



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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REVIEWER'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 review of Haywood Community College, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. The objective of a review is to achieve limited assurance that there are no material modifications that should be made to the financial statements in order for the statements to be in conformity with accounting principles generally accepted in the United States of America.

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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures, as we considered necessary. In addition, we performed review procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Haywood Community College. As a result of our review, we are not aware of any material modifications necessary for the accompanying financial statements to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

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

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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STATE OF NORTH CAROLINA
Office of the State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have reviewed 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, 2004, as listed in the table of contents. We conducted our review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management. We did not review the financial statements of the Haywood Community College Foundation, Inc., which represent 13.0 percent, 13.9 percent, and 3.4 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our report, insofar as it relates to the amounts included for the Haywood Community College Foundation, Inc., is based on the report of the other accountants.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, 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. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT (CONCLUDED)

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. 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 inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The basic financial statements of Haywood Community College are preceded by this Management's Discussion and Analysis, 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 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 \$2,268,958.49 for the year ended June 30, 2004, and \$1,665,927.45 for fiscal year ended June 30, 2003. Total noncurrent assets, for the current year ended, were \$15,471,249.09, and \$14,007,283.01 for year ended June 30, 2003. Total current liabilities at June 30, 2004, were \$617,270.73, which consisted of accounts payable, deferred revenue and the current portion of uncompensated leave balances, and at June 30, 2003, current liabilities were \$190,576.46. Total noncurrent liabilities, which consisted of uncompensated leave balances at June 30, 2004, were \$527,674.72 and were \$716,523.00 at June 30, 2003.

Net Assets - Total net assets at June 30, 2004, increased by \$1,829,151.13. 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).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Net Assets		
	June 30, 2004		
	June 30, 2004	June 30, 2003	Variance
Assets			
Current Assets	\$ 2,268,958.49	\$ 1,665,927.45	\$ 603,031.04
Noncurrent Assets:			
Capital Assets, Net of Depreciation	12,697,437.53	13,069,334.74	(371,897.21)
Other	2,773,811.56	937,948.27	1,835,863.29
Total Assets	<u>17,740,207.58</u>	<u>15,673,210.46</u>	<u>2,066,997.12</u>
Liabilities			
Current Liabilities:			
Other Liabilities	305,885.14	95,985.66	209,899.48
Long-Term Liabilities - Current Portion	311,385.59	94,590.80	216,794.79
Total Current Liabilities	617,270.73	190,576.46	426,694.27
Long-Term Liabilities	527,674.72	716,523.00	(188,848.28)
Total Liabilities	<u>1,144,945.45</u>	<u>907,099.46</u>	<u>237,845.99</u>
Net Assets			
Invested in Capital Assets, Net	12,594,658.08	12,901,641.96	(306,983.88)
Restricted	3,774,115.49	1,635,025.60	2,139,089.89
Unrestricted	226,488.56	229,443.44	(2,954.88)
Total Net Assets	<u>\$ 16,595,262.13</u>	<u>\$ 14,766,111.00</u>	<u>\$ 1,829,151.13</u>

The increase in net assets, \$1,829,151.13, is primarily the result of recognizing the unexpended project-to-date balance for the State Bond Funds. This Restricted due from Primary Government increased \$1,619,261.65 for the 2004 fiscal year and represents 89% of the total increase in net assets.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	Operating Results		
	June 30, 2004		
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Variance</u>
Operating Revenue			
Student Tuition and Fees	\$ 1,142,867.43	\$ 1,365,054.27	\$ (222,186.84)
Federal Grants and Contracts	2,135,261.49	1,878,617.45	256,644.04
Sales and Services	839,000.25	1,229,772.67	(390,772.42)
Other	557,940.99	751,863.18	(193,922.19)
Total Operating Revenue	<u>4,675,070.16</u>	<u>5,225,307.57</u>	<u>(550,237.41)</u>
Less Operating Expenses	<u>15,242,115.80</u>	<u>14,834,225.49</u>	<u>407,890.31</u>
Operating Loss	<u>(10,567,045.64)</u>	<u>(9,608,917.92)</u>	<u>(958,127.72)</u>
Nonoperating Revenue			
State Aid	7,224,942.20	7,057,877.73	167,064.47
County Appropriations	1,647,830.00	1,560,999.96	86,830.04
Other Nonoperating Revenue	1,091,459.40	418,111.48	673,347.92
Total	<u>9,964,231.60</u>	<u>9,036,989.17</u>	<u>927,242.43</u>
Nonoperating Expenses	<u>18,564.62</u>	<u>6,645.14</u>	<u>11,919.48</u>
Loss Before Other Revenues	<u>(621,378.66)</u>	<u>(578,573.89)</u>	<u>(30,885.29)</u>
Capital Contributions	<u>3,555,779.07</u>	<u>1,092,603.61</u>	<u>2,463,175.46</u>
Increase in Net Assets	2,934,400.41	514,029.72	2,420,370.69
Net Assets	14,766,111.00	14,252,081.28	514,029.72
Restatement	<u>(1,105,249.28)</u>	<u>(1,105,249.28)</u>	<u>(1,105,249.28)</u>
Net Assets, End of Year	<u>\$ 16,595,262.13</u>	<u>\$ 14,766,111.00</u>	<u>\$ 1,829,151.13</u>

