



# STATE OF NORTH CAROLINA

**HAYWOOD COMMUNITY COLLEGE**

**CLYDE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**HAYWOOD COMMUNITY COLLEGE**

**CLYDE, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

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**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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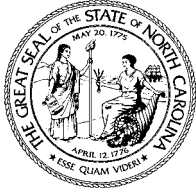
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**Beth A. Wood, CPA**  
State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, Haywood Community College

We have completed a financial statement audit of Haywood Community College for the year ended June 30, 2012, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

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

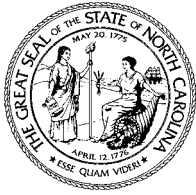
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
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, 2012, 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 did not audit the financial statements of Haywood Community College Foundation, Inc., which represent 20 percent, 21 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Haywood Community College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Haywood Community College as of June 30, 2012, 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.

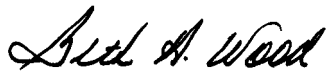
In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2013 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA  
State Auditor

February 1, 2013

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

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### **Management's Discussion and Analysis**

This section of Haywood Community College's annual financial report presents management's discussion and analysis of the College's financial activity for the fiscal year ended June 30, 2012.

The discussion should be read in conjunction with the financial statements and notes to the financial statements of the College. The financial statements, notes to the financial statements, and this discussion are the responsibility of management.

### **Using the Annual Report**

This report consists of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

The statement format presents financial information in a form similar to that used by corporations. The statements are prepared under the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The full scope of the College's activities is considered to be a single business-type activity and is reported in a single column on the statements. Three basic financial statements are included in this report along with the notes to the financial statements and required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of the College as of June 30, 2012, and includes all assets and liabilities of the College. The difference between total assets and total liabilities (net assets) is an indicator of the current financial position of the College. This statement also provides information on assets available to continue operations, liabilities due to outside parties and the net assets available for expenditure by the College. Detail regarding the valuation of assets and liabilities in the financial statements is detailed in Note 1 of the financial statements.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned 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 change in the College's net assets (the difference between assets and liabilities) is one indicator of the financial wellbeing 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. Non-financial factors must be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of non-financial factors that have an impact on the College's condition.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

### Statement of Net Assets

The assets of the College are divided between current and noncurrent assets. Current assets consist primarily of cash, receivables expected to be collected within one year, investments expected to be converted to cash within one year, and inventories expected to be used within one year. Noncurrent assets consist primarily of cash which is restricted or designated for capital acquisition or construction or otherwise unavailable for current expenses, investments not expected to be converted to cash within one year, and depreciable and non-depreciable capital assets net of depreciation.

Current assets at June 30, 2012, decreased \$324,120.74. Cash and cash equivalents decreased due to the net effect of a \$209,934.63 increase in county current operating funds carried over at June 30, a decrease of \$293,299.31 in institutional funds related to purchases of equipment for the new Creative Arts Building, and the purchase of bookstore items for fall semester. Restricted cash and cash equivalents decreased \$113,892.79 mainly due to the completion of instructional grants. Short-term and restricted short-term investments decreased \$9,343.64. Receivables decreased \$137,799.27 largely due to the final receipt of a large bequest from the Kelly Estate. Inventory increased \$20,279.64 due in part to the College's bookstore.

The increase in capital assets, net of depreciation of more than \$6 million is due primarily to construction in progress and equipment purchases. Other noncurrent assets increased \$1,035,642.36. This is due to a \$57,344.29 decrease in restricted cash and cash equivalents. Receivables decreased \$25,188.96. Restricted Due from Primary Government increased \$499,000.00 for funds to complete a renovation project for the Natural Resources Program. The restricted investments increased \$619,175.61 associated with receiving endowment pledges.

