STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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CLYDE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Haywood Community College

This report presents the results of our financial statement audit of Haywood Community College, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes.*

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report,* the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Haywood Community College. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Haywood Community College. A summary of our reporting objectives and audit results is:

1. **Objective –** To express an opinion on the accompanying financial statements that relate solely to Haywood Community College.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following significant deficiencies in internal control over financial reporting and instances of noncompliance were noted as a result of our audit:

   Finding

   Financial Reporting Process

These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have audited the accompanying basic financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Haywood Community College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004 on our consideration of the College's internal control over financial reporting and on our tests

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR’S REPORT (CONCLUDED)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.
State Auditor

April 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The basic financial statements of Haywood Community College are preceded by this management's discussion and analysis (MD&A), which is required supplementary information. This discussion is designed to focus on current fiscal year activities, resulting changes and currently known facts as they pertain to the overall financial position of the College. Please read this section in conjunction with the College's basic financial statements and companion notes to the financial statements.

The new financial statement presentation, implemented for the first time in the fiscal year ended June 30, 2002, focuses on the College as a whole. In single column format, the basic financial statements present the operating results and financial position of the College as an economic entity. The statements present information that should provide a user with an indication of financial position. The Statement of Net Assets presents assets and liabilities classified as both current and noncurrent. This Statement combines current financial resources and capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and county appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The College's net assets (the difference between assets and liabilities) are one indicator of the financial well being of the College. Over a period of time, increases or decreases in the College's net assets are one factor in determining the financial health of the institution. The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

Financial Highlights

Total current assets were $1,665,927.45 for the year ended June 30, 2003 and $1,819,363.02 for fiscal year ended June 30, 2002. Total noncurrent assets, for the current year ended, were $14,007,283.01, and $13,037,911.98 for year ended June 30, 2002. Total current liabilities at June 30, 2003 were $190,576.46, which consisted of accounts payable and the current portion of uncompensated leave balances, and at June 30, 2002 current liabilities were $186,931.75. Total noncurrent liabilities, which consisted of uncompensated leave balances at June 30, 2003, were $716,523.00 and $423,781.93 at June 30, 2002.

Net Assets - Total net assets at June 30, 2003 increased by $514,029.72. The following schedule is prepared from the College's Statement of Net Assets, which is presented on the accrual basis of accounting with capital assets net of depreciation and net of related debt (capital lease payable).

Net Assets

	June 30, 2003	June 30, 2002	Variance
Current Assets	$ 1,665,927.45	$ 1,819,363.02	$ (153,435.57)
Noncurrent Assets:			
Capital Assets, Net of Depreciation	13,069,334.74	12,287,475.92	781,858.82
Other	937,948.27	750,436.96	187,511.31
Total Assets	15,673,210.46	14,857,275.90	815,934.56
Current Liabilities	190,576.46	186,931.75	3,644.71
Noncurrent Liabilities	716,523.00	423,782.00	292,741.00
Total Liabilities	907,099.46	610,713.75	296,385.71
Net Assets			
Invested in Capital Assets, Net	12,901,641.96	12,287,475.92	614,166.04
Restricted for: Nonexpendable	610,212.11	730,036.66	(119,824.55)
Restricted for: Expendable	1,024,813.49	489,362.33	535,451.16
Unrestricted	229,443.44	745,206.37	(515,762.93)
Total Net Assets	$ 14,766,111.00	$ 14,252,081.28	$ 514,029.72

The increase in net assets, $514,029.72, is primarily the result of additions to land, construction in progress, buildings, and machinery and equipment, $1,455,041.49. The increase is net of the increases in accumulated depreciation, $621,065.00 and capital leases payable, $167,692.78.

Revenues and Expenses - This schedule is prepared from the College's Statement of Revenues, Expenses, and Changes in Net Assets, which is presented on an accrual basis of accounting.

