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, 2017

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

The Honorable Roy Cooper, 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, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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 (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, 2017, 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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 February 28, 2018 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.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 28, 2018

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, 2017. 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 College'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; and
- 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 No. 35, *Basic Financial Statements – and Management's Discussion and Analysis,* focusing on the College as a whole. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Southwestern Community College Foundation, Inc. (Foundation) is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

Three basic financial statements are included in this report along with the notes to the financial statements and the required supplementary information: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

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, Expenditures, 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.

The amounts presented for the fiscal year ended June 30, 2016 have been restated as reflected in Note 17 of the financial statements.

Financial Highlights for Fiscal Year 2016-2017

Condensed Statement of Net Position

Below is a condensed comparative analysis between the Statement of Net Position for the fiscal year ended June 30, 2017 and the prior fiscal year.

	FY 2016-2017	FY 2015-2016 (as Restated)	Difference	% Difference
ASSETS				
Current Assets	$ 5,198,880.31	$ 5,188,564.96	$ 10,315.35	0.20%
Noncurrent Assets				
Capital Assets, Net	29,442,101.63	28,940,512.17	501,589.46	1.73%
Other Noncurrent Assets	1,509,040.98	1,340,373.37	168,667.61	12.58%
Total Assets	36,150,022.92	35,469,450.50	680,572.42	1.92%
DEFERRED OUTFLOWS OF RESOURCES	4,410,829.00	1,067,137.00	3,343,692.00	313.33%
LIABILITIES				
Current Liabilities	1,208,405.47	1,286,900.92	(78,495.45)	(6.10%)
Noncurrent Liabilities				
Long-Term Liabilities	7,290,565.26	3,498,473.52	3,792,091.74	108.39%
Other Noncurrent Liabilities	73,362.93	42,981.12	30,381.81	70.69%
Total Liabilities	8,572,333.66	4,828,355.56	3,743,978.10	77.54%
DEFERRED INFLOWS OF RESOURCES	362,147.00	589,234.00	(227,087.00)	(38.54%)
NET POSITION				
Investment in Capital Assets	29,442,101.63	28,647,042.33	795,059.30	2.78%
Restricted	2,152,473.40	2,019,178.21	133,295.19	6.60%
Unrestricted	31,796.23	452,777.40	(420,981.17)	(92.98%)
Total Net Position	$ 31,626,371.26	$ 31,118,997.94	$ 507,373.32	1.63%

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 $507,373.32 from the previous fiscal year. This change represents a 1.63% increase due principally to an increase of $795,059.30 in investment in capital assets coupled with an increase to restricted net position of $133,295.19 and a decrease to unrestricted net position of $420,981.17.

Assets

Current Assets – Current assets consist of cash, cash equivalents, receivables, and inventories expected to be collected within the next accounting cycle. The current assets of the College, consisting primarily of cash and receivables, totaled $5,198,880.31 at June 30, 2017. The increase of $10,315.35 in current assets represents a minimal 0.20% growth over the prior year.

Other Noncurrent Assets – Other noncurrent assets, which is comprised of restricted cash and restricted receivables, increased by $168,667.61. The increase is due to an increase in restricted cash and cash equivalents of $87,387.60 and an $81,280.01 increase in restricted due from primary government for the purpose of renovation to the Summit Building located at the Jackson Campus.

Capital Assets – 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 life 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 $29,442,101.63 at June 30, 2017.

Capital Assets, Net
As of June 30, 2017

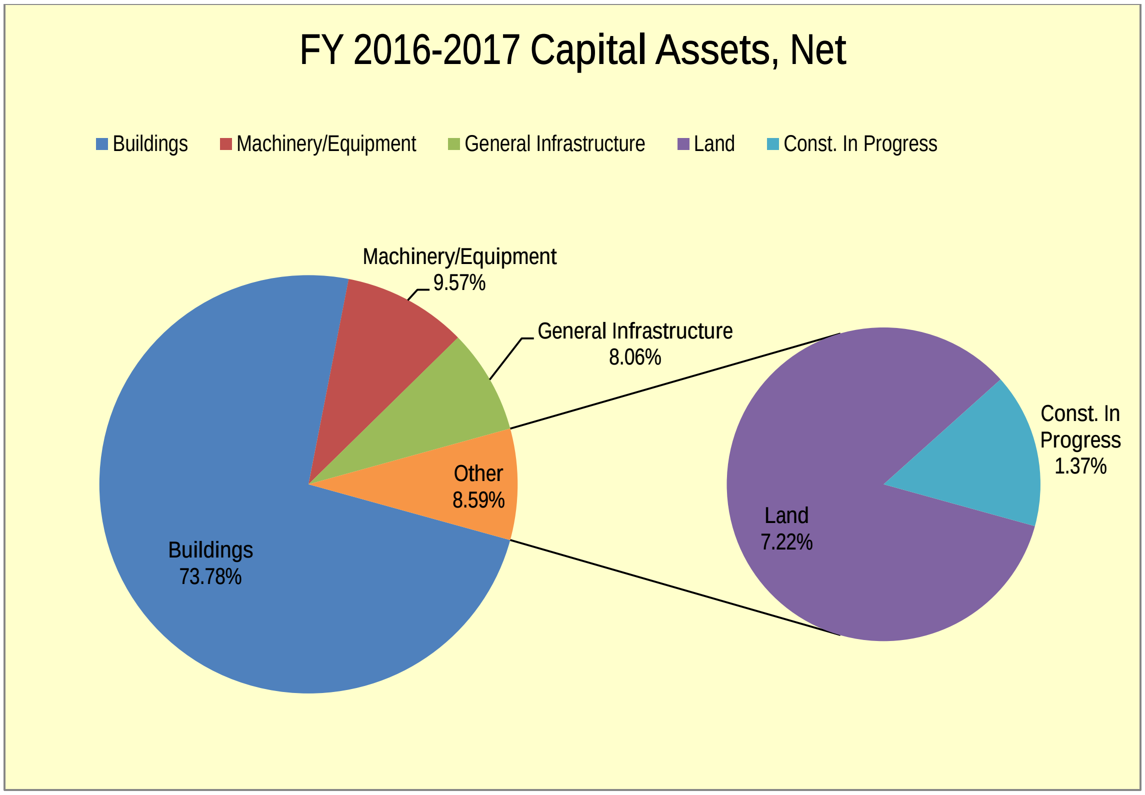
	FY 2016-2017	FY 2015-2016
Capital Assets, Nondepreciable		
Land	$ 2,126,784.33	$ 2,126,784.33
Construction in Progress	403,121.08	2,565,473.65
Total Capital Assets, Nondepreciable	2,529,905.41	4,692,257.98
Capital Assets, Depreciable		
Buildings	33,779,206.87	30,818,534.12
General Infrastructure	3,850,999.80	3,732,280.80
Machinery and Equipment	6,829,301.77	6,342,237.23
Total Capital Assets, Depreciable	44,459,508.44	40,893,052.15
Total	46,989,413.85	45,585,310.13
Less Accumulated Depreciation	17,547,312.22	16,644,797.96
Capital Assets, Net	$ 29,442,101.63	$ 28,940,512.17

