **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## 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, 2015. 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.

As part of the implementation of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the College's proportionate share of net pension liability relating to the Teachers and State Employees Retirement System (TSERS) has been reported on the financial statement. Additionally, the College's contributions subsequent to the measurement date and the net difference between projected and actual earnings on pension plan investments have been classified as Deferred Outflows and Inflows of Resources, respectively. Prior year amounts in the condensed Statement of Net Position have been restated to reflect his change in accounting standards.

**Statement of Net Position** – The 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.

**Statement of Revenues, Expenses and Changes in Net Position** – The 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** – The 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 2014/2015

### Condensed Statement of Net Position

Below is a condensed comparative analysis between the Statement of Net Position for the fiscal year ending June 30, 2015 and the prior fiscal year.

	FY 2014-2015	FY 2013-2014 As Restated	Difference	% Difference
<b>ASSETS</b>				
Current Assets	\$ 4,588,942.08	\$ 4,739,706.05	\$ (150,763.97)	-3.18%
Noncurrent Assets				
Capital Assets, Net	26,373,525.32	26,869,096.34	(495,571.02)	-1.84%
Other Noncurrent Assets	3,397,726.40	4,755,463.67	(1,357,737.27)	-28.55%
Total Assets	<u>34,360,193.80</u>	<u>36,364,266.06</u>	<u>(2,004,072.26)</u>	-5.51%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Deferred Outflows of Resources	<u>1,068,711.00</u>	<u>822,918.00</u>	<u>245,793.00</u>	29.87%
<b>LIABILITIES</b>				
Current Liabilities	1,257,544.61	2,602,885.26	(1,345,340.65)	-51.69%
Noncurrent Liabilities				
Long-Term Liabilities	1,644,314.70	4,877,048.41	(3,232,733.71)	-66.28%
Other Noncurrent Liabilities	3,073.48	201,421.85	(198,348.37)	-98.47%
Total Liabilities	<u>2,904,932.79</u>	<u>7,681,355.52</u>	<u>(4,776,422.73)</u>	-62.18%
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total Deferred Inflows of Resources	<u>2,992,921.00</u>	<u>4,061,512.00</u>	<u>(1,068,591.00)</u>	-26.31%
<b>NET POSITION</b>				
Net Investment in capital assets	26,310,159.43	25,704,445.86	605,713.57	2.36%
Restricted	3,742,393.43	4,775,514.87	(1,033,121.44)	-21.63%
Unrestricted	(521,501.85)	(974,132.19)	452,630.34	46.46%
Total Net Position	<u>\$ 29,531,051.01</u>	<u>\$ 29,505,828.54</u>	<u>\$ 25,222.47</u>	0.09%

This condensed Statement of Net Position reflects the financial position of the College. Net position, which represents the residual interest in the College's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, increased \$25,222.47 from the previous fiscal year.

## Assets

Current Assets – Current assets consist of cash, cash equivalents, inventories, and receivables expected to be collected within the next accounting cycle. The current assets of the College consisted primarily of cash and receivables and totaled \$4,588,942.08 at June 30, 2015. The decrease of \$150,763.97 in current assets is predominantly a result of a decrease in current cash and cash equivalents due mostly to the disbursement of Golden Leaf grant funds received in FY 2013/14.

Noncurrent assets – Noncurrent assets are comprised primarily of restricted cash, restricted receivables, and capital assets, net of accumulated depreciation. Noncurrent assets decreased by \$1,853,308.29. The decrease was primarily due to a decrease in receivables from North Carolina Component unit related to the Golden Leaf grants as well as reduction in capital assets. The College received funds relating to the grants from the Golden Leaf during year which was recorded as restricted due from North Carolina component units in the prior year. No such receivable was recorded in the current year.

Capital Assets (land, construction in-progress, buildings, general infrastructure, and 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 equipment, 10 to 75 years for infrastructure and 10 to 100 years for buildings. Capital assets net of accumulated depreciation totaled \$26,373,252.32 at June 30, 2015.

### Capital Assets, Net

	FY 2014/2015	FY 2013/2014
Capital Assets - Nondepreciable		
Land	\$ 2,126,784.33	\$ 2,126,784.33
Construction In Progress	450,413.05	145,920.51
Total Capital Assets - Nondepreciable	2,577,197.38	2,272,704.84
Capital Assets - Depreciable		
Buildings	30,790,240.12	30,790,240.12
General Infrastructure	3,052,073.48	3,043,173.48
Machinery and Equipment	5,731,843.00	5,804,223.29
Total Capital Assets - Depreciable	39,574,156.60	39,637,636.89
Total	42,151,353.98	41,910,341.73
Less Accumulated Depreciation	15,777,828.66	15,041,245.39
Net Capital Assets	\$ 26,373,525.32	\$ 26,869,096.34

Significant capital activity in the current year consisted of:

