

STATE OF NORTH CAROLINA

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

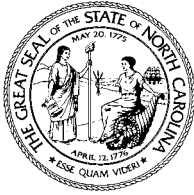
FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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, 2014, 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.

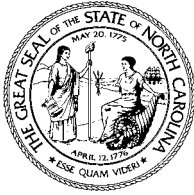
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Haywood Community College
Clyde, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Haywood Community College Foundation, Inc., which represent 22.85 percent, 23.68 percent, and 7.07 percent, respectively, of the assets, net position, and revenues of the College. Those statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Haywood Community College Foundation, Inc., are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Haywood Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Haywood Community College, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information


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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 19, 2015

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HAYWOOD COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

This section of Haywood Community College's (College) annual financial report presents management's discussion and analysis of the College's financial activity for the fiscal year ended June 30, 2014.

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 Position; Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. As described in Note 1A of the financial statements, the College's blended component unit, Haywood County Community College Foundation, Inc., is included in the amounts presented in this discussion and analysis.

The Statement of Net Position presents the financial position of the College as of June 30, 2014, and includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the College. The difference between total assets and deferred outflows of resources from total liabilities and deferred inflows of resources (net position) 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 position 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 Position 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 position is one indicator of the financial wellbeing of the College. Over a period of time, increases or decreases in the College's net position is one factor in

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

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 Position

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, 2014, increased \$708,406.79. Cash and cash equivalents increased \$626,258.60 due to an increase in unexpended funds remaining in county and institutional accounts at the end of the fiscal year. Restricted cash and cash equivalents decreased \$16,985.39. This decrease is due to the combination of the following: an increase in funds available for the College's health insurance payment liability and funds available for the National Science Foundation Grant and Allied Health Fees collected; a decrease in funds available from the TVA Grant, child care center donations, financial aid and scholarships, and county capital. Short-term and restricted short-term investments increased \$249,800.26 due to an increase in market value. Receivables decreased \$155,757.30 largely due to processing student summer financial aid prior to June 30, 2014. Inventories increased \$5,090.62 due to a larger amount of supplies and materials on hand at the end of the fiscal year.

Capital assets, net of depreciation decreased \$105,995.19. This is a result of: a net decrease of \$694,518.23 in construction in progress due to the completion of the 3300 Building Renovation and Water Line Project; a net decrease of \$156,908.70 in buildings due to the addition of the 3300 Building Renovation and an increase in accumulated depreciation; a net increase of \$266,954.39 in machinery and equipment due to the purchase and write-off of obsolete machinery and equipment, and an increase in accumulated depreciation; a net increase of \$478,477.35 in general infrastructure due to the completion of the Water Line Project and lighting projects.

Other noncurrent assets increased \$674,209.67. Noncurrent cash and cash equivalents and restricted due from primary government decreased a total of \$354,201.93 due to the completion of capital projects. The restricted investments increased \$1,028,411.60 associated with receiving \$77,639.17 in additions to permanent endowments as well as an increase in market values.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Position June 30, 2014

	June 30, 2014	June 30, 2013	Variance
Current Assets	\$ 6,960,960.43	\$ 6,252,553.64	\$ 708,406.79
Noncurrent Assets:			
Capital Assets, Net of Depreciation	35,014,664.29	35,120,659.48	(105,995.19)
Other	9,118,766.93	8,444,557.26	674,209.67
Total Assets	51,094,391.65	49,817,770.38	1,276,621.27
Total Deferred Outflow of Resources	0.00	0.00	0.00
Current Liabilities	916,519.66	852,673.21	63,846.45
Noncurrent Liabilities	898,674.50	897,161.54	1,512.96
Total Liabilities	1,815,194.16	1,749,834.75	65,359.41
Total Deferred Inflow of Resources	0.00	0.00	0.00
Net Position			
Net Investment in Capital Assets	35,001,130.82	34,992,487.77	8,643.05
Restricted for: Non-Expendable	7,772,517.65	6,744,131.05	1,028,386.60
Restricted for: Expendable	2,170,114.76	2,653,800.72	(483,685.96)
Unrestricted	4,335,434.26	3,677,516.09	657,918.17
Total Net Position	\$ 49,279,197.49	\$ 48,067,935.63	\$ 1,211,261.86