Significant capital activity in the current year consisted of the following:

- The College completed construction on Founder's Hall and Bradford Hall, which resulted in a decrease to construction in progress of $3,079,391.75 and corresponding increases to buildings and general infrastructure of $2,960,672.75 and $118,719.00, respectively;
- the College purchased $634,458.78 in machinery and equipment; and
- depreciation expense for the year ended June 30, 2017 totaled $1,009,199.81.

Depreciable capital assets are reported net of accumulated depreciation. At June 30, 2017, 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 $4,410,829.00, an increase of $3,343,692.00 over the prior fiscal year. The increase is a direct result of the difference between actual and projected investment performance of the Teachers' and State Employees' Retirement System (TSERS) plan's assets and adjustments made for changes in actuarial assumptions related to plan participants. See Note 12 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, 2017 included:

- Accrued Compensation - $526,541.53
- Accounts Payable - $215,789.18
- Unearned Revenue and Funds Held for Others – $326,379.22
- Current Portion of Long Term Liabilities (accrued vacation leave) - $139,695.54

Total current liabilities at year end were $1,208,405.47 and represented a decrease of only $78,495.45 (6.1%) from the previous year. This decrease was mainly attributable to decreases in accrued compensation of $26,444.65 and accounts payable of $160,251.53 offset by an increase in unearned revenue and funds held for others of $94,287.84 and an increase in the current portion of compensated absences of $13,912.89.

Noncurrent Liabilities – Long-term liabilities consist of accrued vacation and bonus leave not expected to be used within the next twelve months totaling $809,968.26, net pension liability in the amount of $6,480,597.00, which represents the College's pro-rata share of the collective TSERS net pension liability, and funds held for others totaling $73,362.93, which represents Foundation cash held in the College's STIF account. Noncurrent liabilities increased by $3,822,473,55, or 107.94%, due principally to the lower investment performance of the TSERS plan, which requires the College to recognize its proportionate share of the plan's collective net pension liability.

Current and noncurrent liabilities totaled $8,572,333.66 as of June 30, 2017.

Deferred Inflows of Resources

Deferred inflows of resources totaled $362,147.00 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 12 to the financial statements for more details.

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. This is one indicator of whether the College's overall financial condition has improved or worsened during the fiscal year.

Total net position at June 30, 2017 was $31,626,371.26 and represented 1.63% increase of $507,373.32 from fiscal year 2015-2016.

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

Investment in Capital Assets - Investment in capital assets represents the College's total investment in capital assets. Of the $31,626,371.26 in net position this year, $29,442,101.63 was attributable to the College's investment in capital assets. The increase of $795,059.30 in capital assets is mostly the result of additions and retirements to machinery and equipment of $487,064.54 and building additions of $2,960,672.75, offset by a net decrease of $2,162,352.57 to construction in progress. During the fiscal year, there was a net increase in the amount of accumulated depreciation totaling $902,514.26.

Restricted – 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. There was no change to restricted – nonexpendable net position.

Restricted – Expendable - Expendable restricted net position includes resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. Restricted net position – expendable increased by $133,295.19 in fiscal year 2016-2017. The increase in restricted net position – expendable is primarily due to an increase 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, 2017, the unrestricted net position totaled $31,796.23 and represented a decrease of $420,981.17 from the prior fiscal year. The majority of the decrease is directly related to the TSERS plan's performance.

Statement of Revenues, Expenses, and Changes in Net Position

The activity presented on the Statement of Revenues, Expenses, and Change in Net Position represents 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, both operating and nonoperating, and any other revenues, expenses, gains and losses received.

Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Year 2016-2017

	FY 2016-2017	FY 2015-2016 (as Restated)	Difference	% Difference
OPERATING REVENUES				
Student Tuition and Fees, Net	$ 1,995,634.50	$ 1,699,468.29	$ 296,166.21	17.43%
Federal Grants and Contracts	153,430.19	191,396.84	(37,966.65)	(19.84%)
State and Local Grants and Contracts	25,991.17	17,809.90	8,181.27	45.94%
Sales and Services	189,685.23	72,550.65	117,134.58	161.45%
Other Operating Revenues	71,288.71	20,849.85	50,438.86	241.91%
Total Operating Revenues	2,436,029.80	2,002,075.53	433,954.27	21.68%
OPERATING EXPENSES				
Salaries and Benefits	16,211,889.25	14,737,496.75	1,474,392.50	10.00%
Supplies and Materials	2,099,605.83	2,036,400.63	63,205.20	3.10%
Services	2,095,605.86	2,180,856.96	(85,251.10)	(3.91%)
Scholarships and Fellowships	2,593,436.30	2,952,791.11	(359,354.81)	(12.17%)
Utilities	558,069.94	526,193.51	31,876.43	6.06%
Depreciation	1,009,199.81	930,957.80	78,242.01	8.40%
Total Operating Expenses	24,567,806.99	23,364,696.76	1,203,110.23	5.15%
Operating Loss	(22,131,777.19)	(21,362,621.23)	(769,155.96)	3.60%
NONOPERATING REVENUES (EXPENSES)				
State Aid	12,290,072.04	12,081,820.51	208,251.53	1.72%
County Appropriations	2,348,491.00	2,305,944.00	42,547.00	1.85%
Noncapital Grants - Student Financial Aid	4,106,079.31	4,771,915.64	(665,836.33)	(13.95%)
Noncapital Grants	1,526,461.66	890,569.54	635,892.12	71.40%
Noncapital Gifts	85,475.51	85,321.50	154.01	0.18%
Investment Income	52,651.62	38,592.11	14,059.51	36.43%
Other Nonoperating Revenues		181,254.11	(181,254.11)	(100.00%)
Other Nonoperating Expenses	(207,469.84)		(207,469.84)	100.00%
Net Nonoperating Revenues	20,201,761.30	20,355,417.41	(153,656.11)	(0.75%)
Loss Before Other Revenues	(1,930,015.89)	(1,007,203.82)	(922,812.07)	91.62%
OTHER REVENUES				
State Capital Aid	1,785,734.59	1,265,102.47	520,632.12	41.15%
County Capital Aid	519,206.84	1,235,697.16	(716,490.32)	(57.98%)
Capital Grants	65,446.90	61,352.00	4,094.90	6.67%
Capital Gifts	67,000.88	32,999.12	34,001.76	103.04%
Total Other Revenues	2,437,389.21	2,595,150.75	(157,761.54)	(6.08)%
Increase in Net Position	507,373.32	1,587,946.93	(1,080,573.61)	(68.05)%
NET POSITION				
Net Position - Beginning of Year, as Restated	31,118,997.94	29,531,051.01	1,587,946.93	5.38%
Net Position - End of Year	$ 31,626,371.26	$ 31,118,997.94	$ 507,373.32	1.63%
Reconciliation of Increase in Net Position:				
Total Revenues	$ 25,282,650.15	$ 24,952,643.69	$ 330,006.46	1.32%
Less: Total Expenses	24,775,276.83	23,364,696.76	1,410,580.07	6.04%
Increase in Net Position	$ 507,373.32	$ 1,587,946.93	$ (1,080,573.61)	(68.05%)

Operating Revenues

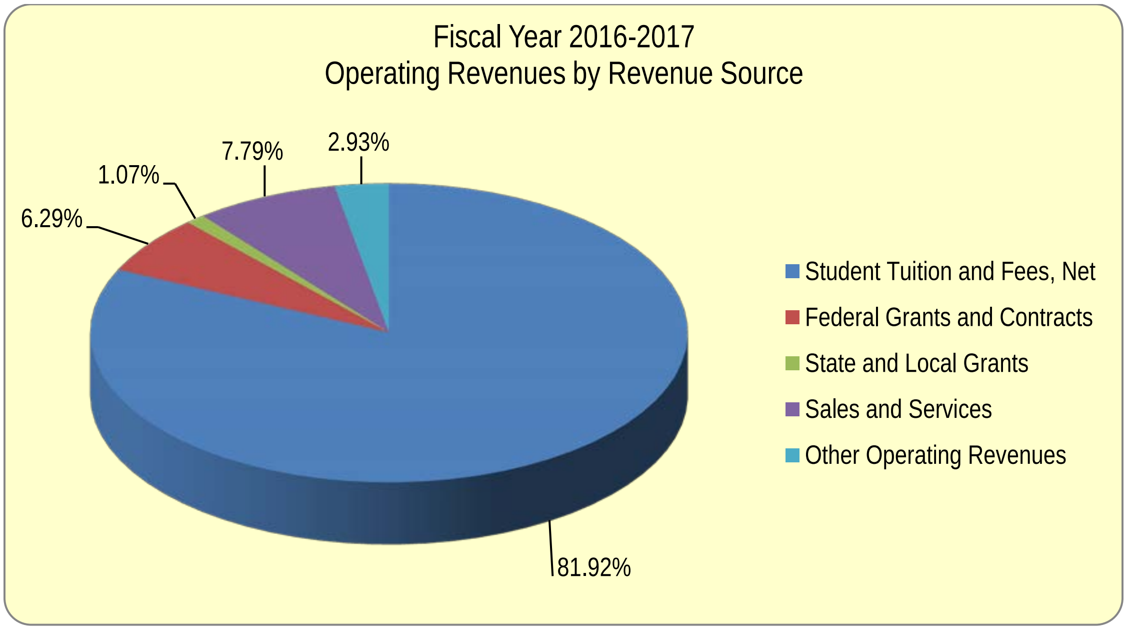
Operating revenues totaled $2,436,029.80 and consisted of five areas: student tuition and fees, net; federal grants and contracts; state and local grants and contracts; sales and services; and other operating revenues.