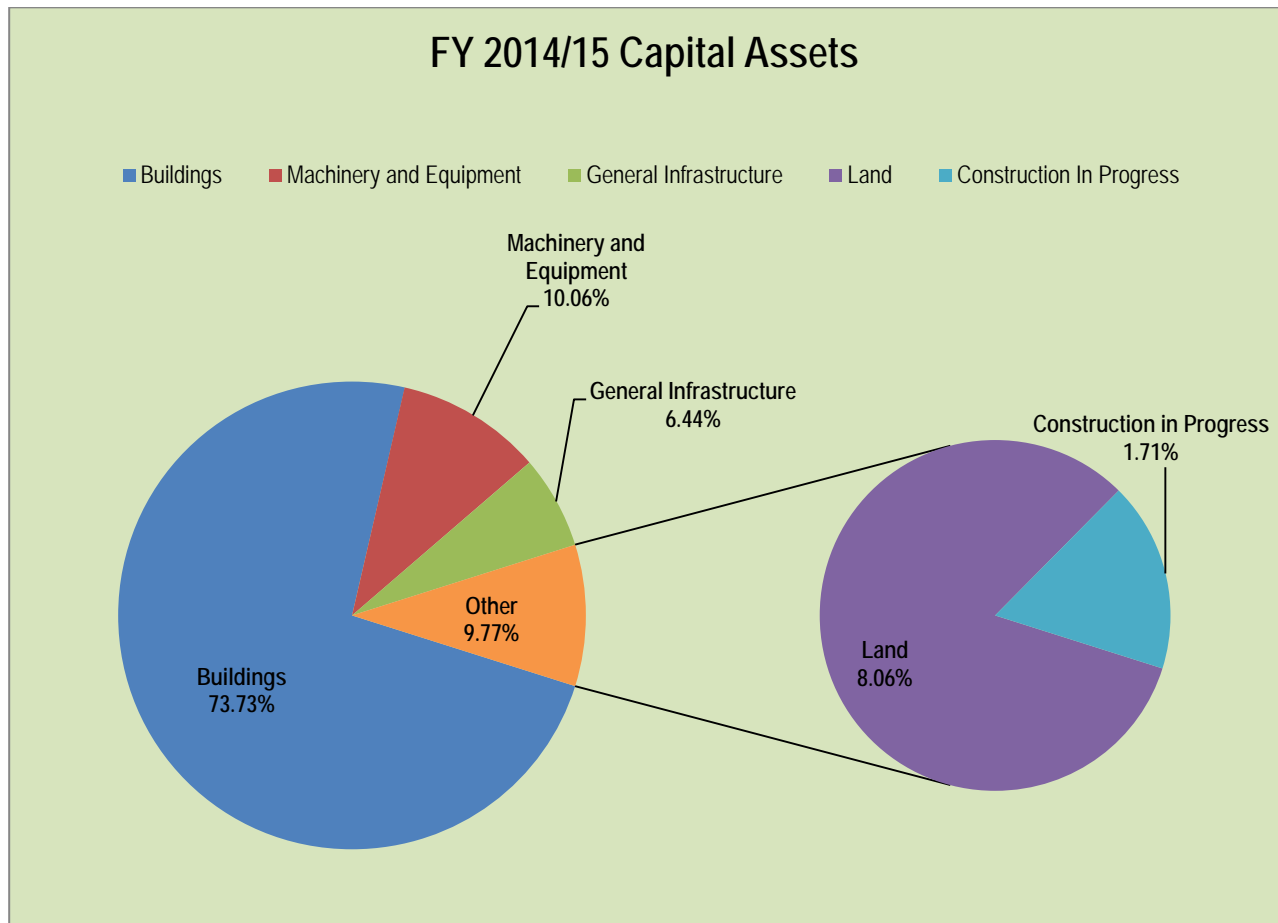
- The College began construction of a parking lot between the Burrell and Balsam Center buildings, completed the design phase for improvements to the Founders Hall and Bradford Hall buildings, and installed fencing at the Swain Center to facilitate needs of the Outdoor Leadership Program. This activity resulted in an addition of \$313,392.54 to Construction in Progress.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

- The College purchased \$157,863.50 in equipment.
- Depreciation expense for the year ended June 30, 2015 totaled \$947,926.56.

Depreciable capital assets are reported net of accumulated depreciation. At June 30, 2015, 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.



**Deferred Outflows of Resources** – Deferred outflows of resources totaled \$1,068,711.00 and represents pension contributions subsequent to the measurement date and the change in proportion and differences between the College's contributions and proportionate share of pension contributions. See Note 11 to the financial statements for more details.

### **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, 2015 included:

- Accrued Compensation - \$530,039.89

- Accounts Payable - \$170,754.50
- Intergovernmental Payable (noncapital) - \$47,116.92
- Due to State of North Carolina Component Unit - \$150,131.00
- Unearned Revenue & Funds Held for Others - \$209,314.95
- Current Portion of Long Term Liabilities (accrued vacation leave) - \$150,187.35

Total current liabilities at year-end were \$1,257,544.61 and represented a decrease of \$1,345,340.65 (51.69%) from the previous year. This decrease was mainly attributed to a decrease in current payables related to the acquisition of equipment in FY 2013/14. This equipment was paid for in the current fiscal year.

Noncurrent Liabilities - Noncurrent liabilities consist of accrued vacation and bonus leave not expected to be used within the next twelve months totaling \$815,647.70, net pension liability in the amount of \$828,667.00 which represents the college's pro-rata share of the collective TSERS net pension liability, and funds held for others totaling \$3,073.48. Noncurrent liabilities decreased by \$3,431,082.08 attributable to the change of the College's proportionate share of the collective net pension liability for (TSERS).

Current and noncurrent liabilities totaled \$2,904,932.79 at June 30, 2015.

**Deferred Inflows of Resources** – Deferred inflows of resources totaled \$2,992,921.00 and represents the difference between actual and expected experience for pensions and the net difference between projected and actual earnings on pension plan investments. See Note 11 to the financial statements for further detail.

### **Net Position**

Net position represents the difference between total assets and total deferred outflows of resources from total liabilities and total deferred inflows of resources and is one indicator of whether the college's overall financial condition has improved or worsened during the fiscal year.

As a result of the implementation of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, the College was required to restate beginning net position in order to recognize the beginning balance of the net pension liability and the deferred outflows and deferred inflows of resources for employer contributions made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. This restatement resulted in a decrease of \$3,238,594.00 in FY 2013/14 net position from \$32,744,422.54 to \$29,505,828.54.

Total net position at June 30, 2015 was \$29,531,051.01 and represented a 0.09% increase of \$25,222.47 from fiscal year 2013/2014.

For reporting purposes the net position is divided into four categories: net investment in capital assets, restricted non-expendable, 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. Of the \$29,531,051.01 in net position this year, \$26,310,159.43 was attributable to the College's net investment in capital assets. The increase of \$605,713.57 in net investment in capital assets is the net result of, additions and retirements to machinery and equipment (\$72,380.29); increases to construction in progress - \$313,392.54 and a net increase in accumulated depreciation \$736,583.27 and a reduction of \$1,101,284.59 in accounts payable related to the acquisition of capital assets.