Total revenues for fiscal year ended June 30, 2004, were \$18,195,080.83. Total revenues increased \$2,840,180.48 over the fiscal year 2003 amount of \$15,354,900.35. The largest increase was in capital contributions, which include State bond funds.

Decreases in operating revenues of \$550,237.41 were due to a \$256,644.04 increase in federal grants and contracts, Federal Pell Grant; a \$390,772.42 decrease in sales and services; and a \$201,019.66 decrease in other operating revenues. A portion of the decrease in sales and services occurred with the elimination of internal sales from the Printshop. The remaining change in sales and services and in other operating revenue occurred because of a correction of the roll-up of account groupings for these accounts.

Operating expenses increased \$407,890.31 due to a \$278,019.67 increase in supplies and materials, an increase in personal services of \$309,722.85, and decreases in services of \$79,921.04 and scholarships of \$222,642.34. The significant change in nonoperating revenues was an increase of \$689,174.15 in noncapital gifts. The increase in other revenues,

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

State capital aid, was a direct result of recognizing the unexpended project-to-date balance for the State bond funds valued at \$1,631,740.36. Other revenues were also affected by a \$7,707.81 increase in county capital appropriations and an \$111,124.85 increase in capital grants.

Capital Asset and Debt Administration

Capital Assets – The investment in capital assets, net of related debt, for June 30, 2004, was \$12,594,658.08. The related debt is a capital lease payable of \$102,779.44 to finance the purchase of computers. Capital asset additions for the fiscal year were \$1,522,211.43. This included construction in progress \$1,189,493.57, additions to buildings, machinery and equipment and infrastructure \$332,717.86. There were also reclassifications from construction in progress to buildings, and general infrastructure of \$771,723.70.

The overall decrease to capital assets from the prior fiscal year was \$371,897.21. The decrease included a restatement of machinery and equipment balances in the amount of \$1,105,240.28, as stated in Note 15. There were additions of \$1,522,211.43 and a disposal of machinery and equipment, net of accumulated depreciation in the amount of \$7,996.75. The depreciation for the fiscal year was \$780,862.61.

Analysis of Financial Position

For the year ended June 30, 2004, the College had a net increase in cash and cash equivalents of \$272,175.15, representing a 12% increase in cash and cash equivalents when compared to the July 1, 2003, 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 continues to experience enrollment growth, healthy community involvement, and 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, 2004****Exhibit A-1****ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	846,369.66
Restricted Cash and Cash Equivalents		770,636.36
Short-Term Investments		100,940.43
Restricted Short-Term Investments		87,762.83
Receivables, Net (Note 4)		307,328.12
Inventories		155,921.09

Total Current Assets		2,268,958.49
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Noncurrent Assets:

Restricted Cash and Cash Equivalents		729,443.06
Receivables, Net (Note 4)		364,122.00
Restricted Due from Primary Government		1,631,740.36
Endowment Investments		48,506.14
Capital Assets - Nondepreciable (Note 5)		2,448,448.49
Capital Assets - Depreciable, Net (Note 5)		10,248,989.04

Total Noncurrent Assets		15,471,249.09
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Total Assets		17,740,207.58
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)		222,395.24
Deferred Revenue		83,489.90
Long-Term Liabilities - Current Portion (Note 7)		311,385.59