#### Condensed Statement of Net Assets June 30, 2012

	June 30, 2012	June 30, 2011	Variance
Current Assets	\$ 6,203,990.31	\$ 6,528,111.05	\$ (324,120.74)
Noncurrent Assets:			
Capital Assets, Net of Depreciation	32,629,161.38	26,241,257.70	6,387,903.68
Other	8,318,444.13	7,282,801.77	1,035,642.36
Total Assets	47,151,595.82	40,052,170.52	7,099,425.30
Current Liabilities	996,068.07	737,067.59	259,000.48
Non-Current Liabilities	748,762.53	668,469.56	80,292.97
Total Liabilities	1,744,830.60	1,405,537.15	339,293.45
Net Assets:			
Invested in Capital Assets, Net of Related Debt	32,419,106.91	26,241,257.70	6,177,849.21
Restricted for: Non-Expendable	6,249,687.92	6,099,466.49	150,221.43
Restricted for: Expendable	2,996,331.07	2,800,448.81	195,882.26
Unrestricted	3,741,639.32	3,505,460.37	236,178.95
Total Net Assets	\$ 45,406,765.22	\$ 38,646,633.37	\$ 6,760,131.85



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

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The College's liabilities are divided between current liabilities payable within 12 months and non-current liabilities that extend beyond one year. Current liabilities increased \$259,000.48 mainly due to an increase in accounts payable for construction projects. Noncurrent liabilities include compensated absences/accrued vacation leave that will not be paid within the next fiscal year. Noncurrent liabilities increased \$80,292.97 due to new employees earning leave during the year.

Net assets are a measure of the value of all the College's assets less liabilities. Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes, they are divided into four categories: invested in capital assets, restricted nonexpendable, restricted expendable, and unrestricted net assets. The increase in the invested in capital assets, net of related debt is in part due to additions to construction in progress and equipment. The increase in restricted nonexpendable is due to additions to the College's permanent endowments. The increase in restricted expendable was mainly due to receiving and spending more funds on equipment purchases. The increase in unrestricted net assets was mostly attributable to increases in student fees and the foundation's administrative fees.

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

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the revenues received by the College, both operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the College.

Operating revenues are received for providing goods and services to the various customers of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided, for example, state appropriations and investment income. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets for Haywood Community College as of June 30, 2012 and 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,596,838.10	\$ 1,336,714.11	\$ 260,123.99
Federal Grants and Contracts	209,097.31	99,842.62	109,254.69
State and Local Government	17,048.61	91,687.93	(74,639.32)
Sales and Services, Net	1,261,621.55	1,293,628.31	(32,006.76)
Other Operating Revenues	<u>355,074.41</u>	<u>362,842.41</u>	<u>(7,768.00)</u>
Total Operating Revenues	3,439,679.98	3,184,715.38	254,964.60
Operating Expenses:			
Salaries and Benefits	12,961,519.10	12,915,725.20	45,793.90
Supplies and Materials	2,788,631.60	2,703,067.61	85,563.99
Services	1,551,673.06	1,559,821.24	(8,148.18)
Scholarships and Fellowships	2,935,516.21	3,765,827.16	(830,310.95)
Utilities	348,144.19	370,947.33	(22,803.14)
Depreciation	<u>915,728.64</u>	<u>857,415.56</u>	<u>58,313.08</u>
Total Operating Expenses	21,501,212.80	22,172,804.10	(671,591.30)
Operating Loss	(18,061,532.82)	(18,988,088.72)	926,555.90
Nonoperating Revenues:			
State Aid	8,468,551.47	8,956,682.99	(488,131.52)
County Appropriations	2,100,456.00	2,118,456.00	(18,000.00)
Noncapital Grants, Gifts, and Investment Income	<u>6,230,393.63</u>	<u>6,652,148.30</u>	<u>(421,754.67)</u>
Total Nonoperating Revenue	16,799,401.10	17,727,287.29	(927,886.19)
Nonoperating Expenses	<u>52,686.12</u>	<u>32,030.91</u>	<u>20,655.21</u>
Income Before Other Revenue	(1,314,817.84)	(1,292,832.34)	(21,985.50)
Capital Contributions	7,991,114.77	4,953,243.85	3,037,870.92
Additions to Endowments	<u>83,834.92</u>	<u>1,362,816.68</u>	<u>(1,278,981.76)</u>
Total Other Revenues	8,074,949.69	6,316,060.53	1,758,889.16
Increase in Net Assets	6,760,131.85	5,023,228.19	1,736,903.66
Net Assets, Beginning	<u>38,646,633.37</u>	<u>33,623,405.18</u>	<u>5,023,228.19</u>
Net Assets, Ending	<u>\$ 45,406,765.22</u>	<u>\$ 38,646,633.37</u>	<u>\$ 6,760,131.85</u>

