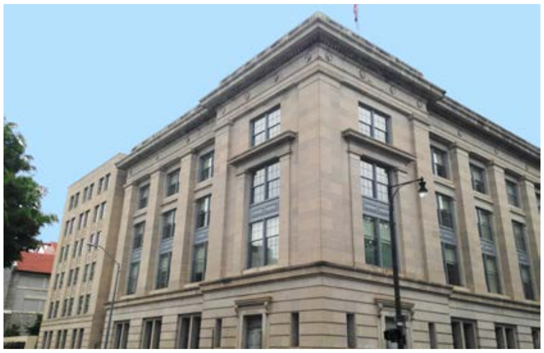
STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA
FINANCIAL STATEMENT AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2017

A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA

NCOSA
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
The General Assembly of North Carolina
Board of Trustees, Haywood Community College

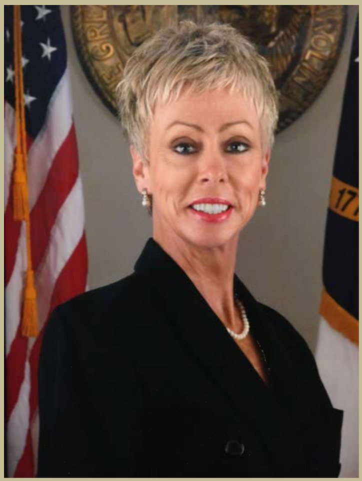
We have completed a financial statement audit of Haywood Community College for the year ended June 30, 2017, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed a deficiency that is detailed in the Findings, Recommendations, and Responses section of this report. The College's response is included following the finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 22.45 percent, 24.26 percent, and 6.38 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 opinion, insofar as it relates to the amounts included for Haywood Community College Foundation, Inc., is 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 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 opinion.

Opinion

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

Other Matters – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2018 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 22, 2018

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, 2017.

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 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, 2017, 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 included 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 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.

Financial Analysis

Condensed Statement of Net Position

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

	June 30, 2017	June 30, 2016	Variance
Assets			
Current Assets	$ 7,515,236.96	$ 7,461,886.11	$ 53,350.85
Noncurrent Assets:			
Capital Assets, Net	39,530,548.09	37,173,698.37	2,356,849.72
Other	9,425,629.45	9,053,825.25	371,804.20
Total Assets	56,471,414.50	53,689,409.73	2,782,004.77
Total Deferred Outflow of Resources	3,605,072.00	777,948.00	2,827,124.00
Liabilities			
Current Liabilities	1,184,465.67	935,864.63	248,601.04
Long-Term Liabilities	6,254,812.78	3,105,001.10	3,149,811.68
Total Liabilities	7,439,278.45	4,040,865.73	3,398,412.72
Total Deferred Inflow of Resources	404,544.00	558,135.00	(153,591.00)
Net Position			
Net Investment in Capital Assets	39,301,274.25	37,171,803.75	2,129,470.50
Restricted for: Nonexpendable	8,547,888.78	7,806,474.21	741,414.57
Restricted for: Expendable	1,729,665.85	2,297,103.11	(567,437.26)
Unrestricted	2,653,835.17	2,592,975.93	60,859.24
Total Net Position	$ 52,232,664.05	$ 49,868,357.00	$ 2,364,307.05

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 nondepreciable and depreciable capital assets, net of depreciation.

Current assets at June 30, 2017 increased $53,350.85. Cash and cash equivalents increased $89,815.71 due to an increase in unexpended funds in county and institutional accounts at the end of the fiscal year. Restricted cash and cash equivalents decreased $242,190.52. This decrease is due to the combination of the following: a decrease in funds available for the Duke Energy and Western North Carolina Forest Industry Training Grants and the expenditure of cash in student fees, scholarship funds, and county capital. Short-term and restricted short-term investments increased $216,241.69 due to an increase in market value. Receivables increased $3,374.71. Inventories decreased $17,257.35 due to a smaller amount of inventory on hand at the end of the fiscal year.

Capital assets, net of depreciation, increased $2,356,849.72. See the Capital Asset Activity section for further analysis of capital assets.