Operating Results

	June 30, 2003	June 30, 2002	Variance
Operating Revenues:			
Student Tuition and Fees	$ 1,365,054.27	$ 1,533,134.47	$ (168,080.20)
Federal Grants and Contracts	1,878,617.45	1,385,029.63	493,587.82
Sales and Services	1,229,772.67	1,301,617.01	(71,844.34)
Other	751,863.18	491,219.03	260,644.15
Total Operating Revenues	5,225,307.57	4,711,000.14	514,307.43
Less Operating Expenses	14,834,225.49	15,189,640.47	(355,414.98)
Operating Loss	(9,608,917.92)	(10,478,640.33)	869,722.41
Nonoperating Revenues:			
State Aid	7,057,877.73	7,069,928.93	(12,051.20)
County Appropriations	1,560,999.96	1,501,038.00	59,961.96
Other Nonoperating Revenues	411,466.34	311,175.91	100,290.43
Total Nonoperating Revenues	9,030,344.03	8,882,142.84	148,201.19
Loss Before Other Revenues	(578,573.89)	(1,596,497.49)	1,017,923.60
Other Revenues	1,092,603.61	764,434.91	328,168.70
Increase in Net Assets	514,029.72	(832,062.58)	1,346,092.30
Net Assets, July 1, 2002	14,252,081.28	15,078,623.90	(826,542.62)
Restatement - Note 15		5,519.96	(5,519.96)
Net Assets, June 30, 2003	$ 14,766,111.00	$ 14,252,081.28	$ 514,029.72

Increases in operating revenues of $514,307.43 were primarily due to increases in federal grants and contracts, Federal Pell Grant. Operating expenses decreased $355,414.98 due to a $508,606.58 decrease in supplies and materials, a $293,738.62 decrease in services and increases in personal services of $227,116.67 and scholarships of $214,778.43. There was no significant change in nonoperating revenues. The increase in other revenues was a direct result of a capital gift of land valued at $335,000.00. Other revenues were also affected by a nearly offsetting $174,867.34 decrease in State capital aid and a $201,761.05 increase in county capital appropriations.

Capital Assets and Debt Administration

Capital Assets – The investment in capital assets, net of related debt, for June 30, 2003 was $12,901,641.96. The related debt is a capital lease payable of $167,692.78 to finance the purchase of computers. Capital assets additions for the fiscal year were $1,481,864.20. This included the capital gift of land $335,000.00, construction in progress $536,394.97, additions to buildings, machinery and equipment $610,469.23. The decreases to capital assets included disposal of machinery and equipment, net of accumulated depreciation $6,645.14. The overall increase to capital assets from the prior fiscal year was $781,858.82. This decrease is the result of above stated additions and disposal and depreciation for the fiscal year of $693.360.22.

Analysis of Financial Position

For the year ended June 30, 2003, the College had a net increase in cash and cash equivalents of $214,429.97, representing a 12% increase in cash and cash equivalents when compared to the July 1, 2002 balance. The increase is attributable to cash from noncapital financing activities such as State aid received, county appropriations, other nonoperating activities and investment income. Management concludes that the College's financial position has remained strong during this fiscal year.

Local Facts and Information

Haywood Community College serves Haywood County, which is located in western North Carolina, with a population of 55,299. Just as many economic factors are ever changing in our nation in this Post-September 11th environment, so has Haywood County experienced much of the same. The local annual unemployment rate in 2002 was 5.7%; however, the first quarter 2003 results show an increase in this rate to 7.5%. As our county's major industries are retail trade, tourism/service, government and manufacturing, we can certainly see that such economic trends are affecting our area.

Haywood Community College continues to experience enrollment growth and healthy community involvement/support. The Haywood Community College Foundation, Inc. is committed to diligently support the mission, goals and objectives of the College.