The increase of $433,954.27 in operating revenues is primarily attributed to:

1. an increase of student tuition and fees in the amount of $296,166.21 resulting in a 17.43% increase over the prior year as a result of a decrease in scholarship discounts and allowances due to less students on financial aid;

2. a decrease of $37,966.65 (19.84%) from fiscal year 2015-2016 in federal grants and contracts as a result of a $14,609.66 decrease in the Oconuluftee Job Corp grant and a $8,201.99 decrease in the Lyndon B. Johnson Job Corp grant;
3. an increase in $8,181.27 resulting in a 45.94% increase in state and local grants and contracts over the previous year;
4. an increase in sales and services in the amount of $117,134.58 (161.45%) resulting from the prior year's write-off of Return to Title IV debt which caused 2015-2016 sales and services revenue to appear comparatively lower; and
5. an increase in other operating revenues of $50,438.86 (241.91%) primarily resulting from Café 64 operating revenue of $57,461.92.

The sum of these factors yielded a total increase in operating revenues of 21.68%. The chart below illustrates operating revenues for fiscal year 2016-2017 by revenue source:



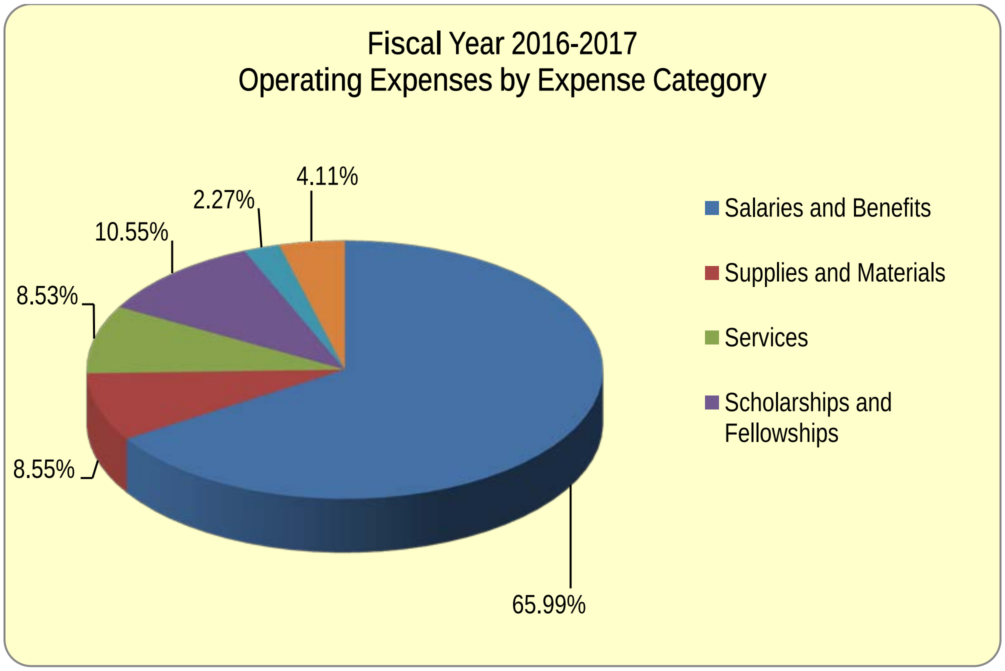
Operating Expenses

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

Operating expenses for fiscal year 2016-2017 totaled $24,567,806.99 and consisted of six categories: salaries and benefits, supplies and materials, services, scholarships and fellowships, utilities, and depreciation.

The increase of $1,203,110.23 in operating expenses from the prior fiscal year is attributed to the following:

1. Salaries and benefits expense increased by $1,474,392.50 principally due to:
   a. an increase of $84,439.17 in operating expenses associated with Café 64,
   b. an increase of $967,007.00 in pension expense,
   c. an increase of $41.669.02 associated with the Learning Resource Center,
   d. an increase of $46,792.22 associated with college access costs, and
   e. costs associated with new hires and position reclassifications.
2. Scholarship and fellowship expense decreased by $359,354.81 due to a net decrease in Pell grants awarded of $698,903.53, offset by an increase in state grant funds of $40,097.00 in addition to a decrease in scholarship discount allowances of approximately $300,000.00.
3. Supplies and materials expense increased by $63,205.20 due to an increase in fire and rescue training expenses of $55,629.06 due to increased demand and volume.
4. Services expense decreased by $85,251.10 primarily due to a reduction in printing expenses of $45,624.28 and a $22,002.92 reduction in spending for information technology expenses.
5. Utility costs increased by $31,876.43.
6. Depreciation expense increased by $78,242.01 primarily due to the capitalization of projects completed for Founder's Hall and Bradford Hall.