Other noncurrent assets increased $371,804.20. Restricted cash and cash equivalents increased $25,289.63 due to cash remaining in construction project accounts at the end of the fiscal year. Restricted due from primary government decreased $395,000.00 due to the receipt of insurance proceeds that were an outstanding receivable at the end of fiscal year 2016. Restricted investments increased $741,514.57 due to receiving $36,459.33 in additions to permanent endowments and an increase in market value.

The implementation of Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27,* as well as GASB Statement No. 71 - *Pension Transitions for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68,* required the College to include its portion of cost-sharing for the Teachers' and State Employees' Retirement System (TSERS) defined benefit pension plan. As cost-sharing employers in the TSERS plan, the College must report a net pension liability, deferred outflows of resources, and deferred inflows of resources, as well as a pension expense based on its proportional share of the aggregated net pension liability of all participating employers in the plan. Collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods are to be aggregated and included as a net collective deferred outflow of resources related to pensions or a net collective deferred inflow of resources related to pensions. The State changed assumptions used in calculating pension liability in fiscal year 2016, and this change added $1.7 billion to its net pension liability. The College has to recognize a proportionate share of the State's liability; therefore, the College recognized total deferred outflow of resources of $3,605,072.00, which was an increase of $2,827,124.00. The College recognized a total deferred inflow of resources of $404,544.00, which was a decrease of $153,591.00. These increases and decreases are a direct result of a difference between actual and projected investment performance of the plan's assets and adjustments made for changes in actuarial assumptions related to plan participants. Since the College is a participant in the cost-sharing pension plan, the College shares the loss on the decrease in market value of investments. See Note 12 for additional information.

The College's liabilities are divided between current liabilities payable within 12 months and long-term liabilities that extend beyond one year. Current liabilities increased $248,601.04 due to the net effect of an increase of $268,303.76 in accounts payable related to the construction of the Public Safety Training Facility, a decrease of $10,774.68 in unearned revenue, an increase of $4,000.00 in funds held for others, and a decrease of $12,928.04 in the current portion of compensated absences/accrued vacation leave recorded at June 30, 2017. Long-term liabilities include compensated absences/accrued vacation leave that will not be paid within the next fiscal year and net pension liability. Long-term liabilities increased $3,149,811.68 due to the net effect of a decrease of $20,480.32 in employee leave balances remaining at June 30, 2017 and an increase of $3,170,292.00 in net pension liability due to the lower investment performance for the TSERS plan.

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 expenditure of funds in construction in progress to complete the Public Services Training Facility 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 an increase in market value of investments. The decrease in restricted expendable was due to a decrease in funds available for scholarships and special programs and the expenditure of funds for capital projects. The unrestricted net position increased mainly due to unexpended funds remaining at the end of the fiscal year.

Condensed 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 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.