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 decreased by \$1,033,121.44 in Fiscal Year 2014/2015. The decrease in restricted net position - Expendable is primarily due to a decrease in net position available for capital projects.

Unrestricted - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. At June 30, 2015, the unrestricted net position totaled (\$521,501.85) and represents a increase from the amount from prior fiscal year. The increase is primarily attributed to net improved proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to TSERS.

### **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

## Condensed Statement of Revenues, Expenses, and Changes in Net Position Fiscal Year 2014/15

	FY 2014-2015	FY 2013-2014 *	Difference	% Difference
<b>OPERATING REVENUES</b>				
Student Tuition and Fees, Net	\$ 1,978,638.09	\$ 1,921,331.65	\$ 57,306.44	2.98%
Federal Grants and Contracts	184,848.05	176,531.44	8,316.61	4.71%
State and Local Grants and Contracts	10,021.53	16,444.11	(6,422.58)	(39.06)%
Sales and Services	192,073.42	194,283.28	(2,209.86)	(1.14)%
Other Operating Revenues	37,242.65	39,060.54	(1,817.89)	(4.65)%
Total Operating Revenues	2,402,823.74	2,347,651.02	55,172.72	2.35%
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	14,875,485.13	15,187,503.57	(312,018.44)	(2.05)%
Supplies and Materials	1,436,031.32	1,845,905.08	(409,873.76)	(22.20)%
Services	2,326,073.54	2,159,470.78	166,602.76	7.71%
Scholarships and Fellowships	3,216,263.61	3,157,212.38	59,051.23	1.87%
Utilities	568,700.20	592,544.77	(23,844.57)	(4.02)%
Depreciation	947,926.56	708,197.71	239,728.85	33.85%
Total Operating Expenses	23,370,480.36	23,650,834.29	(280,353.93)	(1.19)%
Operating Loss	(20,967,656.62)	(21,303,183.27)	335,526.65	(1.58)%
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State Aid	11,527,028.76	11,361,852.47	165,176.29	1.45%
County Appropriations	2,246,127.28	2,175,023.00	71,104.28	3.27%
Noncapital Grants - Student Financial Aid	5,101,259.30	4,991,756.79	109,502.51	2.19%
Noncapital Grants	1,416,352.55	1,104,108.53	312,244.02	28.28%
Noncapital Gifts	114,518.43	78,273.63	36,244.80	46.31%
Investment Income	25,753.96	24,759.62	994.34	4.02%
Other Nonoperating Revenues	0.00	44,841.55	(44,841.55)	(100.00)%
Other Nonoperating Expenses	(70,098.11)	0.00	(70,098.11)	100.00%
Net Nonoperating Revenues	20,360,942.17	19,780,615.59	580,326.58	2.93%
Loss Before Other Revenues	(606,714.45)	(1,522,567.68)	915,853.23	(60.15)%
State Capital Aid	413,480.82	724,220.25	(310,739.43)	(42.91)%
County Capital Aid	162,612.72	151,817.00	10,795.72	7.11%
Capital Grants	55,843.38	1,201,453.45	(1,145,610.07)	(95.35)%
Total Other Revenues	631,936.92	2,077,490.70	(1,445,553.78)	(69.58)%
Increase in Net Position	25,222.47	554,923.02	(529,700.55)	(95.45)%
<b>NET POSITION</b>				
Net Position - Beginning of Year, as Restated	29,505,828.54	32,189,499.52	(2,683,670.98)	
Net Position - End of Year	\$ 29,531,051.01	\$ 32,744,422.54	\$ (3,213,371.53)	(9.81)%
<b>Reconciliation of Increase in Net Position:</b>				
Total Revenue	\$ 23,465,800.94	\$ 24,205,757.31	\$ (739,956.37)	(3.06)%
Less: Total Expenses	23,440,578.47	23,650,834.29	(210,255.82)	(0.89)%
Increase in Net Position	\$ 25,222.47	\$ 554,923.02	\$ (529,700.55)	(95.45)%