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond one year. Current liabilities increased \$63,846.45 due to the net effect of a decrease of \$41,432.03 in accounts payable, an increase of \$28,409.95 in unearned revenue and an increase of \$76,868.53 in the current portion of compensated absences/accrued vacation leave recorded at June 30, 2014. Noncurrent liabilities include compensated absences/accrued vacation leave that will not be paid within the next fiscal year. Noncurrent liabilities increased \$1,512.96 due to an increased amount of leave earned by employees during the year.

Net position is a measure of the value of all the College's assets and deferred outflow of resources less liabilities and deferred inflow of resources. For reporting purposes, net position is divided into four categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted net position. The increase in the net investment in capital assets is due to the completion of capital projects and the purchase and write off of machinery and equipment. The increase in restricted nonexpendable is due to additions to the College's permanent endowments and investment income. The decrease in restricted expendable was mainly due to the expenditure of sales tax proceeds on capitals assets. The increase in unrestricted net position was mostly attributed to an increase in student fees and spending less in county current operating funds.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 June 30, 2013 amounts in the following condensed Statement of Revenues, Expenses, and Changes in Net Position for the College have been restated for comparative purposes to the June 30, 2014 amounts.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	June 30, 2014	June 30, 2013 (as Restated)	Variance
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,155,283.91	\$ 1,482,903.38	\$ (327,619.47)
Federal Grants and Contracts	4,949.19	3,231.25	1,717.94
State and Local Government	67,142.44	31,558.44	35,584.00
Sales and Services, Net	1,119,234.88	1,123,732.73	(4,497.85)
Other Operating Revenues	295,986.91	239,567.83	56,419.08
Total Operating Revenues	2,642,597.33	2,880,993.63	(238,396.30)
Operating Expenses:			
Salaries and Benefits	12,944,782.45	13,194,482.79	(249,700.34)
Supplies and Materials	2,494,953.94	2,502,886.81	(7,932.87)
Services	2,023,763.53	2,148,110.66	(124,347.13)
Scholarships and Fellowships	2,645,197.59	2,701,474.10	(56,276.51)
Utilities	340,567.72	356,069.31	(15,501.59)
Depreciation	1,166,446.02	967,049.17	199,396.85
Total Operating Expenses	21,615,711.25	21,870,072.84	(254,361.59)
Operating Loss	(18,973,113.92)	(18,989,079.21)	15,965.29
Nonoperating Revenues (Expenses):			
State Aid	8,699,332.25	9,132,792.41	(433,460.16)
County Appropriations	2,100,456.00	2,100,456.00	
Noncapital Grants, Gifts, and Investment Income	8,007,059.04	7,924,209.22	82,849.82
Other Nonoperating Expenses	(30,055.24)	(71,908.86)	41,853.62
Net Nonoperating Revenue	18,776,792.05	19,085,548.77	(308,756.72)
Income (Loss) Before Other Revenue	(196,321.87)	96,469.56	(292,791.43)
Capital Contributions	1,329,944.56	2,520,290.12	(1,190,345.56)
Additions to Endowments	77,639.17	44,410.73	33,228.44
Total Other Revenues	1,407,583.73	2,564,700.85	(1,157,117.12)
Increase in Net Position	1,211,261.86	2,661,170.41	(1,449,908.55)
Net Position, Beginning	48,067,935.63	45,406,765.22	2,661,170.41
Net Position, Ending	\$ 49,279,197.49	\$ 48,067,935.63	\$ 1,211,261.86
Reconciliation of Change in Net Position			
Total Revenues	\$ 22,857,028.35	\$ 24,603,152.11	\$ (1,746,123.76)
Less: Total Expenses	21,645,766.49	21,941,981.70	(296,215.21)
Increase in Net Position	\$ 1,211,261.86	\$ 2,661,170.41	\$ (1,449,908.55)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, print shop and childcare center operations. Operating revenues totaled \$2,642,597.33 as compared to the prior year of \$2,880,993.63 resulting in a decrease of \$238,396.30. This decrease is, in part, a combination of a decrease of \$327,619.47 in student tuition and fees due to a drop in enrollment for the 2013-2014 academic year. Federal grants and contracts increased \$1,717.94. State and local government funds increased \$35,584.00 mainly due to the receipt of State grant funds for two Early Childhood Education grants. Sales and services decreased \$4,497.85 due to a combination of the following: an increase in funds received for the rental of campus facilities, increase in sales in the campus print shop, increase in child care center fees; and a decrease in funds received from live projects, bookstore sales, and vending commissions. Other operating revenue increased \$56,419.08 due to funds received for energy rebates.