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, noncapital 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 facilities.

In fiscal year 2016-2017, nonoperating revenues increased by $53,813.73. The increase is due principally to the following:

1. An increase in state aid in the amount of $208,251.53. This increase was a result of additional funding related to FTE growth in the prior year as well as a reduction in mandatory reversions.
2. A slight increase in local appropriations in the amount of $42,547.00.
3. A decrease of $665,836.33 in noncapital grants - student financial aid, which was primarily due to a 3.00% decrease in the College's FTE in the current year.
4. An increase in noncapital grants in the amount of $635,892.12. The increase in noncapital grants was primarily due to the receipt of the Smoky Mountain Regions Ascent Golden Leaf Foundation grant for $213,867.91, a $225,764.28 increase in the NASA Collaboration grant, a $79,760.97 increase in the First in the World Grant, and a $16,717.41 increase in the Upward Bound Grant.
5. Other nonoperating revenues decreased by $181,254.11 due to a decrease in recoveries of bad debt.

Nonoperating expenses increased by $207,469.84 primarily due to NASA STEM grants awarded to local public schools.

Other Revenues

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

The College received $2,304,941.43 in state capital aid and county capital aid. This amount represented a decrease of $195,858.20 from the previous fiscal year. The majority of this decrease is attributed to the completion of renovations to Founder's Hall and Bradford Hall during the year.

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 majority of funding for the College through current operating and capital allocations. Most of the funding the College receives from the State is based upon enrollment. The College's state funding for fiscal year 2016-2017 increased primarily as a result of an average increase in FTE in prior years.

County appropriations provides 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 2016-2017, 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 numerous grants from various sources and was awarded a total of $1,817,879.00 during the 2016-2017 fiscal year.

Significant grant awards included:

- Appalachian Regional Commission in the amount of $527,379.00
- U.S. Department of Education (Upward Bound) in the amount of $1,287,500.00

In addition to the Appalachian Regional Commission grant which provided $527,379.00 from the Appalachian Regional Commission, the College also received $72,820.00 from the Foundation, $34,325.00 from Golden LEAF Funding, and $250,000.00 from Jackson County Facility funding for a total of $884,524.00 in total funding. The funds will be used for equipment enhancements, student internships, and teacher job shadowing at area industries. Upward Bound provides support for pre-college students and has been an ongoing grant source for the College.

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. Consistent with this purpose, the College will begin planning and designing of a new 55,000 square foot health sciences building located at the Jackson Campus and an 8,000 square foot maintenance building also located at the Jackson Campus. Funding from the NC Connect bond (the College's portion was $7,170,597.00) will support the planning and design phases and will support initial construction phases prior to utilizing Jackson County funds of $11,529,403.00 for the health sciences building and $1,182,000.00 for the maintenance building. Allocations are as follows:

- NC Connect funds will provide $5,445,597.00 for initial funding of the Health Sciences building; $11,529,403.00 will be provided from local, Jackson County funds.
- The new maintenance building will use $700,000.00 from local funds and was approved for an additional $225,000.00 from the 2017-18 budget cycle to complete construction needs.
- The Summit building at the Jackson campus was previously allocated $482,000.00 in local funds. However, initial estimates for the maintenance building were higher than initial projections due to necessary site improvements. As a result, the remainder of the $482,000.00 was transferred to provide funding to complete the maintenance building from local funds.

- State funds totaling $374,500.00 were transferred from equipment to capital for the purpose of completing the renovations to the Summit building. Both the Summit renovations and the maintenance building should be complete during the 2017-18 academic year or soon thereafter.

The College has operated a firing range in Jackson County for over 30 years on land owned by Jackson County. It was discovered that the soil had lead and other metal contamination related to the firing range activity. The College has been working with the North Carolina Department of Environmental Quality to establish a plan to remediate the contamination. The College has hired a contractor to execute the approved remediation plan. This began in September 2016. Jackson County has agreed to fund 100% of the cost of the remediation. To date, $225,108.62 has been awarded for remediation from Jackson County.

The remaining projects consist of a new burn building and repaving of a driving range to be located in Macon County. The College is currently awaiting Macon County Commissioners to approve required local matching funds to join the NC Connect Bond monies. However, a space has been identified on the Macon Campus for the new burn building.

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 allocating resources. Management is confident that 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 and the Qualla Boundary of North Carolina.

FINANCIAL STATEMENTS

Southwestern Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2017

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 4,014,456.89
Restricted Cash and Cash Equivalents	699,710.30
Receivables, Net (Note 5)	410,173.93
Inventories	74,539.19
Total Current Assets	5,198,880.31
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,160,628.77
Restricted Due from Primary Government	348,412.21
Capital Assets - Nondepreciable (Note 6)	2,529,905.41
Capital Assets - Depreciable, Net (Note 6)	26,912,196.22
Total Noncurrent Assets	30,951,142.61
Total Assets	36,150,022.92
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	4,410,829.00
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 7)	742,330.71
Unearned Revenue	306,764.60
Funds Held for Others	19,614.62
Long-Term Liabilities - Current Portion (Note 8)	139,695.54
Total Current Liabilities	1,208,405.47
Noncurrent Liabilities:	
Funds Held for Others	73,362.93
Long-Term Liabilities (Note 8)	7,290,565.26
Total Noncurrent Liabilities	7,363,928.19
Total Liabilities	8,572,333.66
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to Pensions	362,147.00