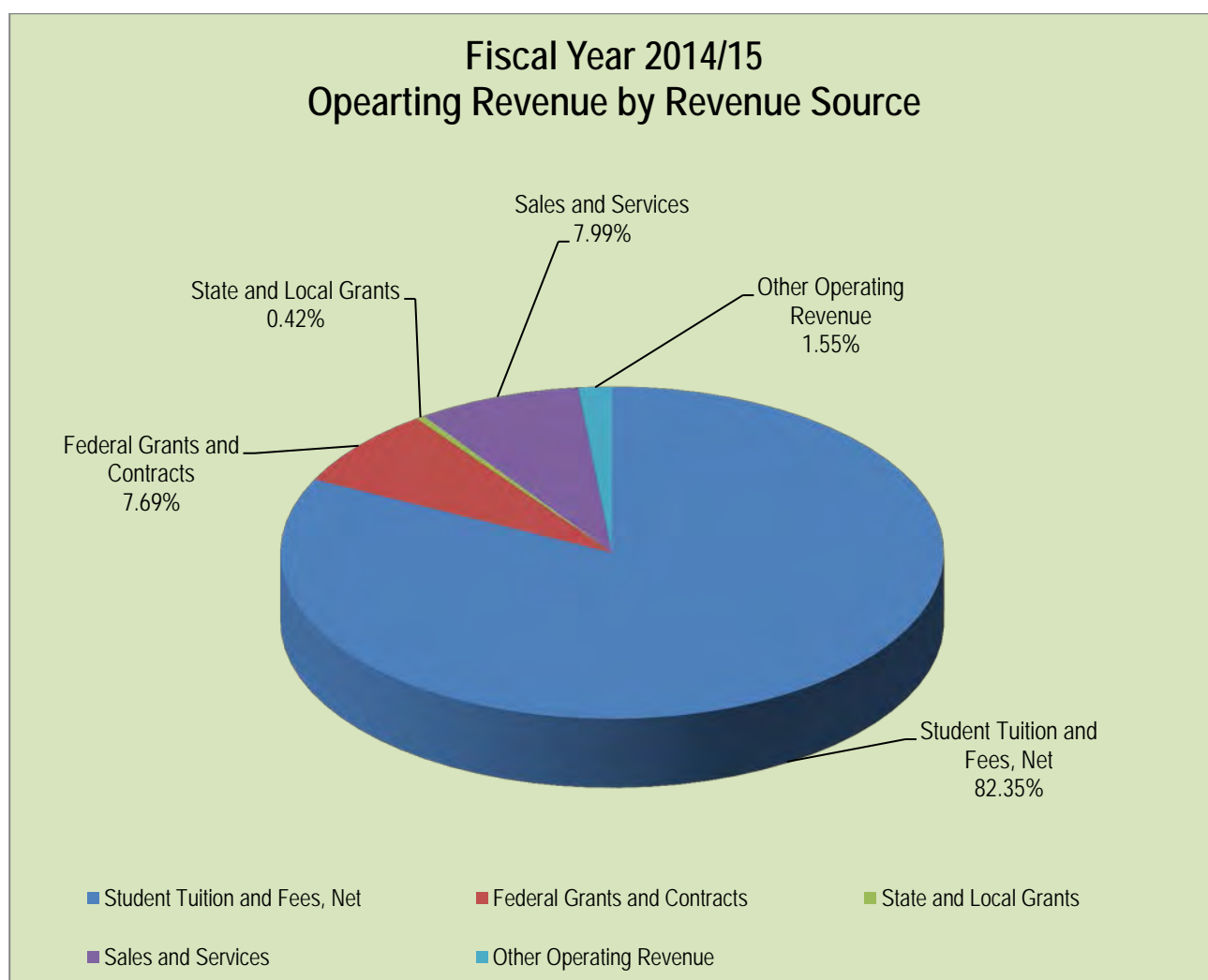
\* Note: The year ended June 30, 2014 column is not presented "as restated" above because actuarial calculations performed relative to the implementation of GASB 68 do not provide sufficient information to restate these amounts.

**Operating Revenues** - Operating revenues totaled \$2,402,823.74 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 increase of \$55,172.72 in operating revenue is mainly attributed to:

1. An increase of \$57,306.44 in student tuition and fee revenue due to an increase in the amount charged for student tuition.
2. An increase of \$8,316.61 in federal grants and contracts, which resulted from increased enrollment in Oconaluftee and Lyndon B. Johnson Job Corps Programs.
3. A decrease of \$6,422.58 in state and local grants and contracts.

The chart below illustrates Operating Revenues for Fiscal Year 2014/15 by revenue source:



**Operating Expenses** – Operating expenses are expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the

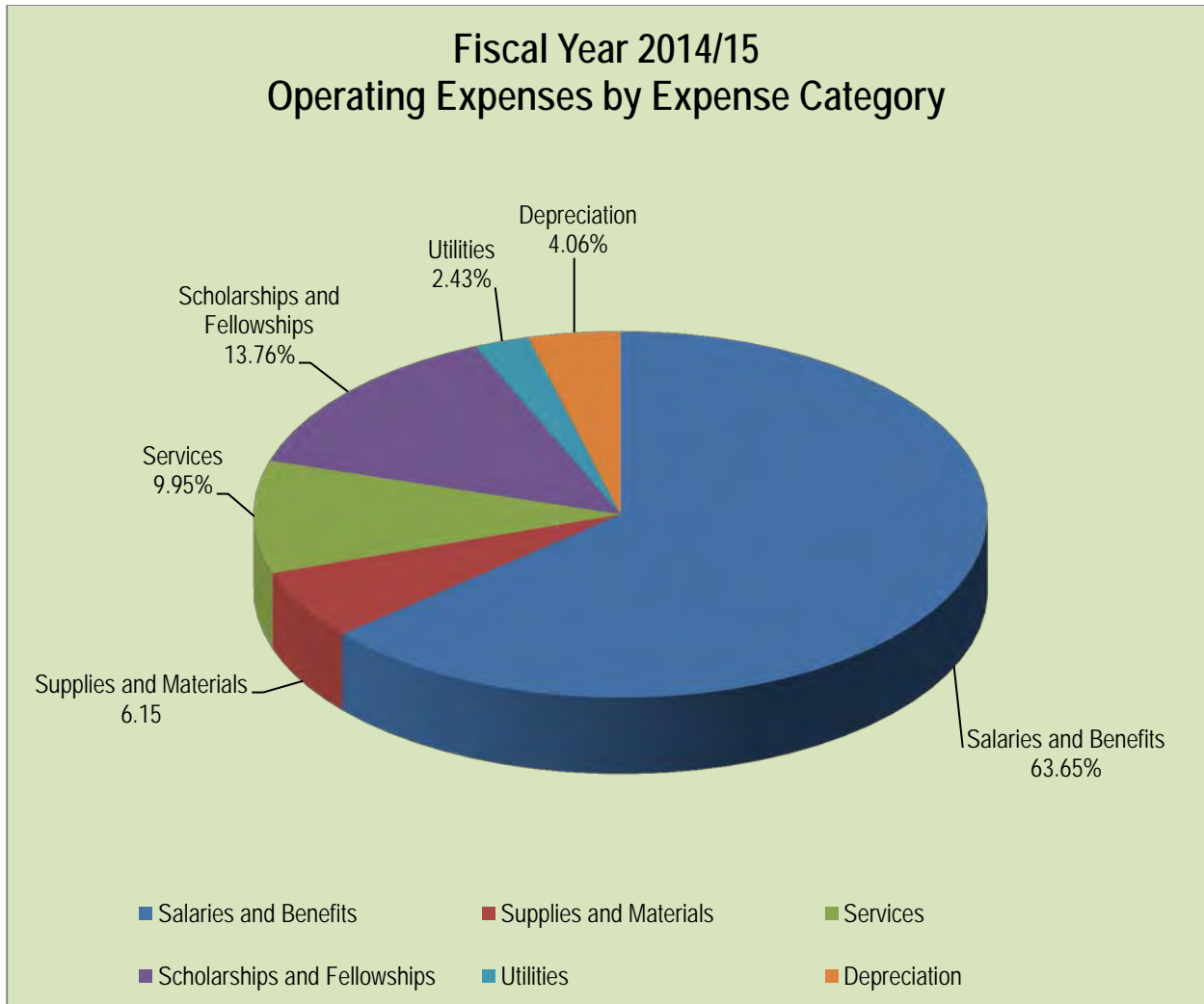


mission of the College. The majority of operating expenses are for direct cost of salaries and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College.