The majority of operating expenses are for direct personnel costs and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB Statement No. 34 and Statement No. 35. Operating expenses decreased \$254,361.59. This decrease is due to the combination of the following: salaries and benefits decreased \$249,700.34 due to not receiving funds for a 1.2% non-recurring bonus that the state allowed to be given to full-time employees in the prior year; supplies and materials decreased \$7,932.87 and services decreased \$124,347.13 due to departments spending less and the College transferring funds into capital accounts to purchase equipment; scholarship and fellowships decreased \$56,276.51 due to lower enrollment necessitating scholarship funds; utilities decreased \$15,501.59 and depreciation expense for buildings, machinery and equipment, and infrastructure increased \$199,396.85. Purchases are recorded as a capital asset if the item costs \$5,000 or more and is expected to have a useful life of more than one year. Most items considered equipment for instructional programs cost less than \$5,000 and are therefore, for financial statement purposes, classified as supplies.

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. Net nonoperating revenues experienced a decrease of \$308,756.72. The College had a \$433,460.16 decrease in state aid for current operating use due to a decrease in enrollment. County operational appropriations from Haywood County remained the same from the prior year. Noncapital Grants, Gifts, and Investment Income increased a combined total of \$82,849.82. This is due to an increase in investment income due an increase in market value and a decrease in noncapital grants relating to a Department of Labor grant.

The net \$1,343,080.89 investment income is summarized as follows: Interest and dividends \$205,280.61 gain, investment expenses of \$62,553.72, realized loss on sale of securities of \$193.69 and unrealized gain or increase in market value of securities held as of June 30, 2014 of \$1,200,547.69. The College's investment policy is a fairly conservative and well

MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)

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 \$230,640.70 due to the college having the ability to move funds into the state capital aid account from other costs in order to purchase machinery and equipment. County capital aid decreased \$1,452,059.84 due to less sales tax proceeds being needed by the College for new construction or renovation projects. Capital grants increased \$31,073.58 due to an increase in federal capital grants. Additions to endowments increased by \$33,228.44 due to the receipt of a new endowment.

Haywood Community College’s net position increased \$1,211,261.86. This brings ending net position to \$49,279,197.49 reflecting a fiscally sound position.

Capital Assets

Haywood Community College’s capital assets as of June 30, 2014, amount to \$35,014,664.29 net of accumulated depreciation of \$14,330,118.12. This represents a decrease of \$105,995.19 from the prior year.

	Capital Assets		
	June 30, 2014	June 30, 2013	Variance
Capital Assets, Nondepreciable			
Land	\$ 4,130,401.02	\$ 4,130,401.02	\$ 0.00
Construction In Progress	210,110.65	904,628.88	(694,518.23)
Total Capital Assets, Nondepreciable	<u>4,340,511.67</u>	<u>5,035,029.90</u>	<u>(694,518.23)</u>
Capital Assets, Depreciable, Net			
Buildings	25,680,628.30	25,837,537.00	(156,908.70)
Machinery & Equipment	3,398,061.45	3,131,107.06	266,954.39
Infrastructure	1,595,462.87	1,116,985.52	478,477.35
Total Capital Assets, Depreciable	<u>30,674,152.62</u>	<u>30,085,629.58</u>	<u>588,523.04</u>
Total Capital Assets, Net	<u>\$ 35,014,664.29</u>	<u>\$ 35,120,659.48</u>	<u>\$ (105,995.19)</u>