NET POSITION	
Investment in Capital Assets	29,442,101.63
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	25,500.00
Expendable:	
Scholarships and Fellowships	10,679.57
Loans	30,063.85
Capital Projects	1,358,171.89
Restricted for Specific Programs	651,344.92
Other	76,713.17
Unrestricted	31,796.23
Total Net Position	$ 31,626,371.26

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, 2017 — *Exhibit A-2*

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 10)	$ 1,995,634.50
Federal Grants and Contracts	153,430.19
State and Local Grants and Contracts	25,991.17
Sales and Services	189,685.23
Other Operating Revenues	71,288.71
Total Operating Revenues	2,436,029.80
EXPENSES	
Operating Expenses:	
Salaries and Benefits	16,211,889.25
Supplies and Materials	2,099,605.83
Services	2,095,605.86
Scholarships and Fellowships	2,593,436.30
Utilities	558,069.94
Depreciation	1,009,199.81
Total Operating Expenses	24,567,806.99
Operating Loss	(22,131,777.19)
NONOPERATING REVENUES (EXPENSES)	
State Aid	12,290,072.04
County Appropriations	2,348,491.00
Noncapital Grants - Student Financial Aid	4,106,079.31
Noncapital Grants	1,526,461.66
Noncapital Gifts	85,475.51
Investment Income	52,651.62
Other Nonoperating Expenses	(207,469.84)
Net Nonoperating Revenues	20,201,761.30
Loss Before Other Revenues	(1,930,015.89)
State Capital Aid	1,785,734.59
County Capital Aid	519,206.84
Capital Grants	65,446.90
Capital Gifts	67,000.88
Increase in Net Position	507,373.32
NET POSITION	
Net Position, July 1, 2016 as Restated (Note 17)	31,118,997.94
Net Position, June 30, 2017	$ 31,626,371.26

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

Southwestern Community College
Statement of Cash Flows *Exhibit A-3*
For the Fiscal Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 2,503,630.36
Payments to Employees and Fringe Benefits	(16,005,044.27)
Payments to Vendors and Suppliers	(4,666,155.96)
Payments for Scholarships and Fellowships	(2,589,758.98)
Other Payments	(145,202.27)
Net Cash Used by Operating Activities	(20,902,531.12)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	12,290,072.04
County Appropriations	2,348,491.00
Noncapital Grants - Student Financial Aid	4,126,684.20
Noncapital Grants	1,389,259.84
Noncapital Gifts	85,475.51
William D. Ford Direct Lending Receipts	1,258,235.00
William D. Ford Direct Lending Disbursements	(1,258,235.00)
Net Cash Provided by Noncapital Financing Activities	20,239,982.59
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	1,704,454.58
County Capital Aid	506,399.56
Capital Grants	65,446.90
Acquisition and Construction of Capital Assets	(1,714,066.66)
Net Cash Provided by Capital and Related Financing Activities	562,234.38
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	52,651.62
Net Decrease in Cash and Cash Equivalents	(47,662.53)
Cash and Cash Equivalents, July 1, 2016	5,922,458.49
Cash and Cash Equivalents, June 30, 2017	$ 5,874,795.96

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (22,131,777.19)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,009,199.81
Nonoperating Other Expenses	(166,761.15)
Changes in Assets and Deferred Outflows of Resources:	
Receivables, Net	32,417.11
Inventories	15,871.62
Deferred Outflows for Pensions	(3,343,692.00)
Changes in Liabilities and Deferred Inflows of Resources:	
Accounts Payable and Accrued Liabilities	42,873.40
Unearned Revenue	38,860.77
Net Pension Liability	3,826,886.00
Funds Held for Others	21,558.88
Deferred Inflows for Pensions	(227,087.00)
Compensated Absences	(20,881.37)
Net Cash Used by Operating Activities	$ (20,902,531.12)
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
Current Assets:	
Cash and Cash Equivalents	$ 4,014,456.89
Restricted Cash and Cash Equivalents	699,710.30
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,160,628.77
Total Cash and Cash Equivalents - June 30, 2017	$ 5,874,795.96
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Assets Acquired through a Gift	67,000.88
Increase in Receivables Related to Nonoperating Income	81,280.01
Loss on Disposal of Capital Assets	(40,708.69)

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, 2017 — *Exhibit B-1*

ASSETS		
Current Assets:		
Cash and Equivalents	$	167,392
Pledges Receivable, Net		40,320
Total Current Assets		207,712
Long-Term Assets:		
Investments		4,848,075
Pledges Receivable, Long-Term		93,976
Total Long-Term Assets		4,942,051
Total Assets	$	5,149,763
LIABILITIES		
Total Liabilities	$	0
NET ASSETS		
Unrestricted		113,943
Temporarily Restricted		1,071,533
Permanently Restricted		3,964,287
Total Net Assets		5,149,763
Total Liabilities and Net Assets	$	5,149,763