Total Current Liabilities		617,270.73
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)		527,674.72
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Total Liabilities		1,144,945.45
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NET ASSETS

Invested in Capital Assets, Net of Related Debt		12,594,658.08
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Restricted for:

Nonexpendable:

Scholarships and Fellowships		645,948.59
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Expendable:

Scholarships and Fellowships		362,956.98
Loans		10,396.56
Capital Projects		2,120,154.23
Other		634,659.13

Unrestricted		226,488.56
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Total Net Assets	\$	16,595,262.13
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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, 2004		Exhibit A-2
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	\$	1,142,867.43
Federal Grants and Contracts		2,135,261.49
State and Local Grants and Contracts		240,512.78
Sales and Services, Net (Note 9)		839,000.25
Other Operating Revenues		317,428.21
Total Operating Revenues		4,675,070.16
EXPENSES		
Operating Expenses:		
Salaries and Benefits		9,377,616.64
Supplies and Materials		1,603,295.61
Services		1,403,538.91
Scholarships and Fellowships		1,744,120.35
Utilities		332,681.68
Depreciation		780,862.61
Total Operating Expenses		15,242,115.80
Operating Loss		(10,567,045.64)
NONOPERATING REVENUES (EXPENSES)		
State Aid		7,224,942.20
County Appropriations		1,647,830.00
Noncapital Grants		191,576.85
Noncapital Gifts		830,515.86
Investment Income, Net		69,366.69
Other Nonoperating Expenses		(18,564.62)
Net Nonoperating Revenues		9,945,666.98
Loss Before Other Revenues		(621,378.66)
State Capital Aid		2,925,264.38
County Capital Appropriations		519,389.84
Capital Grants		111,124.85
Increase in Net Assets		2,934,400.41
NET ASSETS		
Net Assets, July 1, 2003 as Restated (Note 15)		13,660,861.72
Net Assets, June 30, 2004	\$	16,595,262.13
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, 2004		Exhibit A-3
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 4,719,658.15
Payments to Employees and Fringe Benefits		(9,226,399.38)
Payments to Vendors and Suppliers		(3,255,124.91)
Payments for Scholarships and Fellowships		(1,777,830.33)
Other Payments		(13,514.30)
Net Cash Used by Operating Activities		(9,553,210.77)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		7,224,942.20
County Appropriations		1,647,830.00
Noncapital Grants Received		191,576.85
Noncapital Gifts and Endowments Received		826,998.90
Net Cash Provided by Noncapital Financing Activities		9,891,347.95
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,306,002.73
County Capital Appropriations		519,389.84
Capital Grants Received		111,124.85
Capital Gifts Received		(466,026.00)
Acquisition and Construction of Capital Assets		(1,522,211.43)
Principal Paid on Capital Debt and Leases		(64,913.33)
Net Cash Used by Capital and Related Financing Activities		(116,633.34)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		50,671.31
Net Cash Provided by Investing Activities		50,671.31
Net Increase in Cash and Cash Equivalents		272,175.15
Cash and Cash Equivalents, July 1, 2003		2,074,273.93
Cash and Cash Equivalents, June 30, 2004		\$ 2,346,449.08
RECONCILIATION OF OPERATING LOSS		
TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (10,567,045.64)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		780,862.61
Miscellaneous Nonoperating Income		(10,567.87)
Changes in Assets and Liabilities:		
Receivables, Net		(80,629.47)
Inventories		21,410.28
Accounts Payable and Accrued Liabilities		127,148.29
Deferred Revenue		82,751.19
Compensated Absences		92,859.84
Net Cash Used by Operating Activities		\$ (9,553,210.77)

Haywood Community College		
Statement of Cash Flows		Exhibit A-3
For the Fiscal Year Ended June 30, 2004		Page 2
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
	Cash and Cash Equivalents	\$ 846,369.66
	Restricted Cash and Cash Equivalents	770,636.36
Noncurrent Assets:		
	Restricted Cash and Cash Equivalents	729,443.06
	Total Cash and Cash Equivalents - June 30, 2004	\$ 2,346,449.08
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
	Assets Acquired through a Gift	\$ 8,115.08
	Change in Fair Value of Investments	23,113.99
	Increase in Receivables Related to Nonoperating Income	2,080,689.53
	Capital Asset Write-Offs	143,503.94
The accompanying notes to the financial statements are an integral part of this statement.		