Construction in progress had a net decrease of \$694,518.23. This includes an increase of \$242,885.49 for the following projects: Research Demo House, 3300 Building Renovation, Water Line Project, Public Services Training Facility, and Student Center Renovation. The change also includes moving \$502,130.34 into buildings and \$435,273.38 into infrastructure from construction in progress for the completion of the 3300 Building Renovation and the Water Line Project. Capital assets, depreciable had a net increase of \$588,523.04. This increase includes the following: \$502,130.34 moved into buildings due to the completion of the 3300 Building Renovation; the purchase of machinery and equipment for \$766,004.23; the write-off of obsolete machinery and equipment in the amount of \$307,054.42; \$516,889.73

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

moved into general infrastructure due to the completion of the Water Line Project and additional funds for lighting projects; and a \$889,446.84 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 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 2014-2015 net state budget allocation of \$12,499,248 in August 2014, which represented a decrease of 128,014 from the previous year. The decrease in state funding for the 2014-2015 is due to a 6% decrease in full-time equivalent (FTE) students. This year's budget allocation also includes a \$548,028 Management Flexibility Reduction. Management feels that by using a conservative realistic approach in handling its 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 2014-2015 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 Position
June 30, 2014

Exhibit A-1
Page 1 of 2

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 2,982,529.37
Restricted Cash and Cash Equivalents	821,056.47
Short-Term Investments	2,369,174.65
Restricted Short-Term Investments	173,545.70
Receivables, Net (Note 4)	392,297.19
Inventories	222,357.05

Total Current Assets	6,960,960.43
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,333,599.28
Receivables, Net (Note 4)	3,800.00
Restricted Due from Primary Government	12,650.00
Restricted Investments	7,768,717.65
Capital Assets - Nondepreciable (Note 5)	4,340,511.67
Capital Assets - Depreciable, Net (Note 5)	30,674,152.62

Total Noncurrent Assets	44,133,431.22
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Total Assets	51,094,391.65
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DEFERRED OUTFLOWS OF RESOURCES

Total Deferred Outflows of Resources	0.00
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	597,117.98
Unearned Revenue	132,327.12
Long-Term Liabilities - Current Portion (Note 7)	187,074.56

Total Current Liabilities	916,519.66
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Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	898,674.50
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Total Liabilities	1,815,194.16
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DEFERRED INFLOWS OF RESOURCES

Total Deferred Inflows of Resources	0.00
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Haywood Community College
Statement of Net Position
June 30, 2014

Exhibit A-1
Page 2 of 2

NET POSITION

Net Investment in Capital Assets	35,001,130.82
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	7,772,517.65
Expendable:	
Scholarships and Fellowships	493,641.41
Capital Projects	1,346,963.35
Restricted for Specific Programs	329,510.00
Unrestricted	<u>4,335,434.26</u>
Total Net Position	<u>\$ 49,279,197.49</u>

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 Position
For the Fiscal Year Ended June 30, 2014

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,155,283.91
Federal Grants and Contracts	4,949.19
State and Local Grants and Contracts	67,142.44
Sales and Services, Net (Note 9)	1,119,234.88
Other Operating Revenues	295,986.91
	<hr/>
Total Operating Revenues	2,642,597.33
	<hr/>

EXPENSES

Operating Expenses:

Salaries and Benefits	12,944,782.45
Supplies and Materials	2,494,953.94
Services	2,023,763.53
Scholarships and Fellowships	2,645,197.59
Utilities	340,567.72
Depreciation	1,166,446.02
	<hr/>
Total Operating Expenses	21,615,711.25
	<hr/>

Operating Loss (18,973,113.92)

NONOPERATING REVENUES (EXPENSES)

State Aid	8,699,332.25
County Appropriations	2,100,456.00
Noncapital Grants - Student Financial Aid	5,524,410.89
Noncapital Grants	834,708.59
Noncapital Gifts, Net (Note 9)	304,858.67
Investment Income (Net of Investment Expense of \$62,553.72)	1,343,080.89
Other Nonoperating Expenses	(30,055.24)
	<hr/>
Net Nonoperating Revenues	18,776,792.05
	<hr/>

Loss Before Other Revenues (196,321.87)