The major components of operating revenues include student tuition and fees; federal, state, and local operating grants; sales and services revenue; and other operating revenues. Sales and services revenue largely is derived from bookstore and childcare center operations. Operating revenues totaled \$3,439,679.98 as compared to the prior year of \$3,184,715.38 resulting in an increase of \$254,964.60. This increase is in part, a combination of an increase in student tuition and fees of \$260,123.99 due to a current year rate increase, and a net increase of \$34,615.37 in federal grants and contracts and state and local grants due to obtaining a new Department of Labor grant and the completion of other grants. Sales and services decreased \$32,006.76 mainly attributable to a decrease in childcare fees collected. Other operating revenue decreased \$7,768.00 due, in part, to a decrease in continuing education self-support fees.

The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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College. Depreciation expense is recognized in accordance with GASB Statement No. 34 and Statement No. 35. Operating expenses decreased \$671,591.30 mainly due to an \$830,310.95 decrease in scholarships and fellowships. Due to federal changes for FY 2011-12, Pell grants were no longer awarded for summer semester, only fall and spring semester. This decrease was offset by increases in salaries and benefits of \$45,793.90, supplies and materials of \$85,563.99, and depreciation of \$58,313.08. Purchases are recorded as a capital asset if the item costs \$5,000.00 or more. Most items considered equipment for instructional programs cost less than \$5,000.00 and are therefore, for financial statement purposes, classified as supplies. Additional variances were a decrease in services of \$8,148.18 and a decrease in utilities of \$22,803.14.

Nonoperating revenues comprise the major portion of the College's income and include appropriations from state and local governments, noncapital gifts and grants, and investment income. The largest amount, state aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations. Nonoperating revenues experienced a \$927,886.19 decrease. The College had a \$488,131.52 decrease in state aid for current operating use. This decrease was mainly a result of the College being given the flexibility to transfer current operating funds to a state capital improvement account to fund a building renovation project for the Natural Resources Program. County operational appropriations decreased slightly by \$18,000.00 due to decreased funding from Haywood County. Noncapital Grants, Gifts, and Investment Income decreased by \$421,754.67. Noncapital grants decreased \$984,404.12 largely due to decreased Pell funding for summer semester and decreases in other federal funding. Noncapital Gifts increased \$1,285,517.13 as a result of additional gifts to the College and a reclassification of amounts previously recognized as Additions to Endowments on the Statement of Revenues, Expenses, and Changes in Net Assets in the current year.

The net \$65,008.09 investment income is summarized as follows: Interest and dividends \$197,001.64 gain, investment expenses of \$51,793.14, realized loss on sale of securities of \$73.27, and unrealized loss or decrease in market value of securities held as of June 30, 2012 of \$80,127.14. The College's investment policy is a fairly conservative and well diversified mix of fixed, equity, and alternative investments. The investment mix is reviewed quarterly and monitored month to month by College personnel, the Finance Committee and the portfolio managers.

Other revenues consist of capital contributions and additions to endowments. Capital contributions are made up of capital aid received from the State, capital appropriations received from Haywood County, and capital grants and gifts. State capital aid increased due to the receivable due from the State to fund the renovation project for the Natural Resources Program. County capital aid increased due to sales tax proceeds appropriated to the College to use for the construction of the Creative Arts Building and facility renovations and repairs. Additions to endowments decreased by \$1,278,981.76 during the year with the majority of the decrease a result of receiving the final funds from the Kelly Estate and a reclassification of amounts previously recognized as Additions to Endowments to Noncapital Gifts on the Statement of Revenues, Expenses, and Changes in Net Assets in the current year.

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

Haywood Community College’s net assets increased by \$6,760,131.85, which brings ending net assets to \$45,406,765.22 reflecting a fiscally sound position.