Operating expenses for fiscal year 2014/2015 totaled \$23,370,480.36 and consisted of six categories: salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

The decrease of \$280,353.93 in operating expenses from the prior fiscal year is attributed to the net result of:

1. Salaries and benefits expenses decreased by \$312,018.44 due to:
  - a. A reduction in literacy funding available for FY 2015.
  - b. Reduced salary and benefit expenses resulting from turnover in personnel and vacant positions in FY 2015.
  - c. Reduction in part-time adjunct salary costs.
2. Scholarship and fellowship expenses increased slightly by \$59,051.23 due to a net increase of \$156,235.54 in the amount of Pell Grants awarded which was offset by decreases in the amount of State student financial aid awarded.
3. Supply and material expenses decreased by \$409,873.76. This decrease is attributable to a reduction in spending for facility related expenses as well as reduced departmental expenditures resulting from a mandatory one percent state budget reversion.
4. Service expenditures increased by \$166,602.76. This increase is attributable to an additional \$72,201.26 in advertising/marketing costs incurred in an effort to boost student enrollment, \$34,187.17 in increased software licensing/maintenance agreements, and expenditures related to the college's financial audit not incurred in the prior year.
5. Utility costs decreased by \$23,844.57.



**Nonoperating Revenues and Expenses** – Nonoperating revenues represent the major portion of the College's income. Nonoperating revenues include state funds allocated to the College as well as local county appropriations and other nonoperating funds (i.e. student financial aid, non-capital grants and gifts and investment income). The state fund allocation is based on the College's FTE (full-time equivalent) formula budget computation from the North Carolina State Board of Community Colleges. County appropriations are allocated based upon the College's needs to support the operation and maintenance of its facilities.

In fiscal year 2014/15, net nonoperating revenues increased primarily by \$580,326.58. The net increase is due to the following:

1. An increase of \$165,176.29 in the amount of state aid (current). This increase was a result of additional funding related to FTE growth as well as a reduction in mandatory reversions.
2. A slight increase of \$71,104.28 in local appropriations.
3. An increase of \$109,502.51 in noncapital grants for student financial aid which is attributable to an increase in Federal Pell Grant Fund Revenue (\$156,235.52).

4. An increase of \$312,244.02 in noncapital grants related to increases in Upward Bound and Title III Program grant revenue.

**Capital Contributions** – Capital contributions, 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 Position.

The College received \$576,093.54 in state capital aid and county capital appropriations. This amount represented a decrease of \$299,943.71 from the previous fiscal year. The majority of this decrease is attributed to reduction in state capital aid.

## **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.

The State of North Carolina provides the major source of funding for the College through current operating and capital allocations. Most of the funding the College receives from the state is based on enrollment. The College's state funding for fiscal year 2014/15 increased from the prior year primarily due to an increase in FTE.

County appropriations provide funding for the operation and maintenance of College facilities. The level of support the College receives from Jackson, Macon, and Swain counties is critical to its mission and directly impacts the ability to maintain and improve facilities.

Additionally, the College actively pursues other resources and grants to supplement its core funding. For 2014/15, management continued its commitment to identifying and obtaining grants and other resources to supplement funding for the operational and capital needs of the College. The College applied for and received notice in August 2015 that the United States Department of Education had awarded the College a \$1.38 million grant for the continuation of the college's TRIO Student Support Services program.

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;
- Renovating Founders Hall building to expand the Cosmetology Program classrooms and add a Student Food Service area;
- Renovating of the Bradford Hall building to improve ADA accessibility;
- Addressing facility maintenance, specifically repairing the roofs on the Summit and Holt Library buildings;
- Resurfacing and expanding parking lots on the Jackson County campus.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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.



# FINANCIAL STATEMENTS

**Southwestern Community College**  
**Statement of Net Position**  
**June 30, 2015**

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

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,778,983.13
Restricted Cash and Cash Equivalents	508,139.81
Receivables, Net (Note 4)	237,207.06
Inventories	64,612.08
Total Current Assets	<u>4,588,942.08</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,510,486.36
Receivables	185,783.52
Restricted Due from Primary Government	1,433,289.48
Restricted Due from State of North Carolina Component Units	268,167.04
Capital Assets - Nondepreciable (Note 5)	2,577,197.38
Capital Assets - Depreciable, Net (Note 5)	<u>23,796,327.94</u>
Total Noncurrent Assets	<u>29,771,251.72</u>
Total Assets	<u>34,360,193.80</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows Related to Pensions	<u>1,068,711.00</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	747,911.31
Due to State of North Carolina Component Units	150,131.00
Unearned Revenue	202,292.77
Funds Held for Others	7,022.18
Long-Term Liabilities - Current Portion (Note 7)	<u>150,187.35</u>
Total Current Liabilities	<u>1,257,544.61</u>

Noncurrent Liabilities:

Funds Held for Others	3,073.48
Long-Term Liabilities (Note 7)	<u>1,644,314.70</u>
Total Noncurrent Liabilities	<u>1,647,388.18</u>
Total Liabilities	<u>2,904,932.79</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows Related to Pensions	<u>2,992,921.00</u>
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**Southwestern Community College**  
**Statement of Net Position**  
**June 30, 2015**