State Capital Aid	878,023.45
County Capital Aid	354,674.79
Capital Grants	97,246.32
Additions to Endowments	77,639.17
	<hr/>

Increase in Net Position 1,211,261.86

NET POSITION

Net Position, July 1, 2013	48,067,935.63
	<hr/>
Net Position, June 30, 2014	\$ 49,279,197.49
	<hr/> <hr/>

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, 2014

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 2,816,934.00
Payments to Employees and Fringe Benefits	(12,811,515.40)
Payments to Vendors and Suppliers	(4,846,055.16)
Payments for Scholarships and Fellowships	(2,645,197.59)
	<hr/>
Net Cash Used by Operating Activities	(17,485,834.15)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,699,332.25
County Appropriations	2,100,456.00
Noncapital Grants - Student Financial Aid	5,524,410.89
Noncapital Grants	845,741.54
Noncapital Gifts and Endowments	376,592.37
William D. Ford Direct Lending Receipts	2,299,375.00
William D. Ford Direct Lending Disbursements	(2,299,375.00)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	17,546,533.05
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,124,404.38
County Capital Aid	250,000.00
Capital Grants	97,246.32
Acquisition and Construction of Capital Assets	(1,100,469.52)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	371,181.18
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	4,509.41
Investment Income	205,280.61
Purchase of Investments and Related Fees	(140,217.89)
	<hr/>
Net Cash Provided by Investing Activities	69,572.13
	<hr/>

Net Increase in Cash and Cash Equivalents	501,452.21
Cash and Cash Equivalents, July 1, 2013	4,635,732.91
	<hr/>
Cash and Cash Equivalents, June 30, 2014	\$ 5,137,185.12
	<hr/> <hr/>

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (18,973,113.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,166,446.02
Changes in Assets and Liabilities:	
Receivables, Net	145,926.72
Inventories	(5,090.62)
Accounts Payable and Accrued Liabilities	73,206.21
Unearned Revenue	28,409.95
Compensated Absences	78,381.49
	<u>78,381.49</u>
Net Cash Used by Operating Activities	<u>\$ (17,485,834.15)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 2,982,529.37
Restricted Cash and Cash Equivalents	821,056.47
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,333,599.28</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 5,137,185.12</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 13,533.47
Assets Acquired through Payments on the College's Behalf	104,674.79
Assets Acquired through a Gift	4,703.10
Change in Fair Value of Investments	1,200,547.69
Increase in Receivables Related to Nonoperating Income	1,202.37
Loss on Disposal of Capital Assets	30,055.24

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

HAYWOOD COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 (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. See below for further discussion of the College's component unit.

Blended Component Unit - Although legally separate, Haywood Community College Foundation, Inc. (Foundation) is reported as if it was part of the College. The Foundation is governed by a board of up to 25 members 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 the College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Vice President of Business Operation, 185 Freedlander Drive, Clyde, NC 28721 or by calling 828-627-2821.

Condensed combining information regarding the blended component unit is provided in Note 15.

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

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 and accordingly, is reported within a single column in the basic financial statements.

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Investments** - 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 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 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 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Position - The College's net position is classified as follows:

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

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

Restricted Net Position - Expendable - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Position - Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

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

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 Position. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions 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. 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 appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014 was \$1,265.00. The carrying amount of the College's deposits not with the State Treasurer was \$2,538,401.27, and the bank balance was \$2,631,899.15.

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, 2014, 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)

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, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$2,597,518.85, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2014. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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 and other deposit accounts of specified financial institutions; prime quality commercial paper; asset-backed securities, bills of exchange or time drafts, and corporate bonds/notes with specified ratings; general obligations of other states; general obligations of North Carolina local governments and obligations of certain entities with specified ratings.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2014, 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
Debt Securities					
Money Market Mutual Funds	\$ 860,310.10	\$ 860,310.10	\$ 0.00	\$ 0.00	\$ 0.00
Fixed Income - Government Obligations	342,639.48		171,768.90	4,734.60	166,135.98
Fixed Income - Corporate Obligations	227,978.82	10,374.80	104,083.98	82,096.69	31,423.35
Total Debt Securities	1,430,928.40	\$ 870,684.90	\$ 275,852.88	\$ 86,831.29	\$ 197,559.33
Other Securities					
Fixed Income					
Domestic Mutual Funds	1,453,980.61				
International Mutual Funds	328,643.96				
Equities					
Domestic Mutual Funds	6,046,219.16				
International Mutual Funds	927,565.62				
Domestic Stocks	124,100.25				
Total Investments	\$ 10,311,438.00				