Haywood Community College
Statement of Net Assets
June 30, 2003

Exhibit A

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	767,266.03
Restricted Cash and Cash Equivalents		432,724.46
Short-Term Investments		89,830.23
Restricted Short-Term Investments		64,963.98
Receivables, Net (Note 4)		133,811.38
Inventories		177,331.37
Total Current Assets		1,665,927.45
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		874,283.44
Restricted Due from Primary Government		12,478.71
Endowment Investments		51,186.12
Capital Assets - Nondepreciable, Net (Note 5)		2,030,678.62
Capital Assets - Depreciable, Net (Note 5)		11,038,656.12
Total Noncurrent Assets		14,007,283.01
Total Assets		15,673,210.46
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		95,246.95
Deferred Revenue		738.71
Long-Term Liabilities - Current Portion (Note 6)		94,590.80
Total Current Liabilities		190,576.46
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		716,523.00
Total Noncurrent Liabilities		716,523.00
Total Liabilities		907,099.46
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		12,901,641.96
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		610,212.11
Expendable:		
Scholarships and Fellowships		119,824.55
Loans		10,345.47
Capital Projects		596,400.15
Other		298,243.32
Unrestricted		229,443.44
Total Net Assets	$	14,766,111.00

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

Haywood Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003 — ***Exhibit B***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,365,054.27
Federal Grants and Contracts		1,878,617.45
State and Local Grants and Contracts		233,415.31
Sales and Services, Net (Note 9)		1,229,772.67
Other Operating Revenues		518,447.87
Total Operating Revenues		5,225,307.57
EXPENSES		
Operating Expenses:		
Personal Services		9,067,893.79
Supplies and Materials		1,325,275.94
Services		1,483,459.95
Scholarships and Fellowships		1,966,762.69
Utilities		297,472.88
Depreciation		693,360.24
Total Operating Expenses		14,834,225.49
Operating Loss		(9,608,917.92)
NONOPERATING REVENUES (EXPENSES)		
State Aid		7,057,877.73
County Appropriations		1,560,999.96
Noncapital Grants		218,609.58
Noncapital Gifts, Net (Note 9)		141,341.71
Investment Income, Net		58,160.19
Other Nonoperating Expenses		(6,645.14)
Net Nonoperating Revenues		9,030,344.03
Loss Before Other Revenues, Expenses, Gains, and Losses		(578,573.89)
State Capital Aid		245,921.58
County Capital Appropriations		511,682.03
Capital Gifts, Net (Note 9)		335,000.00
Increase in Net Assets		514,029.72
NET ASSETS		
Net Assets, July 1, 2002 as Restated (Note 15)		14,252,081.28
Net Assets, June 30, 2003	$	14,766,111.00

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

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003 — ***Exhibit C***

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	5,280,506.74
Payments to Employees and Fringe Benefits		(8,953,100.97)
Payments to Vendors and Suppliers		(3,098,398.30)
Payments for Scholarships and Fellowships		(1,967,744.78)
Other Receipts		6,970.91
Net Cash Used by Operating Activities		(8,731,766.40)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,057,877.73
County Appropriations		1,560,999.96
Noncapital Grants Received		218,609.58
Noncapital Gifts and Endowments Received		51,376.69
Net Cash Provided by Noncapital Financing Activities		8,888,863.96
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		462,632.69
County Capital Appropriations		511,682.03
Acquisition and Construction of Capital Assets		(952,124.20)
Principal Paid on Capital Debt and Leases		(27,047.22)
Net Cash Used by Capital and Related Financing Activities		(4,856.70)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		62,189.11
Net Cash Provided by Investing Activities		62,189.11
Net Increase in Cash and Cash Equivalents		214,429.97
Cash and Cash Equivalents, July 1, 2002		1,859,843.96
Cash and Cash Equivalents, June 30, 2003	$	2,074,273.93
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(9,608,917.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		693,360.24
Miscellaneous Nonoperating Income		5,519.96
Changes in Assets and Liabilities:		
Receivables, Net		53,685.76
Inventories		(4,107.44)
Accounts Payable and Accrued Liabilities		14,260.60
Deferred Revenue		738.71
Compensated Absences		113,693.69
Net Cash Used by Operating Activities	$	(8,731,766.40)