HAYWOOD COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College.

Blended Component Unit - 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 28-member board of which four are Haywood Community College employees, three are trustees of the College, and the remaining 21 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 Drive, 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 includes mutual funds, common stock and government securities. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 include 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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Internal Sales Activities** – Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. The institutional auxiliary operations include activities associated with the print shop. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year end, cash on hand was \$1,437.62. The carrying amount of cash on deposit was \$2,345,011.46 and the bank balance was \$2,394,877.66.

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	\$ 1,564,515.22	\$ 1,564,515.22
Cash on Deposit with Private Financial Institutions	780,496.24	830,362.44
	\$ 2,345,011.46	\$ 2,394,877.66

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, 2004, \$200,000.00 of the bank balance was covered by federal depository

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

insurance and \$630,362.44 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, Inc., 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, is presented below:

Risk Category 1	Total Fair Value
Categorized Investments:	
U.S. Government Securities	\$ 6,851.55
Corporate Common Stock	218,139.12
Total Categorized Investments:	224,990.67
Investments Not Categorized:	
Mutual Funds	12,218.73
Total Investments	\$ 237,209.40

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. 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 investments of the endowment funds.

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 the subsequent year payout. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 65,566.42	\$ 5,391.91	\$ 60,174.51
Accounts	128,263.73		128,263.73
Pledges	125,475.30	6,585.42	118,889.88
Total Current Receivables	\$ 319,305.45	\$ 11,977.33	\$ 307,328.12
Noncurrent Receivables:			
Pledges	\$ 383,287.00	\$ 19,165.00	\$ 364,122.00

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Decreases	Balance June 30, 2004
Capital Assets, Nondepreciable:					
Land	\$ 1,285,451.02	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,285,451.02
Construction in Progress	745,227.60	(771,723.70)	1,189,493.57		1,162,997.47
Total Capital Assets, Nondepreciable	2,030,678.62	(771,723.70)	1,189,493.57		2,448,448.49
Capital Assets, Depreciable:					
Buildings	13,321,019.10	364,856.14	24,701.21		13,710,576.45
Machinery and Equipment	3,910,804.45		239,426.37	143,503.94	4,006,726.88
General Infrastructure	851,534.25	406,867.56	68,590.28		1,326,992.09
Total Capital Assets, Depreciable	18,083,357.80	771,723.70	332,717.86	143,503.94	19,044,295.42
Less Accumulated Depreciation:					
Buildings	5,351,857.44		340,417.18		5,692,274.62
Machinery and Equipment	2,350,242.58		335,558.93	135,507.19	2,550,294.32
General Infrastructure	447,850.94		104,886.50		552,737.44
Total Accumulated Depreciation	8,149,950.96		780,862.61	135,507.19	8,795,306.38
Total Capital Assets, Depreciable, Net	9,933,406.84	771,723.70	(448,144.75)	7,996.75	10,248,989.04
Capital Assets, Net	\$ 11,964,085.46	\$ 0.00	\$ 741,348.82	\$ 7,996.75	\$ 12,697,437.53

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	\$ 128,045.19
Accrued Payroll	94,350.05
Total Accounts Payable and Accrued Liabilities	\$ 222,395.24

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Capital Leases Payable	\$ 167,692.78	\$ 0.00	\$ 64,913.33	\$ 102,779.45	\$ 75,481.20
Compensated Absences	643,421.02	460,693.52	367,833.68	736,280.86	235,904.39
Total Long-Term Liabilities	\$ 811,113.80	\$ 460,693.52	\$ 432,747.01	\$ 839,060.31	\$ 311,385.59

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

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, 2004:

	Fiscal Year	Amount
	2005	\$ 75,481.20
	2006	44,030.70
Total Minimum Lease Payments		119,511.90
Amount Representing Interest (10% Rate of Interest)		16,732.46
Present Value of Future Lease Payments		\$ 102,779.44

Machinery and equipment acquired under capital lease amounted to \$75,481.20 at June 30, 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 12,124.70
2006	6,062.35
Total Minimum Lease Payments	<u>\$ 18,187.05</u>

Rental expense for all operating leases during the year was \$58,485.46.