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, 2014, the College's investments were rated as follows:

	Fair Value	AAA AA+	A+ A	A- B	BBB Baa	BBB and below
Fixed Income						
Corporate Obligations	\$ 227,978.82	\$ 5,952.90	\$ 74,493.75	\$ 41,789.69	\$ 57,250.57	\$ 48,491.91
Rating Agency: Standard & Poor's						

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2014, is as follows:

Cash on Hand	\$ 1,265.00
Carrying Amount of Deposits with Private Financial Institutions	2,538,401.27
Investments in the Short-Term Investment Fund	2,597,518.85
Other Investments	<u>10,311,438.00</u>
Total Deposits and Investments	<u><u>\$ 15,448,623.12</u></u>
Deposits	
Current:	
Cash and Cash Equivalents	\$ 2,982,529.37
Restricted Cash and Cash Equivalents	821,056.47
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>1,333,599.28</u>
Total Deposits	<u>5,137,185.12</u>
Investments	
Current:	
Short-Term Investments	2,369,174.65
Restricted Short-Term Investments	173,545.70
Noncurrent:	
Endowment Investments	<u>7,768,717.65</u>
Total Investments	<u>10,311,438.00</u>
Total Deposits and Investments	<u><u>\$ 15,448,623.12</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

distributions from the aggregate endowment fund pool. The Endowment Fund Pool “portfolio value” will be determined on a 36-month moving average of the 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, 2014, net appreciation of \$311,894.50 was available to be spent, of which \$228,465.57 was classified in net position as restricted: expendable: scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 249,212.99	\$ 59,947.23	\$ 189,265.76
Student Sponsors	26,048.58		26,048.58
Accounts	138,710.75		138,710.75
Intergovernmental	29,257.85		29,257.85
Pledges	<u>9,488.68</u>	<u>474.43</u>	<u>9,014.25</u>
Total Current Receivables	<u>\$ 452,718.85</u>	<u>\$ 60,421.66</u>	<u>\$ 392,297.19</u>
Noncurrent Receivables:			
Pledges	<u>\$ 4,000.00</u>	<u>\$ 200.00</u>	<u>\$ 3,800.00</u>

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 4,130,401.02	\$ 0.00	\$ 0.00	\$ 4,130,401.02
Construction in Progress	904,628.88	242,885.49	937,403.72	210,110.65
Total Capital Assets, Nondepreciable	5,035,029.90	242,885.49	937,403.72	4,340,511.67
Capital Assets, Depreciable:				
Buildings	34,905,715.31	502,130.34		35,407,845.65
Machinery and Equipment	6,912,993.43	766,004.23	307,054.42	7,371,943.24
General Infrastructure	1,707,592.12	516,889.73		2,224,481.85
Total Capital Assets, Depreciable	43,526,300.86	1,785,024.30	307,054.42	45,004,270.74
Less Accumulated Depreciation for:				
Buildings	9,068,178.31	659,039.04		9,727,217.35
Machinery and Equipment	3,781,886.37	468,994.60	276,999.18	3,973,881.79
General Infrastructure	590,606.60	38,412.38		629,018.98
Total Accumulated Depreciation	13,440,671.28	1,166,446.02	276,999.18	14,330,118.12
Total Capital Assets, Depreciable, Net	30,085,629.58	618,578.28	30,055.24	30,674,152.62
Capital Assets, Net	\$ 35,120,659.48	\$ 861,463.77	\$ 967,458.96	\$ 35,014,664.29

The capital assets schedule above includes land and buildings in the amount of \$10,268,110.10 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 the 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, 2014, were as follows:

	<u>Amount</u>
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	\$ 108,391.47
Accrued Payroll	488,726.51
Total Current Accounts Payable and Accrued Liabilities	\$ 597,117.98

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Compensated Absences	\$ 1,007,367.57	\$ 948,728.42	\$ 870,346.93	\$ 1,085,749.06	\$ 187,074.56

NOTE 8 - OPERATING LEASE OBLIGATIONS

The College entered into an operating lease for copiers. Future minimum lease payments under the noncancelable operating lease consist of the following at June 30, 2014:

Fiscal Year	Amount
2015	\$ 64,596.33

Rental expense for all operating leases during the year was \$60,122.86.