Haywood Community College

Statement of Cash Flows — ***Exhibit C***

For the Fiscal Year Ended June 30, 2003 — ***Page 2***

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	767,266.03
Restricted Cash and Cash Equivalents		432,724.46
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		874,283.44
Total Cash and Cash Equivalents - June 30, 2003	$	2,074,273.93

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

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, 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. Haywood Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report.*

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. Although legally separate, Haywood Community College Foundation, Inc. (Foundation) is reported as if it were part of the College.

The Foundation is governed by a 30-member board of which four are Haywood Community College employees, three are trustees of the College, and the remaining 23 must be approved by the Haywood Community College trustees. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Haywood Community College Board of Trustees and the Foundation's sole purpose is to benefit Haywood Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 185 Freedlander Dr., Clyde, NC 28721, or by calling (828) 627-2821.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Investments** - This classification consists of equity investments. These investments are accounted for at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

F. **Receivables –** Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method. Merchandise for resale is valued using the weighted average cost method.

H. **Capital Assets –** Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

I. **Restricted Assets –** Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities –** Noncurrent long-term liabilities consists of capital lease obligations and compensated absences that will not be paid within the next fiscal year.

K. **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 January 1st or for which an employee can be paid upon termination of employment. 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 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

L. **Net Assets –** The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

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

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

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

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

M. **Scholarship Discounts –** Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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 Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.*

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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 appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $1,242.59. The carrying amount of cash on deposit was $2,073,031.34 and the bank balance was $2,246,613.80. 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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 1,554,971.06	$ 1,355,496.06
Cash on Deposit with Private Financial Institutions	518,060.28	891,117.74
	$ 2,073,031.34	$ 2,246,613.80

The cash on deposit with the State Treasurer is pooled with State agencies and similar institutions in short-term investments with the State Treasurer's Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Investment Pool are included in the State of North Carolina's *Comprehensive Annual Financial Report.* An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2003, $100,000 of the bank balance was covered by federal depository insurance and $791,117.74 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

B. Investments – In addition to donated securities and real estate held by the College, the College is authorized to invest idle funds as provided by General Statute 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to General Statute 159-30(c), as follows: 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 and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to General Statute 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities, corporate bonds and notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments; certain venture capital limited partnerships; and the obligations or securities of the North Carolina Enterprise Corporation.

Investments of the College's component unit, the Haywood Community College Foundation, are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

The College's investments are categorized to give an indication of the level of risk assumed by the College. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party if the counterparty to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the College or agent in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by a counterparty's trust department or agent, but not in the College's name.

A summary of the College's investments at June 30, 2003 is presented below:

	Fair Value			
	Risk Category			
	1	2	3	Total
Categorized Investments:				
U.S. Government Securities	$ 7,573.40	$ 0.00	$ 0.00	$ 7,573.40
Corporate Common Stock	187,523.38			187,523.38
Total Categorized Investments	$ 195,096.78	$ 0.00	$ 0.00	195,096.78
Investments Not Categorized:				
Mutual Funds				10,883.55
Total Investments				$ 205,980.33

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested or pooled, unless required to be separately invested by the donor. Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure.

Annual payouts from the College's endowment funds are based on an estimation of the current year's earnings based upon historical performance. To the extent that the income for the current year exceeds the payout, the excess is added to the scholarship fund for subsequent year payout. If current year earnings do not meet the payout requirements, the College uses accumulated income from restricted, expendable net asset endowment balances to make up the difference.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 20,233.39	$ 529.87	$ 19,703.52
Accounts	91,146.50	3,041.25	88,105.25
Pledges	22,663.00	1,079.00	21,584.00
Investment Earnings	4,418.61		4,418.61
Total Current Receivables	$ 138,461.50	$ 4,650.12	$ 133,811.38