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

**NET POSITION**

Net Investment in Capital Assets	26,310,159.43
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	4,415.49
Loans	48,087.95
Capital Projects	3,097,789.90
Restricted for Specific Programs	491,196.88
Other	75,403.21
Unrestricted	(521,501.85)
Total Net Position	<u>\$ 29,531,051.01</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, 2015**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,978,638.09
Federal Grants and Contracts	184,848.05
State and Local Grants and Contracts	10,021.53
Sales and Services	192,073.42
Other Operating Revenues	37,242.65

Total Operating Revenues	<u>2,402,823.74</u>
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	14,875,485.13
Supplies and Materials	1,436,031.32
Services	2,326,073.54
Scholarships and Fellowships	3,216,263.61
Utilities	568,700.20
Depreciation	947,926.56

Total Operating Expenses	<u>23,370,480.36</u>
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Operating Loss	<u>(20,967,656.62)</u>
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	11,527,028.76
County Appropriations	2,246,127.28
Noncapital Grants - Student Financial Aid	5,101,259.30
Noncapital Grants	1,416,352.55
Noncapital Gifts	114,518.43
Investment Income	25,753.96
Other Nonoperating Expenses	(70,098.11)

Net Nonoperating Revenues	<u>20,360,942.17</u>
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Loss Before Other Revenues	(606,714.45)
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State Capital Aid	413,480.82
County Capital Aid	162,612.72
Capital Grants	55,843.38

Increase in Net Position	25,222.47
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**NET POSITION**

Net Position, July 1, 2014 as Restated (Note 15)	<u>29,505,828.54</u>
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Net Position, June 30, 2015	<u><u>\$ 29,531,051.01</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.



**Southwestern Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,396,279.41
Payments to Employees and Fringe Benefits	(15,368,263.58)
Payments to Vendors and Suppliers	(4,401,839.60)
Payments for Scholarships and Fellowships	(3,207,311.10)
Other Receipts	(252,563.18)
Net Cash Used by Operating Activities	(20,833,698.05)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	11,527,028.76
County Appropriations	2,246,127.28
Noncapital Grants - Student Financial Aid	5,060,779.47
Noncapital Grants	1,272,971.27
Noncapital Gifts	114,518.43
William D. Ford Direct Lending Receipts	2,062,420.00
William D. Ford Direct Lending Disbursements	(2,062,420.00)
Net Cash Provided by Noncapital Financing Activities	20,221,425.21

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

State Capital Aid Received	453,122.78
County Capital Aid	162,612.72
Capital Grants	1,098,506.34
Acquisition and Construction of Capital Assets	(1,585,188.27)
Net Cash Provided by Capital and Related Financing Activities	129,053.57

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	25,753.96
Net Decrease in Cash and Cash Equivalents	(457,465.31)
Cash and Cash Equivalents, July 1, 2014	6,255,074.61
Cash and Cash Equivalents, June 30, 2015	\$ 5,797,609.30

**Southwestern Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2015**

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

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

Operating Loss	\$ (20,967,656.62)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	947,926.56
Pension Expense	402,370.00
Nonoperating Other Expenses	(51,197.61)
Changes in Assets, Liabilities, and Deferred Outflows of Resources:	
Receivables, Net	17,599.80
Inventories	(6,067.81)
Accounts Payable and Accrued Liabilities	(129,794.63)
Unearned Revenue	(15,191.62)
Funds Held for Others	(201,365.57)
Deferred Outflows - Contributions After the Measurement Date	(888,087.00)
Compensated Absences	57,766.45
Net Cash Used by Operating Activities	<u><u>\$ (20,833,698.05)</u></u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,778,983.13
Restricted Cash and Cash Equivalents	508,139.81
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,510,486.36</u>
Total Cash and Cash Equivalents - June 30, 2015	<u><u>\$ 5,797,609.30</u></u>

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

Assets Acquired through Assumption of a Liability	\$ 63,365.89
Increase in Receivables Related to Nonoperating Income	61,750.98
Loss on Disposal of Capital Assets	18,900.50

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, 2015**

**Exhibit B-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	257,326
Pledges Receivable, Net		<u>41,450</u>
Total Current Assets		<u>298,776</u>

Long-Term Assets

Scholarship Endowment		3,556,559
Student Success Endowment		<u>608,442</u>
Total Long-Term Assets		<u>4,165,001</u>
Total Assets	\$	<u><u>4,463,777</u></u>

**LIABILITIES**

Total Liabilities	\$	<u>0</u>
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**NET ASSETS**

Unrestricted		46,343
Temporarily Restricted		1,891,303
Permanently Restricted		<u>2,526,131</u>
Total Net Assets		<u>4,463,777</u>
Total Liabilities and Net Assets	\$	<u><u>4,463,777</u></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, 2015**

**Exhibit B-2**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 11,694	\$ 144,772	\$ 924	\$ 157,390
Grants		5,000	298,995	303,995
Special Events Revenue	47,000			47,000
Net Investment Gains		10,279		10,279
Interest Income	570			570
In Kind Contributions	171,225			171,225
Subtotal	230,489	160,051	299,919	690,459
Net Assets Released from Restrictions:				
By Expenditure	173,224	(173,224)		
By Reclassification	(20,490)	(324,503)	344,993	
Total Support and Revenue	383,223	(337,676)	644,912	690,459
<b>EXPENSES</b>				
Program Expenses:				
Scholarships and Grants	168,464			168,464
Contributed Services/Facilities	50,376			50,376
Other Program Activities	5,738			5,738
Total Program Expenses	224,578			224,578
Supporting Services:				
Management and General	96,834			96,834
Fundraising	88,699			88,699
Total Supporting Services	185,533			185,533
Total Expenses	410,111			410,111
Change in Net Assets	(26,888)	(337,676)	644,912	280,348
Net Assets, Beginning of Year	73,231	2,228,979	1,881,219	4,183,429
Net Assets, End of Year	\$ 46,343	\$ 1,891,303	\$ 2,526,131	\$ 4,463,777

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



# NOTES TO THE FINANCIAL STATEMENTS

## 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 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 13 and 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 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, 2015, the Foundation distributed \$153,348.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained by contacting Mr. Brett Woods, Director of the Foundation, 447 College Drive, 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 allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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 in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery & Equipment	2-30 years
General Infrastructure	10-75 years

**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 net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2014 *Comprehensive Annual Financial Report*. This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 11 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

**J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or



retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

**Net 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 outflows and inflows 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 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 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 Net Position as cash and cash equivalents includes cash on hand totaling \$2,230.00, and deposits in private financial institutions with a carrying value of \$259,623.48 and a bank balance of \$259,646.61.