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, 2017 ***Exhibit B-2***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Contributions	$ 90,049	$ 43,748	$ 114,734	$ 248,531
Special Events Revenue	63,681	5,115		68,796
Investment Gains		74,830	416,077	490,907
Interest Income	925			925
In Kind Contributions	229,262			229,262
Subtotal	383,917	123,693	530,811	1,038,421
Net Assets Released from Restrictions:				
By Expenditure	158,480	(158,480)		
By Reclassification	(16,554)	64,269	(47,715)	
Total Support and Revenue	525,843	29,482	483,096	1,038,421
EXPENSES				
Program Expenses:				
Scholarships and Grants	108,300			108,300
Contributed Services/Facilities	35,266			35,266
Health Sciences Clinical Center	67,001			67,001
Other Program Activities	6,063			6,063
Total Program Expenses	216,630			216,630
Supporting Services:				
Management and General	99,864			99,864
Fundraising	115,824			115,824
Total Supporting Services	215,688			215,688
Total Expenses	432,318			432,318
Change in Net Assets	93,525	29,482	483,096	606,103
Net Assets at Beginning of Year	20,418	1,042,051	3,481,191	4,543,660
Net Assets at End of Year	$ 113,943	$ 1,071,533	$ 3,964,287	$ 5,149,763

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. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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 fundraising 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, 2017, the Foundation distributed $175,101.62 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, Sylva, North Carolina 28779, (828) 339-4241.

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

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

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

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state aid, 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 undeposited receipts, 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. The College's equity position in the STIF is recorded at fair value. Additional information regarding the fair value measurement of deposits held by the State Treasurer in the STIF is disclosed in Note 3.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. 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 and 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 2016 *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 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources 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 fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

K. **Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows for pensions qualifies for reporting in this category.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred inflows for pensions qualifies for reporting in this category.

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

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

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 of resources and deferred inflows of resources.

M. **Scholarship Discounts** - Student tuition and fees revenues from College charges 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 and fees, the College has recorded a scholarship discount.

N. **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.

O. **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 $2,255.00, and deposits in private financial institutions with a carrying value of $545,620.60 and a bank balance of $544,666.79.

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, 2017, 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 (STIF); 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, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $5,326,920.36, 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 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at 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 North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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 at June 30 2017 by type:

Equities	$	3,316,109
Fixed Income		1,124,233
Alternatives		199,272
Cash		208,461
Total Investments	$	4,848,075

NOTE 3 - FAIR VALUE MEASUREMENTS

College - To the extent available, the College's investments are recorded at fair value as of June 30, 2017. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 — Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 — Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs and may require a degree of professional judgment.

Short-Term Investment Fund - At year-end, all of the College's investments valued at $5,326,920.36 were held in the STIF which is a Level 2 investment. Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Component Unit – Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

	Fair Value	Level 1 Assets	Level 2 Assets	Level 3 Assets
Investments	$ 4,848,075	$ 0	$ 4,848,075	$ 0
Pledges Receivable, Net	134,296			134,296
Total	$ 4,982,371	$ 0	$ 4,848,075	$ 134,296

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets for identical assets.

Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets.

Financial assets valued using Level 3 inputs are based on unobservable inputs. Multi-year pledges receivable are discounted to present value and the allowance for collectability is adjusted based on management review.

NOTE 4 - 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, 2017, net appreciation of $16,308.63 was available to be spent, of which $4,933.71 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 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 354,700.71	$ 322,812.08	$ 31,888.63
Student Sponsors	38,612.50	7,380.00	31,232.50
Accounts	1,110.00	100.00	1,010.00
Intergovernmental	346,042.80		346,042.80
Total Current Receivables	$ 740,466.01	$ 330,292.08	$ 410,173.93

NOTE 6 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2017, is presented as follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land	$ 2,126,784.33	$ 0.00	$ 0.00	$ 2,126,784.33
Construction in Progress	2,565,473.65	917,039.18	3,079,391.75	403,121.08
Total Capital Assets, Nondepreciable	4,692,257.98	917,039.18	3,079,391.75	2,529,905.41
Capital Assets, Depreciable:				
Buildings	30,818,534.12	2,960,672.75		33,779,206.87
Machinery and Equipment	6,342,237.23	634,458.78	147,394.24	6,829,301.77
General Infrastructure	3,732,280.80	118,719.00		3,850,999.80
Total Capital Assets, Depreciable	40,893,052.15	3,713,850.53	147,394.24	44,459,508.44
Less Accumulated Depreciation for:				
Buildings	11,687,753.29	369,278.01		12,057,031.30
Machinery and Equipment	3,545,534.28	573,025.73	106,685.55	4,011,874.46
General Infrastructure	1,411,510.39	66,896.07		1,478,406.46
Total Accumulated Depreciation	16,644,797.96	1,009,199.81	106,685.55	17,547,312.22
Total Capital Assets, Depreciable, Net	24,248,254.19	2,704,650.72	40,708.69	26,912,196.22
Capital Assets, Net	$ 28,940,512.17	$ 3,621,689.90	$ 3,120,100.44	$ 29,442,101.63

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2017, were as follows:

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 215,789.18
Accrued Payroll	526,541.53
Total Current Accounts Payable and Accrued Liabilities	$ 742,330.71

NOTE 8 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2017, is presented as follows:

	Balance July 1 , 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 2,653,711.00	$ 3,826,886.00	$ 0.00	$ 6,480,597.00	$ 0.00
Compensated Absences	970,545.17	532,155.58	553,036.95	949,663.80	139,695.54
Total Long-Term Liabilities	$ 3,624,256.17	$ 4,359,041.58	$ 553,036.95	$ 7,430,260.80	$ 139,695.54

Additional information regarding the net pension liability is included in Note 12.