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	$ 950,451.02	$ 335,000.00	$ 0.00	$ 1,285,451.02
Construction in Progress	208,832.63	536,394.97		745,227.60
Total Capital Assets, Nondepreciable	1,159,283.65	871,394.97		2,030,678.62
Capital Assets, Depreciable:				
Buildings	13,085,385.06	235,634.04		13,321,019.10
Machinery and Equipment	3,650,978.96	348,012.68	108,208.08	3,890,783.56
General Infrastructure	824,711.74	26,822.51		851,534.25
Total Capital Assets, Depreciable	17,561,075.76	610,469.23	108,208.08	18,063,336.91
Less Accumulated Depreciation:				
Buildings	5,014,964.66	336,892.78		5,351,857.44
Machinery and Equipment	1,042,363.11	284,172.24	101,562.94	1,224,972.41
General Infrastructure	375,555.72	72,295.22		447,850.94
Total Accumulated Depreciation	6,432,883.49	693,360.24	101,562.94	7,024,680.79
Total Capital Assets, Depreciable, Net	11,128,192.27	(82,891.01)	6,645.14	11,038,656.12
Capital Assets, Net	$ 12,287,475.92	$ 788,503.96	$ 6,645.14	$ 13,069,334.74

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	$ 59,254.32
Accrued Payroll	35,992.63
Total Accounts Payable and Accrued Liabilities	**$ 95,246.95**

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Capital Leases Payable	$ 0.00	$ 194,740.00	$ 27,047.22	$ 167,692.78	$ 75,481.20
Compensated Absences	529,727.33	537,470.73	423,777.04	643,421.02	19,109.60
Total Long-Term Liabilities	$ 529,727.33	$ 732,210.73	$ 450,824.26	$ 811,113.80	$ 94,590.80

Additional information regarding capital lease obligations is included in Note 8.

NOTE 8 - LEASE OBLIGATIONS

A. **Capital Lease Obligations** - Capital lease obligations relating to computer equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	$ 75,481.20
2005	75,481.20
2006	44,030.70
Total Minimum Lease Payments	194,993.10
Amount Representing Interest (10% Rate of Interest)	27,300.32
Present Value of Future Lease Payments	$ 167,692.78

Machinery and equipment acquired under capital lease amounted to $31,450.50 at June 30, 2003.

B. **Operating Lease Obligations** - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

Fiscal Year	Amount
2004	$ 58,485.46
2005	12,124.70
2006	6,062.35
Total Minimum Lease Payments	$ 76,672.51

Rental expense for all operating leases during the year was $106,384.10.

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 1,804,177.17	$ 439,122.90	$ 1,365,054.27
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Dining	$ 140,485.44	$ 0.00	$ 140,485.44
Bookstore	767,187.89		767,187.89
Parking	2,786.50		2,786.50
Other	319,312.84		319,312.84
Total Sales and Services	$ 1,229,772.67	$ 0.00	$ 1,229,772.67
Nonoperating - Noncapital Gifts	$ 141,341.71	$ 0.00	$ 141,341.71
Capital Gifts	$ 335,000.00	$ 0.00	$ 335,000.00

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,675,515.64	$ 164,160.40	$ 169,879.62	$ 0.00	$ 0.00	$ 0.00	$ 5,009,555.66
Academic Support	200,061.17	4,048.37	3,990.14				208,099.68
Student Services	387,750.28	13,129.83	62,462.67				463,342.78
Institutional Support	2,951,920.97	517,059.13	605,715.91				4,074,696.01
Operations and Maintenance of Plant	688,041.51	232,105.19	458,639.94		297,472.88		1,676,259.52
Student Financial Aid				1,966,762.69			1,966,762.69
Auxiliary Enterprises	164,604.22	394,773.02	182,771.67				742,148.91
Depreciation						693,360.24	693,360.24
Total Operating Expenses	$ 9,067,893.79	$ 1,325,275.94	$ 1,483,459.95	$ 1,966,762.69	$ 297,472.88	$ 693,360.24	$ 14,834,225.49