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
Operating Revenues:					
Student Tuition and Fees	\$ 3,291,911.18	\$ 0.00	\$ 2,122,920.81	\$ 13,706.46	\$ 1,155,283.91
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	\$ 13,794.44	\$ 0.00	\$ 0.00	\$ 0.00	\$ 13,794.44
Print Shop	99,590.94	74,167.72			25,423.22
Bookstore	1,425,811.49	10,834.64	979,857.34		435,119.51
Child Care Center	602,231.58				602,231.58
Other	42,666.13				42,666.13
Total Sales and Services	\$ 2,184,094.58	\$ 85,002.36	\$ 979,857.34	\$ 0.00	\$ 1,119,234.88
Nonoperating - Noncapital Gifts	\$ 305,058.67	\$ 0.00	\$ 0.00	\$ 200.00	\$ 304,858.67

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 7,567,963.23	\$ 1,013,613.25	\$ 463,774.06	\$ 0.00	\$ 0.00	\$ 0.00	\$ 9,045,350.54
Academic Support	906,860.33	62,726.76	38,000.19				1,007,587.28
Student Services	697,967.93	21,052.72	99,270.31	26,504.00			844,794.96
Institutional Support	2,511,473.01	106,681.02	765,688.71				3,383,842.74
Operations and Maintenance of Plant	595,954.93	106,939.09	551,813.60		340,567.72		1,595,275.34
Student Financial Aid	1,276.71	13,270.47	26,513.05	2,618,693.59			2,659,753.82
Auxiliary Enterprises	663,286.31	1,170,670.63	78,703.61				1,912,660.55
Depreciation						1,166,446.02	1,166,446.02
Total Operating Expenses	\$ 12,944,782.45	\$ 2,494,953.94	\$ 2,023,763.53	\$ 2,645,197.59	\$ 340,567.72	\$ 1,166,446.02	\$ 21,615,711.25

NOTE 11 - PENSION 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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,899,803.30, of which \$8,467,778.61 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$735,849.96 and \$508,066.72, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$735,849.96, \$712,973.04, and \$633,916.00, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The TSERS 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.

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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of 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 established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$457,260.04, \$453,632.31, and \$426,018.82, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$37,258.23, \$37,660.04, and \$44,305.95, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Companion 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 \$100 for children 14 days to 6 months and \$2,000 for children 6 months and over. This is paid entirely from county funds.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. There were no outstanding commitments on construction contracts at June 30, 2014. Outstanding commitments on other purchases were \$30,880.71 at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2014, is presented as follows:

***Condensed Statement of Net Position
June 30, 2014***

	Haywood Community College	Haywood Community College Foundation, Inc.	<u>Total</u>
ASSETS			
Current Assets	\$ 3,549,357.49	\$ 3,411,602.94	\$ 6,960,960.43
Capital Assets	34,279,834.29	734,830.00	35,014,664.29
Other Noncurrent Assets	1,587,827.91	7,530,939.02	9,118,766.93
Total Assets	<u>39,417,019.69</u>	<u>11,677,371.96</u>	<u>51,094,391.65</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
LIABILITIES			
Current Liabilities	914,118.34	2,401.32	916,519.66
Noncurrent Liabilities	<u>893,349.85</u>	<u>5,324.65</u>	<u>898,674.50</u>
Total Liabilities	<u>1,807,468.19</u>	<u>7,725.97</u>	<u>1,815,194.16</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
NET POSITION			
Net Investment in Capital Assets	34,266,300.82	734,830.00	35,001,130.82
Restricted - Nonexpendable	241,578.63	7,530,939.02	7,772,517.65
Restricted - Expendable	1,636,576.10	533,538.66	2,170,114.76
Unrestricted	<u>1,465,095.95</u>	<u>2,870,338.31</u>	<u>4,335,434.26</u>
Total Net Position	<u>\$ 37,609,551.50</u>	<u>\$ 11,669,645.99</u>	<u>\$ 49,279,197.49</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