**Capital Assets**

Haywood Community College’s capital assets as of June 30, 2012, amount to \$32,629,161.38 net of accumulated depreciation of \$13,213,702.77. This represents an increase of \$6,387,903.68 from the prior year.

<b>Capital Assets</b>			
	<b>June 30, 2012</b>	<b>June 30, 2011</b>	<b>Variance</b>
Capital Assets, Nondepreciable			
Land	\$ 4,130,401.02	\$ 4,130,401.02	\$ 0.00
Construction In Progress	9,157,912.60	4,250,990.28	4,906,922.32
<b>Total Capital Assets, Nondepreciable</b>	<b>13,288,313.62</b>	<b>8,381,391.30</b>	<b>4,906,922.32</b>
Capital Assets, Depreciable, Net			
Buildings	15,972,421.63	14,352,996.32	1,619,425.31
Machinery & Equipment	2,521,668.63	2,638,004.04	(116,335.41)
Infrastructure	846,757.50	868,866.04	(22,108.54)
<b>Total Capital Assets, Depreciable</b>	<b>19,340,847.76</b>	<b>17,859,866.40</b>	<b>1,480,981.36</b>
<b>Total Capital Assets, Net</b>	<b>\$ 32,629,161.38</b>	<b>\$ 26,241,257.70</b>	<b>\$ 6,387,903.68</b>

Construction in progress increased \$4,906,922.32 for the following projects: Research Demonstration House, West Waynesville Renovation, Water Line Upgrade, RCAC Natural Playground, and Creative Arts building. The change also includes moving \$2,045,118.11 into buildings from construction in progress for the completion of the 300 Building Renovation and the Administrative Services building; the purchase of equipment for \$404,278.01; the write-off of obsolete equipment in the amount of \$432,283.41; and a \$536,131.35 net increase in accumulated depreciation for buildings, machinery and equipment, and infrastructure.

The College’s capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased items cost more than \$5,000.00 at the date of purchase and have a useful life of more than one year. The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure and buildings are depreciated over a 10 to 100 year period, and equipment is depreciated in 2 to 30 years, depending on the expected useful life of the infrastructure, equipment, or building.

**Economic Factors and Next Year’s Budget**

The economic position of the College is closely tied to that of the State. The College received its 2012-2013 net state budget allocation of \$12,840,483 in July 2012, which represented an increase of \$37,856 from the previous year. The increase in State funding for the 2012-2013 academic year included a 1.2% increase in total salary funds to be used as an increase to full-time employees either as recurring or non-recurring and an \$831,775 Management Flexibility Reduction. Management feels that by using a conservative realistic approach in handling its

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

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resources, Haywood Community College will be able to continue providing a superior education to its students in a quality learning environment, even through a period of economic hardship. The College is continuing to evaluate future programs, and will continue to delete dated programs and add programs that are needed in the community. The College anticipates a decline in enrollment for the 2012-2013 academic year.

The College's relationship with the State of North Carolina will continue to be very important. Education continues to be recognized as an investment in North Carolina's future and the role of Community Colleges is viewed as critical in the preparation of a well-trained workforce.

**Haywood Community College**  
**Statement of Net Assets**  
**June 30, 2012**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 2,374,680.20
Restricted Cash and Cash Equivalents	705,887.43
Short-Term Investments	2,030,062.59
Restricted Short-Term Investments	142,285.61
Receivables, Net (Note 4)	732,738.99
Inventories	218,335.49
	<hr/>
Total Current Assets	6,203,990.31

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,687,839.15
Restricted Due from Primary Government	499,000.00
Restricted Investments	6,131,604.98
Capital Assets - Nondepreciable (Note 5)	13,288,313.62
Capital Assets - Depreciable, Net (Note 5)	19,340,847.76
	<hr/>
Total Noncurrent Assets	40,947,605.51

Total Assets	<hr/> <hr/> 47,151,595.82
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	771,552.66
Unearned Revenue	87,063.56
Long-Term Liabilities - Current Portion (Note 7)	137,451.85
	<hr/>
Total Current Liabilities	996,068.07