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of $7,708,626.38, of which $6,038,829.97 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were $362,329.80. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were $0.00, $120,278.23, and $318,156.75, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Deferred Compensation and Supplemental Retirement Income Plans -** IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $30,941.98 for the year ended June 30, 2003.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. The voluntary contributions by employees amounted to $47,724.00 for the year ended June 30, 2003.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $56,213.88 for the year ended June 30, 2003.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide 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. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2003, the College's total contribution to the Plan was $141,912.50. 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.*

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2003, the College's total contribution to the DIPNC was $31,401.92. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. The College has coverage with a private insurance company for employees paid entirely from county and institutional funds. The coverage is $100,000 honesty bond, $25,000 for forgery, $25,000 for theft on campus, $5,000 for theft off campus, with a $500 deductible for each occurrence.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. **Commitments -** The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $2,463,894.66 and on other purchases were $250,851.70 at June 30, 2003.

B. **Community College General Obligation Bonds –** The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $2,463,894.66 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 15 NET ASSET RESTATEMENT

As of July 1, 2002, net assets as previously reported was restated as follows:

	Amount
Net Assets, July 1, 2002 as previously reported	$ 14,246,561.32
Restatement - To correct beginning net assets	5,519.96
Net Assets, July 1, 2002 as restated	$ 14,252,081.28

Haywood Community College
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Renovation 200/300 Buildings Project #1113	Jan 2001	$ 2,422,402.00	$ 0.00	$ 2,422,402.00	$ 176,105.34	7.27%	Jan 2005
Regional High Tech Center	Feb 2004	217,598.00		217,598.00			Oct 2004
Total All Projects		$ 2,640,000.00	$ 0.00	$ 2,640,000.00	$ 176,105.34		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have audited the financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 30, 2004.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable condition noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

Financial Reporting Process

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

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

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Trustees and the State Board of Community Colleges, management and staff of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

April 30, 2004

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

FINANCIAL REPORTING PROCESS

The condition of the June 30, 2003 financial statements and related notes indicated a weakness in the College's financial reporting process. The financial statements submitted contained material misstatements of investment in capital assets and supplies and materials accounts. Investment in capital assets did not agree with the College's general ledger balance. Journal entries to record capital assets and other items were posted to beginning net assets instead of the appropriate revenue or expense account. An entry was recorded to accumulated depreciation, which was not supported by transactions affecting capital assets. The entry was made in order to balance net assets per the Statement of Revenues, Expenses, and Changes in Net Assets to net assets per the Statement of Net Assets. The College failed to record a capital lease payable. The supporting schedules for the Notes to the Financial Statements did not clearly present the audit trail. The current proforma was not used in preparing financial statements. The Statement of Cash Flows submitted to the Office of the State Controller was out of balance.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors and misstatements in a timely manner by employees performing their normal assigned duties.

Recommendation: We recommend that the College implement controls to ensure that the year-end financial statements are adequately prepared and reviewed to ensure material misstatements, out of balance situations, and presentation errors are detected and corrected prior to submission to the Office of the State Controller and the Office of the State Auditor. Adequate documentation should be maintained to support all financial statement amounts and disclosures. Guidance promulgated by the Office of the State Controller and the North Carolina Community College System Office should be followed when preparing financial information.

College's Response: The College acknowledges and concurs with the fact that inconsistencies with data and misstatements were reported in the financial statements and related notes as of June 30, 2003. GASB 34/35 represents one of the most comprehensive financial reporting standards that has been undertaken by the colleges in the North Carolina Community College System. Considering this is a new and complicated reporting standard, it was anticipated and communicated that time would be needed to fully implement GASB 34/35 and work through the requirements. During training sessions conducted by employees of the State Auditor's Office and the Community College System Office, our personnel were told "that it would take two to three years to fully implement the new financial reporting standards." With this message in mind and with knowledge of the standard by which audits were done in prior years the HCC Controller made every effort to resolve any discrepancy or questionable balance. Issues which could not be resolved in the business office were immediately reported to the local office of the State Auditor. Recommendations provided by the auditor on how to make the necessary adjustments to balance the statements were followed and the financial statements were submitted as per their instructions. This practice was followed on more than one occasion and is consistent with audit standards afforded the College in the past.