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, 2015, 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, 2015, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$5,535,755.82 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 or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2015. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's 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 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	\$	2,629,728
Fixed Income Funds		1,006,365
Real Estate/Real Assets Mutual Funds		408,797
Money Funds		<u>120,111</u>
Total Investments	\$	<u>4,165,001</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, 2015, net appreciation of \$13,433.06 was available to be spent, of which \$2,800.64 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.

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2015, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 495,125.31	\$ 436,722.03	\$ 58,403.28
Student Sponsors	33,426.00	601.00	32,825.00
Accounts	100.00	100.00	
Intergovernmental	<u>145,978.78</u>		<u>145,978.78</u>
Total Current Receivables	<u>\$ 674,630.09</u>	<u>\$ 437,423.03</u>	<u>\$ 237,207.06</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2015 is presented as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital Assets, Nondepreciable:				
Land	\$ 2,126,784.33	\$ 0.00	\$ 0.00	\$ 2,126,784.33
Construction in Progress	145,920.51	313,392.54	8,900.00	450,413.05
<b>Total Capital Assets, Nondepreciable</b>	<b>2,272,704.84</b>	<b>313,392.54</b>	<b>8,900.00</b>	<b>2,577,197.38</b>
Capital Assets, Depreciable:				
Buildings	30,790,240.12			30,790,240.12
Machinery and Equipment	5,804,223.29	157,863.50	230,243.79	5,731,843.00
General Infrastructure	3,043,173.48	8,900.00		3,052,073.48
<b>Total Capital Assets, Depreciable</b>	<b>39,637,636.89</b>	<b>166,763.50</b>	<b>230,243.79</b>	<b>39,574,156.60</b>
Less Accumulated Depreciation for:				
Buildings	11,002,413.40	342,622.79		11,345,036.19
Machinery and Equipment	2,735,280.92	554,279.84	211,343.29	3,078,217.47
General Infrastructure	1,303,551.07	51,023.93		1,354,575.00
<b>Total Accumulated Depreciation</b>	<b>15,041,245.39</b>	<b>947,926.56</b>	<b>211,343.29</b>	<b>15,777,828.66</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>24,596,391.50</b>	<b>(781,163.06)</b>	<b>18,900.50</b>	<b>23,796,327.94</b>
<b>Capital Assets, Net</b>	<b>\$ 26,869,096.34</b>	<b>\$ (467,770.52)</b>	<b>\$ 27,800.50</b>	<b>\$ 26,373,525.32</b>

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2015, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 161,775.95
Accrued Payroll	530,039.89
Contract Retainage	8,978.55
Intergovernmental Payables	47,116.92
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b>\$ 747,911.31</b>

# NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2015, is presented as follows:

	Balance July 1, 2014 (As Restated)	Additions	Reductions	Balance June 30, 2015	Current Portion
Net Pension Liability	\$ 4,061,512.00	\$ 0.00	\$ 3,232,845.00	\$ 828,667.00	\$ 0.00
Compensated Absences	908,068.60	630,111.86	572,345.41	965,835.05	150,187.35
Total Long-Term Liabilities	<u>\$ 4,969,580.60</u>	<u>\$ 630,111.86</u>	<u>\$ 3,805,190.41</u>	<u>\$ 1,794,502.05</u>	<u>\$ 150,187.35</u>

Additional information regarding the net pension liability is included in Note 11.

# NOTE 8 - LEASE OBLIGATIONS

The College entered into operating leases for institutional office equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2015:

Fiscal Year	Amount
2016	\$ 16,476.00
2017	10,383.00
2018	10,383.00
2019	10,383.00
Total Minimum Lease Payments	<u>\$ 47,625.00</u>

Rental expense for all operating leases during the year was \$16,476.00.

# 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	<u>\$ 4,005,368.08</u>	<u>\$ 1,947,553.74</u>	<u>\$ 79,176.25</u>	<u>\$ 1,978,638.09</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Equipment	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 9,224,610.41	\$ 684,671.59	\$ 434,289.25	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10,343,571.25
Academic Support	1,539,191.98	209,549.06	616,487.74				2,365,228.78
Student Services	1,329,010.42	36,666.56	149,909.02				1,515,586.00
Institutional Support	1,400,637.69	296,904.39	643,368.93				2,340,911.01
Operations and Maintenance of Plant	979,664.63	208,239.72	482,018.60		568,700.20		2,238,623.15
Student Financial Aid				3,216,263.61			3,216,263.61
Depreciation						947,926.56	947,926.56
Pension Expense	402,370.00						402,370.00
Total Operating Expenses	\$ 14,875,485.13	\$ 1,436,031.32	\$ 2,326,073.54	\$ 3,216,263.61	\$ 568,700.20	\$ 947,926.56	\$ 23,370,480.36

### NOTE 11 - PENSION PLAN

**Defined Benefit Plan - Plan Administration:** The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by *North Carolina General Statute* 135-5 and may be amended only by the North Carolina General Assembly.

**Benefits Provided:** TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.



*Contributions:* Contribution provisions are established by *North Carolina General Statute* 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2015 was 9.15% of covered payroll. The College's contributions to the pension plan were \$888,087.33, and employee contributions were \$582,352.35 for the year ended June 30, 2015.

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2014 *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.

*TSERS Basis of Accounting:* The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

*Methods Used to Value TSERS Investment:* Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2014 *Comprehensive Annual Financial Report*.