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	748,762.53
	<hr/>
Total Liabilities	1,744,830.60

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	32,419,106.91
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	6,249,687.92
Expendable:	
Scholarships and Fellowships	489,666.82
Loans	8,113.29
Capital Projects	2,170,492.57
Other	328,058.39
Unrestricted	3,741,639.32
	<hr/>
Total Net Assets	\$ 45,406,765.22

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, 2012**

**Exhibit A-2**

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,596,838.10
Federal Grants and Contracts	209,097.31
State and Local Grants and Contracts	17,048.61
Sales and Services, Net (Note 9)	1,261,621.55
Other Operating Revenues	355,074.41

Total Operating Revenues	3,439,679.98
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	12,961,519.10
Supplies and Materials	2,788,631.60
Services	1,551,673.06
Scholarships and Fellowships	2,935,516.21
Utilities	348,144.19
Depreciation	915,728.64

Total Operating Expenses	21,501,212.80
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Operating Loss	(18,061,532.82)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	8,468,551.47
County Appropriations	2,100,456.00
Noncapital Grants - Student Financial Aid	5,541,079.13
Noncapital Grants	219,820.17
Noncapital Gifts	404,486.24
Investment Income (Net of Investment Expense of \$51,793.14)	65,008.09
Other Nonoperating Expenses	(52,686.12)

Net Nonoperating Revenues	16,746,714.98
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Loss Before Other Revenues	(1,314,817.84)
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State Capital Aid	1,158,211.82
County Capital Aid	6,589,675.69
Capital Grants	213,227.26
Capital Gifts	30,000.00
Additions to Endowments	83,834.92

Increase in Net Assets	6,760,131.85
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**NET ASSETS**

Net Assets, July 1, 2011	38,646,633.37
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Net Assets, June 30, 2012	\$ 45,406,765.22
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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, 2012**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,156,492.40
Payments to Employees and Fringe Benefits	(12,838,132.81)
Payments to Vendors and Suppliers	(4,659,449.66)
Payments for Scholarships and Fellowships	(2,907,569.50)
	<hr/>
Net Cash Used by Operating Activities	(17,248,659.57)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	8,468,551.47
County Appropriations	2,100,456.00
Noncapital Grants - Student Financial Aid	5,541,079.13
Noncapital Grants Received	109,624.40
Noncapital Gifts and Endowments Received	957,345.93
William D. Ford Direct Lending Receipts	802,797.00
William D. Ford Direct Lending Disbursements	(802,797.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	17,177,056.93

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

State Capital Aid Received	659,211.82
County Capital Aid	120,000.00
Capital Grants Received	227,022.22
Capital Gifts Received	30,000.00
Acquisition and Construction of Capital Assets	(676,588.28)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	359,645.76

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	2,105.73
Investment Income	197,001.64
Purchase of Investments and Related Fees	(741,752.25)
	<hr/>
Net Cash Used by Investing Activities	(542,644.88)

Net Decrease in Cash and Cash Equivalents	(254,601.76)
Cash and Cash Equivalents, July 1, 2011	5,023,008.54
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 4,768,406.78



**Haywood Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2012**

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

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

Operating Loss	\$ (18,061,532.82)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	915,728.64
Changes in Assets and Liabilities:	
Receivables, Net	(211,814.73)
Inventories	(20,279.64)
Accounts Payable and Accrued Liabilities	69,477.05
Unearned Revenue	(43,426.14)
Compensated Absences	103,188.07
Net Cash Used by Operating Activities	<u>\$ (17,248,659.57)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 2,374,680.20
Restricted Cash and Cash Equivalents	705,887.43
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,687,839.15</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 4,768,406.78</u>

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

Assets Acquired through Assumption of a Liability	\$ 210,054.47
Assets Acquired through Payments on the College's Behalf	6,469,675.69
Assets Acquired through a Gift	2,179.00
Change in Fair Value of Investments	(80,127.14)
Increase in Receivables Related to Nonoperating Income	595,400.81
Capital Asset Write-Offs	52,686.12

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

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**HAYWOOD COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's 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 were part of the College.