NOTE 9 - REVENUES

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

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
Operating Revenues:				
Student Tuition and Fees	\$ 1,491,723.64	\$ 0.00	\$ 348,856.21	\$ 1,142,867.43
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	\$ 136,871.40	\$ 0.00	\$ 0.00	\$ 136,871.40
Printshop	131,705.03	104,112.49		27,592.54
Bookstore	799,347.54		196,231.62	603,115.92
Other	71,420.39			71,420.39
Total Sales and Services	<u>\$ 1,139,344.36</u>	<u>\$ 104,112.49</u>	<u>\$ 196,231.62</u>	<u>\$ 839,000.25</u>

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	<u>Salaries and Benefits</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 5,506,282.85	\$ 468,946.33	\$ 378,445.12	\$ 0.00	\$ 0.00	\$ 0.00	\$ 6,353,674.30
Public Service		(2,200.00)	5,698.66				3,498.66
Academic Support	814,700.53	78,410.93	81,493.98				974,605.44
Student Services	407,387.34	26,607.57	75,648.61	28,529.00			538,172.52
Institutional Support	1,741,734.42	79,408.76	606,600.10	1,000.00			2,428,743.28
Operations and Maintenance of Plant	730,870.46	246,533.20	213,928.08		332,681.68		1,524,013.42
Student Financial Aid			7,805.24	1,712,591.35			1,720,396.59
Auxiliary Enterprises	176,641.04	705,588.82	33,919.12	2,000.00			918,148.98
Depreciation						780,862.61	780,862.61
Total Operating Expenses	<u>\$ 9,377,616.64</u>	<u>\$ 1,603,295.61</u>	<u>\$ 1,403,538.91</u>	<u>\$ 1,744,120.35</u>	<u>\$ 332,681.68</u>	<u>\$ 780,862.61</u>	<u>\$ 15,242,115.80</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$7,881,906.23, of which \$6,422,426.75 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$385,345.63 and \$14,127.59, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$14,127.59, \$0.00, and \$120,278.23, 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*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$60,147.00 for the year ended June 30, 2004.

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. No costs are incurred by the College. The voluntary contributions by employees amounted to \$53,522.00 for the year ended June 30, 2004.

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 \$43,614.88 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$205,517.82. The College assumes no liability for retiree health care

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. There were no employer contributions required for the current fiscal year.

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

NOTE 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 \$1,512,853.51 at June 30, 2004.
- B. **Pending Litigation and Claims** – The College is a subject to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

- B. Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 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 has received its entire allotment of bond funds.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2003, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2003, Net Assets as Previously Reported	\$ 14,766,111.00
Restatements:	
Correction to Machinery and Equipment	20,020.89
Correction to Accumulated Depreciation for Machinery and Equipment	<u>(1,125,270.71)</u>
July 1, 2003, Net Assets as Restated	<u>\$ 13,660,861.18</u>

*Haywood Community College
 Schedule of General Obligation Bond Project Authorizations,
 Budgets, and Expenditures
 For Project-to-Date as of June 30, 2004*

Schedule 1

<u>Capital Improvement Projects</u>	<u>Original Projected Start Date</u>	<u>Revised/ Actual Start Date</u>	<u>General Obligation Bonds Authorized</u>	<u>Other Sources</u>	<u>Total Project Budget</u>	<u>Amount Expended</u>	<u>Percent Completed</u>	<u>Original Expected Completion Date</u>	<u>Revised/ Actual Completion Date</u>
<i>Projects Approved by the State Board</i>									
Renovation 200 Building - Project 1113	Dec 2001	Dec 2003	\$ 2,422,402.00	\$ 0.00	\$ 2,422,402.00	\$ 909,548.49	37.55%	Dec 2004	Undesignated
Regional High Tech Center - Project 1327	Feb 2004	Jul 2003	217,598.00		217,598.00	217,598.00	100.00%	Oct 2004	Jun 2004
Total All Projects			<u>\$ 2,640,000.00</u>	<u>\$ 0.00</u>	<u>\$ 2,640,000.00</u>	<u>\$ 1,127,146.49</u>			

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million 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.

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June 30, 2005

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