*Net Pension Liability:* At June 30, 2015, the College reported a liability of \$828,667.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2014, the



College's proportion was .07068%, which was an increase of 0.00378% from its proportion measured as of June 30, 2013.

*Actuarial Assumptions:* The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2013
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

\* Salary increases include 3.5% inflation and productivity factor.

\*\* Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	2.5%
Global Equity	6.1%
Real Estate	5.7%
Alternatives	10.5%
Credit	6.8%
Inflation Protection	3.7%

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

*Discount Rate:* The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 5,947,737.59	\$ 828,667.00	\$ (3,494,494.83)

*Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions:* For the year ended June 30, 2015, the College recognized pension expense of \$402,370.00. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

## Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	\$ 0.00	\$ 193,158.00
Changes of Assumptions		
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		2,799,763.00
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	180,624.00	
Contributions Subsequent to the Measurement Date	888,087.00	
Total	<u>\$ 1,068,711.00</u>	<u>\$ 2,992,921.00</u>

The amount of \$888,087.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources that will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2016	\$ (703,248.00)
2017	(703,248.00)
2018	(703,248.00)
2019	(702,553.00)
Total	<u>\$ (2,812,297.00)</u>

## 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

(TSERS). 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 TSERS 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 5.49% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2014, and 2013, were 5.4% and 5.3%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2015, 2014, and 2013, which were \$532,852.40, \$531,612.47, and \$495,699.71, 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 TSERS. 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, 2015, the College made a statutory contribution of .41% of covered payroll under TSERS to the DIPNC. Required

contribution rates for the years ended June 30, 2014, and 2013, were .44% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2015, 2014, and 2013, which were \$39,794.08, \$43,316.57, and \$41,152.43, 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.

#### **A. Public Entity Risk Pool**

##### **Public School Insurance Fund**

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.

#### **B. Employee Benefit Plans**

##### **1. State Health Plan**

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.

## **2. Death Benefit Plan of North Carolina**

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.

## **C. Other Risk Management and Insurance Activities**

### **1. Automobile Insurance**

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.

### **2. Public Officers' and Employees' Liability Insurance**

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.

### **3. Employee Dishonesty and Computer Fraud**

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.

### **4. Statewide Workers' Compensation Program**

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.

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.

## 5. Other Insurance Held by the College

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.

### 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 \$387,428.97 and on other purchases were \$68,833.80 at June 30, 2015.

### NOTE 15 - NET POSITION RESTATEMENT

As of July 1, 2014, net position as previously reported was restated as follows:

	Amount
July 1, 2014 Net Position as Previously Reported	\$ 32,744,422.54
Restatement:	
Record the College's net pension liability and pension related deferred outflows of resources per GASB 68 requirements	(3,238,594.00)
July 1, 2014 Net Position as Restated	<u>\$ 29,505,828.54</u>



# **REQUIRED SUPPLEMENTARY INFORMATION**



**Southwestern Community College  
Required Supplementary Information  
Schedule of the Proportionate Net Pension Liability  
Teachers' and State Employees' Retirement System  
Last Two Fiscal Years**

**Exhibit C-1**

	<u>2014</u>	<u>2013</u>
(1) Proportionate Share Percentage of Collective Net Pension Liability	0.07068%	0.06690%
(2) Proportionate Share of TSERS Collective Net Pension Liability	\$ 828,667.00	\$ 4,061,512.00
(3) Covered-Employee Payroll	\$ 9,844,675.33	\$ 9,352,824.68
(4) Net Pension Liability as a Percentage of Covered-Employee Payroll	8.42%	43.43%
(5) Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.24%	90.60%

**Southwestern Community College  
Required Supplementary Information  
Schedule of College Contributions  
Teachers' and State Employees' Retirement System  
Last Ten Fiscal Years**

**Exhibit C-2**

	2015	2014	2013	2012	2011
(1) Contractually Required Contribution	\$ 888,087.33	\$ 855,502.29	\$ 779,090.30	\$ 666,990.84	\$ 479,193.31
(2) Contributions in Relation to the Contractually Determined Contribution	888,087.33	855,502.29	779,090.30	666,990.84	479,193.31
(3) Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
(4) Covered-Employee Payroll	\$ 9,705,872.47	\$ 9,844,675.33	\$ 9,352,824.68	\$ 8,964,930.59	\$ 9,719,945.37
(5) Contributions as a Percentage of Covered-Employee Payroll	9.15%	8.69%	8.33%	7.44%	4.93%

	2010	2009	2008	2007	2006
(1) Contractually Required Contribution	\$ 345,392.08	\$ 321,742.20	\$ 276,927.03	\$ 228,636.06	\$ 179,749.95
(2) Contributions in Relation to the Contractually Determined Contribution	345,392.08	321,742.20	276,927.03	228,636.06	179,749.95
(3) Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
(4) Covered-Employee Payroll	\$ 9,674,848.17	\$ 9,575,660.62	\$ 9,079,574.89	\$ 8,595,340.73	\$ 7,681,624.99
(5) Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.36%	3.05%	2.66%	2.34%

**Southwestern Community College**  
**Notes to Required Supplementary Information**  
**Schedule of College Contributions**  
**Teachers' and State Employees' Retirement System**  
**For the Fiscal Year Ended June 30, 2015**

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*Changes of Benefit Terms:*

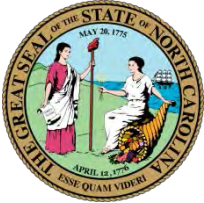
<u>Cost of Living Increase</u>								
<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

*Changes of assumptions.* In 2008, and again in 2012, the rates of withdrawal, mortality, service retirement and salary increase for active members and the rates of mortality for beneficiaries were adjusted to more closely reflect actual experience. Assumptions for leave conversions and loads were also revised in 2012.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0600  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
<http://www.ncauditor.net>

**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, 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 6, 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 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

October 6, 2015

# ORDERING INFORMATION

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For additional information contact:  
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This audit required 348.5 audit hours at an approximate cost of \$34,501.50.