**Blended Component Unit** - Although legally separate, Haywood Community College Foundation, Inc. is reported as if it was part of the College. The Foundation is governed by a 25-member board consisting of 3 Haywood Community College Trustees and 22 members approved by the Haywood Community College Board of 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 Vice President of Business Operation, 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)

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

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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund 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** - Except for money market funds, investments generally are reported 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.

Money market funds are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, private sources in connection with reimbursement of

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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allowable expenditures made pursuant to contracts and grants, 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, resources whose use is limited by external parties or statute, pledges that are restricted by the donor for scholarships, and endowment and other restricted investments.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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. Internal Sales Activities** - The College bookstore and print shop operations provide goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the College bookstore and print shop 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 by the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the State of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2012 was \$1,325.00. The carrying amount of the College's deposits not with the State Treasurer was \$1,685,859.62, and the bank balance was \$1,750,395.72.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. Investments** - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF); obligations of or fully guaranteed by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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federal agencies; prime quality commercial paper bearing specified ratings; specified bills of exchange; certain savings certificates; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity of custodian.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$3,081,222.16, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 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; asset-backed securities and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

Investments of the College's component unit, the Haywood Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2012, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investment Type	Investments				
	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
<b>Debt Securities</b>					
Money Market Mutual Funds	\$ 275,382.68	\$ 275,382.68	\$ 0.00	\$ 0.00	\$ 0.00
Fixed Income - Government Obligations	467,042.67	77,134.52	111,237.82	166,625.63	112,044.70
Fixed Income - Corporate Obligations	132,209.67	2,055.24	34,088.00	80,437.09	15,629.34
<b>Total Debt Securities</b>	874,635.02	\$ 354,572.44	\$ 145,325.82	\$ 247,062.72	\$ 127,674.04
<b>Other Securities</b>					
Fixed Income					
Domestic Mutual Funds	1,490,464.16				
International Mutual Funds	316,159.10				
Equities					
Domestic Mutual Funds	4,820,163.64				
International Mutual Funds	675,124.18				
Domestic Stocks	127,407.08				
<b>Total Investments</b>	\$ 8,303,953.18				

*Credit Risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2012, the College's investments were rated as follows:

	Fair Value	AAA AA+	A+ A	A- B-	BBB+	BBB and below
Fixed Income						
Corporate Obligations	\$ 132,209.67	\$ 5,409.20	\$ 41,257.36	\$ 32,854.58	\$ 22,358.24	\$ 30,330.29
Rating Agency: Standard & Poor's						

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$	1,325.00
Carrying Amount of Deposits with Private Financial Institutions		1,685,859.62
Investments in the Short-Term Investment Fund		3,081,222.16
Other Investments		<u>8,303,953.18</u>
<b>Total Deposits and Investments</b>	<b>\$</b>	<b><u>13,072,359.96</u></b>
Current:		
Cash and Cash Equivalents	\$	2,374,680.20
Restricted Cash and Cash Equivalents		705,887.43
Short-Term Investments		2,030,062.59
Restricted Short-Term Investments		142,285.61
Noncurrent:		
Restricted Cash and Cash Equivalents		1,687,839.15
Restricted Investments		<u>6,131,604.98</u>
<b>Total</b>	<b>\$</b>	<b><u>13,072,359.96</u></b>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are 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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements.

Investment return of the College's endowment funds is predicated on the total return concept (yield plus appreciation). Annual payouts from the College's endowment funds are based on an adopted spending policy which allows up to 4% of the endowment principal's market value. Under this policy, the Endowment Fund Pool will be distributed using the moving average method of determining year to year the amount to be "paid out" in order to smooth distributions from the aggregate endowment fund pool. The Endowment Fund Pool "portfolio value" will be determined on a 36-month moving average of monthly portfolio market value, with a budgeting lead of one year. That is, the moving average will be determined one year before the fiscal year in which the funds are to be distributed. At June 30, 2012, net appreciation of \$230,701.10 was available to be spent, of which \$151,297.27 was classified in net assets as restricted: expendable: scholarships and fellowships as it is restricted for

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net assets.