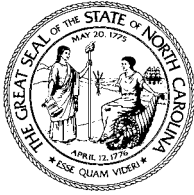
***Condensed Statement of Revenues, Expenses, and
Changes in Net Position
For the Fiscal Year Ended June 30, 2014***

	Haywood Community College	Haywood Community College Foundation, Inc.	<u>Total</u>
OPERATING REVENUES			
Student Tuition and Fees, Net	\$ 1,155,283.91	\$ 0.00	\$ 1,155,283.91
Sales and Services, Net	1,119,234.88		1,119,234.88
Other Operating Revenues	179,544.65	188,533.89	368,078.54
	<u>2,454,063.44</u>	<u>188,533.89</u>	<u>2,642,597.33</u>
Total Operating Revenues			
OPERATING EXPENSES			
Operating Expenses	20,148,508.66	300,756.57	20,449,265.23
Depreciation	1,166,446.02		1,166,446.02
	<u>21,314,954.68</u>	<u>300,756.57</u>	<u>21,615,711.25</u>
Total Operating Expenses			
Operating Loss	<u>(18,860,891.24)</u>	<u>(112,222.68)</u>	<u>(18,973,113.92)</u>
NONOPERATING REVENUES			
State Aid	8,699,332.25		8,699,332.25
County Appropriations	2,100,456.00		2,100,456.00
Noncapital Grants - Student Financial Aid	5,524,410.89		5,524,410.89
Noncapital Gifts, Net	254,771.78	50,086.89	304,858.67
Investment Income, Net	45,119.91	1,297,960.98	1,343,080.89
Other Nonoperating Revenues	804,653.35		804,653.35
	<u>17,428,744.18</u>	<u>1,348,047.87</u>	<u>18,776,792.05</u>
Net Nonoperating Revenues			
State Capital Aid	878,023.45		878,023.45
County Capital Aid	354,674.79		354,674.79
Capital Grants	97,246.32		97,246.32
Additions to Endowments	175.00	77,464.17	77,639.17
Transfers	17,339.37	(17,339.37)	0.00
	<u>(84,688.13)</u>	<u>1,295,949.99</u>	<u>1,211,261.86</u>
Increase (Decrease) in Net Position			
NET POSITION			
Net Position, July 1, 2013	<u>37,694,239.63</u>	<u>10,373,696.00</u>	<u>48,067,935.63</u>
Net Position, June 30, 2014	<u>\$ 37,609,551.50</u>	<u>\$ 11,669,645.99</u>	<u>\$ 49,279,197.49</u>

***Condensed Statement of Cash Flows
June 30, 2014***

	Haywood Community College	Haywood Community College Foundation, Inc.	<u>Total</u>
Net Cash Used by Operating Activities	\$ (17,355,747.50)	\$ (130,086.65)	\$ (17,485,834.15)
Net Cash Provided by Noncapital Financing Activities	17,424,887.46	121,645.59	17,546,533.05
Net Cash Provided by Capital and Related Financing Activities	371,181.18		371,181.18
Net Cash Provided by Investing Activities	16,589.31	52,982.82	69,572.13
	<u>456,910.45</u>	<u>44,541.76</u>	<u>501,452.21</u>
Net Increase in Cash and Cash Equivalents			
Cash and Cash Equivalents, July 1, 2013	<u>3,820,513.32</u>	<u>815,219.59</u>	<u>4,635,732.91</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 4,277,423.77</u>	<u>\$ 859,761.35</u>	<u>\$ 5,137,185.12</u>

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

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated March 19, 2015. Our report includes a reference to other auditors who audited the financial statements of Haywood Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Haywood Community College Foundation Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Haywood Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

**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)**

prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 19, 2015

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