NOTE 9 - 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, 2017:

Fiscal Year	Amount
2018	$ 5,365.44
2019	5,365.44
2020	894.24
Total Minimum Lease Payments	$ 11,625.12

Rental expense for all operating leases during the year was $5,365.44.

NOTE 10 - 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, Net	$ 3,635,737.86	$ 1,563,785.92	$ 76,317.44	$ 1,995,634.50

NOTE 11 - 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	$ 9,925,445.88	$ 949,240.45	$ 544,190.21	$ 0.00	$ 0.00	$ 0.00	$ 11,418,876.54
Academic Support	2,026,738.93	515,746.38	249,412.97				2,791,898.28
Student Services	1,675,973.47	59,856.82	163,935.48				1,899,765.77
Institutional Support	1,392,338.28	308,783.17	560,380.96				2,261,502.41
Operations and Maintenance of Plant	1,094,731.89	196,950.50	575,754.66		558,069.94		2,425,506.99
Student Financial Aid				2,593,436.30			2,593,436.30
Auxilary Enterprises	96,660.80	69,028.51	1,931.58				167,620.89
Depreciation						1,009,199.81	1,009,199.81
Total Operating Expenses	$ 16,211,889.25	$ 2,099,605.83	$ 2,095,605.86	$ 2,593,436.30	$ 558,069.94	$ 1,009,199.81	$ 24,567,806.99

NOTE 12 - PENSION PLANS

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 pension 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 that elect to join the Retirement System. Benefit provisions are established by 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 General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina 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, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $619,250.93, and the College's contributions were $1,030,020.72 for the year ended June 30, 2017.

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 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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 Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $6,480,597.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. 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, 2016, the

College's proportion was 0.07051%, which was a decrease of 0.0015 from its proportion measured as of June 30, 2015.

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	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
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, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 (the valuation date) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Credit	6.0%
Inflation Protection	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability, and investment policy of 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. 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 at June 30, 2016 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	
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 12,188,751.34	$ 6,480,597.00	$ 1,680,822.32

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,284,192.00. At June 30, 2017, 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	$ 306,282.00
Changes of Assumptions	955,731.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,311,189.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	113,888.28	55,865.00
Contributions Subsequent to the Measurement Date	1,030,020.72	
Total	$ 4,410,829.00	$ 362,147.00

The amount of $1,030,020.72 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, 2018. 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
2018	$ 535,193.00
2019	535,863.00
2020	1,248,957.00
2021	698,648.28
Total	$ 3,018,661.28

NOTE 13 - 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 period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $599,641.32, $547,539.05, and $532,852.40, 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 on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ 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, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $39,219.23, $40,087.68, and $39,794.08, 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 14 - 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 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 $100,000 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 insurance programs working at clinical sites, liability insurance for cosmetology students, and liability insurance for incidents which could arise at the College's law enforcement firearms training range.

NOTE 15 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on other purchases were $75,902.47 at June 30, 2017.

NOTE 16 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2017, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

GASB Statement No. 82 addresses certain issues with respect to Statements No. 67, *Financial Reporting for Pension Plans* , No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 17 - NET POSITION RESTATEMENT

As of July 1, 2016, net position as previously reported was restated as follows:

		Amount
July 1, 2016 Net Position as Previously Reported	$	31,394,449.78
Restatement:		
Adjustment for revenue not earned until current year		(275,451.84)
July 1, 2016 Net Position as Restated	$	31,118,997.94

REQUIRED SUPPLEMENTARY INFORMATION

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

Exhibit C-1

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.07051%	0.07201%	0.07068%	0.06690%
Proportionate Share of TSERS Collective Net Pension Liability	$ 6,480,597.00	$ 2,653,711.00	$ 828,667.00	$ 4,061,512.00
Covered Payroll	$ 9,777,483.21	$ 9,705,872.47	$ 9,844,675.33	$ 9,352,824.68
Net Pension Liability as a Percentage of Covered Payroll	66.28%	27.34%	8.42%	43.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	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

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 1,030,020.72	$ 894,639.71	$ 888,087.33	$ 855,502.29	$ 779,090.30
Contributions in Relation to the Contractually Determined Contribution	1,030,020.72	894,639.71	888,087.33	855,502.29	779,090.30
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 10,320,848.89	$ 9,777,483.21	$ 9,705,872.47	$ 9,844,675.33	$ 9,352,824.68
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 666,990.84	$ 479,193.31	$ 345,392.08	$ 321,742.20	$ 276,927.03
Contributions in Relation to the Contractually Determined Contribution	666,990.84	479,193.31	345,392.08	321,742.20	276,927.03
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 8,964,930.59	$ 9,719,945.37	$ 9,674,848.17	$ 9,575,660.62	$ 9,079,574.89
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

Note: Changes in benefit terms, methods, and assumptions are presented in the Notes to Required Supplementary Information (RSI) schedule following the pension RSI tables.

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

Changes of Benefit Terms:

Cost of Living Increase

2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%	2.00%

Changes of assumptions. In 2008, 2012, and 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

The Notes to Required Supplementary Information reflects information included in the State of North Carolina’s 2016 *Comprehensive Annual Financial Report*.

Independent Auditor's Report

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

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 (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, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated February 28, 2018. 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.

<u>Internal Control Over Financial Reporting</u>

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 opinions 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 amaterial 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

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

February 28, 2018

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This audit required 425 hours at an approximate cost of $43,775.