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 311,469.63	\$ 29,445.57	\$ 282,024.06
Student Sponsors	35,846.13		35,846.13
Accounts	102,495.02		102,495.02
Intergovernmental	169,924.70		169,924.70
Pledges	<u>143,731.51</u>	<u>1,282.43</u>	<u>142,449.08</u>
<b>Total Current Receivables</b>	<u>\$ 763,466.99</u>	<u>\$ 30,728.00</u>	<u>\$ 732,738.99</u>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	<u>Balance July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2012</u>
<b>Capital Assets, Nondepreciable:</b>				
Land	\$ 4,130,401.02	\$ 0.00	\$ 0.00	\$ 4,130,401.02
Construction in Progress	<u>4,250,990.28</u>	<u>6,952,040.43</u>	<u>2,045,118.11</u>	<u>9,157,912.60</u>
<b>Total Capital Assets, Nondepreciable</b>	<u>8,381,391.30</u>	<u>6,952,040.43</u>	<u>2,045,118.11</u>	<u>13,288,313.62</u>
<b>Capital Assets, Depreciable:</b>				
Buildings	22,537,815.28	2,045,118.11		24,582,933.39
Machinery and Equipment	6,590,333.03	404,278.01	432,283.41	6,562,327.63
General Infrastructure	<u>1,409,289.51</u>			<u>1,409,289.51</u>
<b>Total Capital Assets, Depreciable</b>	<u>30,537,437.82</u>	<u>2,449,396.12</u>	<u>432,283.41</u>	<u>32,554,550.53</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	8,184,818.96	425,692.80		8,610,511.76
Machinery and Equipment	3,952,328.99	467,927.30	379,597.29	4,040,659.00
General Infrastructure	<u>540,423.47</u>	<u>22,108.54</u>		<u>562,532.01</u>
<b>Total Accumulated Depreciation</b>	<u>12,677,571.42</u>	<u>915,728.64</u>	<u>379,597.29</u>	<u>13,213,702.77</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>17,859,866.40</u>	<u>1,533,667.48</u>	<u>52,686.12</u>	<u>19,340,847.76</u>
<b>Capital Assets, Net</b>	<u>\$ 26,241,257.70</u>	<u>\$ 8,485,707.91</u>	<u>\$ 2,097,804.23</u>	<u>\$ 32,629,161.38</u>

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

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The capital assets schedule above includes land and construction in progress in the amount of \$8,533,365.37 for which the College does not hold the title. On October 15, 2010 the College entered into an agreement with Haywood County whereas the College deeded approximately 3.2 acres to Haywood County for the purpose of constructing the Creative Arts Building. In order for the County to obtain the financing needed to provide the resources for this project, the College transferred title of the land and building to the County for use as collateral until the debt is satisfied, at which time the title reverts back to the College.

**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	<u>Amount</u>
Accounts Payable	\$ 292,656.35
Accrued Payroll	455,340.99
Contract Retainage	<u>23,555.32</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b><u><u>\$ 771,552.66</u></u></b>

**NOTE 7 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Compensated Absences	\$ 783,026.31	\$ 831,212.77	\$ 728,024.70	\$ 886,214.38	\$ 137,451.85

**NOTE 8 - LEASE OBLIGATIONS**

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2012:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 64,596.33
2014	<u>64,596.33</u>
<b>Total Minimum Lease Payments</b>	<b><u><u>\$ 129,192.66</u></u></b>

Rental expense for all operating leases during the year was \$50,033.48.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>					
<b>Student Tuition and Fees</b>	\$ 3,595,721.13	\$ 0.00	\$ 1,984,704.93	\$ 14,178.10	\$ 1,596,838.10
<b>Sales and Services:</b>					
Sales and Services of Auxiliary Enterprises:					
Vending	\$ 40,830.87	\$ 0.00	\$ 0.00	\$ 0.00	\$ 40,830.87
Print Shop	92,990.04	76,078.61			16,911.43
Bookstore	1,476,653.36		898,783.27		577,870.09
Child Care Center	579,097.56				579,097.56
Other	46,911.60				46,911.60
<b>Total Sales and Services</b>	\$ 2,236,483.43	\$ 76,078.61	\$ 898,783.27	\$ 0.00	\$ 1,261,621.55