As the audit findings involve several areas of reporting, the College finds it necessary to address each point separately and in detail.

1. The Financial Statements submitted contained material misstatements of investments in capital assets and supplies and materials accounts, also affecting Statement of Cash Flows.

   Response – Implementation of GASB 34/35 impacted the way community colleges record the depreciation of fixed assets. During the first year of implementation (fiscal year 2001-02) fixed assets were not included in the HCC audit review. HCC used the same accounting principles during fiscal year ended June 30, 2003 which were used during 2001-02 fiscal year. After a thorough analysis of fixed assets for fiscal year 2002-03, the Controller discovered a problem with the balance of net assets and after consultation with the local auditor's office an entry was made to balance the net asset account. The Controller was told that the issue would be resolved during the regular audit. HCC was not aware of a problem with the way this issue was handled until after the audit had been concluded and the matter reported.

2. The College failed to record a capital lease payable.

   Response – The College concurs with the audit finding. HCC audit reviews for fiscal year 2001-02 did not reveal any audit finding with regards to the classification of leases; accounting for leases was handled consistently from year to year. With this new knowledge of the proper classification of capital leases, the College will ensure this accounting will be done correctly in the future.

3. Notes to the Financial Statements were not adequately documented with supporting schedules.

   Response – During the audit, communication between the field auditor and the Controller indicated that all documentation and supporting schedules were in order. In fact, the field auditor made the comment that "she would accept the documentation." HCC did not discover that this documentation was not accepted until after the audit was conducted and reported.

4. The current pro forma was not used in preparing financial statements.

   Response – Haywood Community College used the pro forma that was located on the Office of the State Controller's website. The HCC Controller downloaded those files from OSC to prepare the financial statements and did not receive any updates to the pro forma file subsequent to this download. The Controller was not aware of the fact that she had not used the most recent update of the pro forma until the audit was concluded and the matter reported. The Controller now has made sure that she is on the mailing list for future updates.

Haywood Community College has made a thorough review of its process of completing the year-end financial statements and documentation of supporting schedules and has implemented controls both internally and externally to ensure that they are adequately prepared, reviewed and maintained. In the past and as well as in the future, HCC values and will follow the guidance of the State Auditor's Office, the Office of the State Controller and the NC Community College System Office.

Auditor's Comments: The College's response to the audit findings and recommendations consistently refers to the standards by which the College was audited in the past. Many of the issues included in the audit finding were noted in the past and were discussed with representatives of the College during and at the conclusion of the prior audits or reviews. However, the primary difference between the prior years and the current year is the magnitude of the issues noted, which elevated them to the level of reportable conditions in the current year. It should be noted that the June 30, 2002 report for Haywood Community College was a review and not an audit. A review consists primarily of analytical reviews and inquiries and would not necessarily disclose many of the issues discovered during an audit.

The College's response indicated that the Office of the State Auditor, along with the Community College System Office, provided training sessions related to the implementation of the new financial reporting standards. The Office of the State Auditor attended and spoke for approximately fifteen minutes at one conference in which this implementation was discussed but was not involved in any training.

The local branch office of the State Auditor's Office was consulted when the College had issues with regard to its financial statements and related notes. Recommendations and suggestions for resolving the problems were provided. However, this does not relieve the College of the responsibility for providing complete and accurate reporting of its year-end financial position and its activity during the year. The College was aware that problems existed, and it was anticipated that the College would continue to work to resolve the issues noted.

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June 30, 2004

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