### 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	\$ 7,603,549.13	\$ 1,209,505.17	\$ 301,193.26	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,114,247.56
Academic Support	876,308.12	47,469.24	40,168.17				963,945.53
Student Services	646,008.20	31,904.15	144,933.52	31,741.00			854,586.87
Institutional Support	2,281,038.80	100,263.31	647,189.69	446.66			3,028,938.46
Operations and Maintenance of Plant	732,750.59	173,524.26	332,774.89		348,144.19		1,587,193.93
Student Financial Aid		10,439.61	21,418.07	2,896,678.55			2,928,536.23
Auxiliary Enterprises	821,864.26	1,215,525.86	63,995.46	6,650.00			2,108,035.58
Depreciation						915,728.64	915,728.64
<b>Total Operating Expenses</b>	\$ 12,961,519.10	\$ 2,788,631.60	\$ 1,551,673.06	\$ 2,935,516.21	\$ 348,144.19	\$ 915,728.64	\$ 21,501,212.80

### 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 (Plan) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The Plan is administered by the North Carolina State Treasurer.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$10,055,133.41, of which \$8,520,376.38 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$633,916.00 and \$511,222.58, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$633,916.00, \$417,154.11, and \$296,904.63, 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.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - Internal Revenue Code 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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are incurred by the College. The College did not have any voluntary contributions by employees for the year ended June 30, 2012.

Internal Revenue Code 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The College did not have any employer contributions on behalf of College law enforcement officers for the year ended June 30, 2012. The voluntary contributions by employees amounted to \$147,564.83.

Internal Revenue Code 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. The plan administrator is Pacific Life and Annuities. No costs are incurred by the College. The College did not have any voluntary contributions by employers for the year ended June 30, 2012.

### **NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. The Plan does not provide for automatic post-retirement benefit increases.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$426,018.82, \$414,615.63, and \$374,249.54, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2012, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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years ended June 30, 2011, and 2010, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$44,305.95, \$44,000.02, and \$43,246.61, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

Additional detailed information about the DIPNC is disclosed in the state of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 13 - RISK MANAGEMENT

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

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer. In addition, the College has purchased a commercial Directors and Officers Liability Insurance Policy (D&O). The policy has a \$1,000,000 limit of insurance and is subject to a \$10,000 deductible. Those insured by the policy are Haywood Community College as the organization: directors, officers, and trustees; employees; volunteers; and estate and legal representatives. The D&O Policy is paid by the Board entirely from county and Haywood Community College Foundation funds. The D&O Policy also covers the following: employment practices liability and trustee and fiduciary liability.

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College has coverage with a private insurance company for employees paid directly from county and institutional funds. The coverage is \$250,000 employee theft, \$25,000 forgery, \$25,000 theft on campus, \$5,000 theft off campus, with a \$500 deductible for each occurrence.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit of the state of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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

Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year. In addition, the College provides life insurance via Fort Dearborn Life Insurance equal to 1 ½ times the base annual salary up to \$50,000 to all full-time employees, \$5,000 for spouses, and \$2,000 for children. This is paid entirely from county funds.

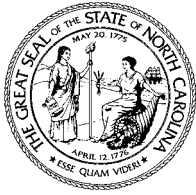
## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$180,469.61 at June 30, 2012.



Beth A. Wood, CPA  
State Auditor

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Office of the State Auditor

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

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Board of Trustees  
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, 2012, and have issued our report thereon dated February 1, 2013. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Haywood Community College Foundation, Inc., as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

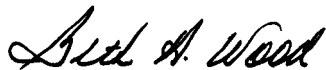
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the College, the Board of Trustees, others within the entity, the State Board of Community Colleges, the Governor, the General Assembly, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA  
State Auditor

February 1, 2013

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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

Telephone: 919/807-7500

Facsimile: 919/807-7647

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This audit required 520 audit hours at an approximate cost of \$37,440. The cost represents .08% of the College's total assets and .17% of total expenses subjected to audit.