	June 30, 2017	June 30, 2016	Variance
Operating Revenues:			
Student Tuition and Fees, Net	$ 1,321,729.51	$ 1,282,706.62	$ 39,022.89
State and Local Grants and Contracts	750.00		750.00
Sales and Services, Net	1,652,194.47	1,233,269.03	418,925.44
Other Operating Revenues	307,038.57	275,347.63	31,690.94
Total Operating Revenues	3,281,712.55	2,791,323.28	490,389.27
Operating Expenses:			
Salaries and Benefits	12,743,350.54	11,953,241.57	790,108.97
Supplies and Materials	1,613,363.99	1,488,842.93	124,521.06
Services	2,436,910.41	2,443,259.86	(6,349.45)
Scholarships and Fellowships	1,570,199.23	1,798,671.57	(228,472.34)
Utilities	370,305.90	351,025.14	19,280.76
Depreciation	1,355,077.41	1,100,367.45	254,709.96
Total Operating Expenses	20,089,207.48	19,135,408.52	953,798.96
Operating Loss	(16,807,494.93)	(16,344,085.24)	(463,409.69)
Nonoperating Revenues (Expenses):			
State Aid	8,857,389.61	9,318,170.73	(460,781.12)
County Appropriations	2,407,669.00	2,184,328.00	223,341.00
Noncapital Grants, Gifts, and Investment Activity	4,690,558.98	4,071,554.47	619,004.51
Other Nonoperating Expenses	(28,171.51)	(48,149.78)	19,978.27
Net Nonoperating Revenues	15,927,446.08	15,525,903.42	401,542.66
Loss Before Other Revenues	(880,048.85)	(818,181.82)	(61,867.03)
Capital Contributions	3,207,896.57	2,740,816.67	467,079.90
Additions to Endowments	36,459.33	267,037.70	(230,578.37)
Extraordinary Item		520,000.00	(520,000.00)
Total Other Revenues	3,244,355.90	3,527,854.37	(283,498.47)
Increase in Net Position	2,364,307.05	2,709,672.55	(345,365.50)
Net Position			
Net Position, Beginning	49,868,357.00	47,158,684.45	2,709,672.55
Net Position, Ending	$ 52,232,664.05	$ 49,868,357.00	$ 2,364,307.05
Reconciliation of Change in Net Position			
Total Revenues	$ 22,481,686.04	$ 21,893,230.85	$ 588,455.19
Less: Total Expenses	20,117,378.99	19,183,558.30	933,820.69
Increase in Net Position	$ 2,364,307.05	$ 2,709,672.55	$ (345,365.50)

The major components of operating revenues include student tuition and fees; 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 $3,281,712.55 as compared to the prior year of $2,791,323.28 resulting in an increase of $490,389.27. This increase is, in part, due to an increase of $39,022.89 in student tuition and fees not paid through a third-party. Sales and services increased $418,925.44 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 an increase in funds received for bookstore sales. Other operating revenue increased $31,690.94 due to a slight increase in fees collected.

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 increased $953,798.96. This increase is due to the combination of the following: salaries and benefits increased $790,108.97 due to a combination of an across-the-board salary increase of 1.5%, an employee bonus of 0.5%, and an increase in net pension expense; supplies and materials increased $124,521.06 mainly due to the need to purchase supplies and materials for the Public Services Training Facility; services decreased $6,349.45; scholarship and fellowships decreased $228,472.34 due to lower enrollment necessitating scholarship funds; utilities increased $19,280.76 due to increased expenditures at the College annex building; and depreciation expense for buildings, machinery and equipment, and general infrastructure increased $254,709.96 mainly due to the year's machinery and equipment additions.

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 an increase of $401,542.66. The College had a $460,781.12 decrease in state aid for current operations use due to a decrease in enrollment. County operational appropriations from Haywood County increased $223,341.00 for the year. Noncapital grants, gifts, and investment activity increased a combined total of $619,004.51. This increase is primarily the net effect of a decrease in noncapital grants due to lower enrollment necessitating less student financial aid and an increase in investment income due to an increase in market value. Other nonoperating expenses decreased $19,978.27 due to a decrease in the loss on disposal of machinery and equipment in the current fiscal year and due to a small increase in other nonoperating revenue.

The net gain of $1,013,698.71 in investment income is summarized as follows: Interest and dividends of $155,688.84, investment expenses of $63,187.06, and an unrealized gain in the market value of securities held as of June 30, 2017 of $921,196.93. 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 monthly by College personnel, the Finance Committee, and the portfolio managers.

Other revenues consist of capital contributions, additions to endowments, and extraordinary income. 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 $46,572.93. County capital aid increased $1,215,993.35 due to the County allocating additional funds for capital projects, the majority of which was for the Public Services Training Facility. Capital grants decreased $22,286.38. Capital gifts decreased $773,200.00 due to the receipt of a donation from Smoky Mountain Development of land and a building in the prior fiscal year. Additions to endowments decreased by $230,578.37 due to a large endowment received in the prior fiscal year. Extraordinary items decreased because the College recognized $520,000.00 in the prior fiscal year for insurance proceeds received from the settlement of the Sawmill Building fire.

The College's net position increased $2,364,307.05. This brings ending net position to $52,232,664.05, reflecting a fiscally sound position.

Capital Asset Activity

Haywood Community College's capital assets as of June 30, 2017, amount to $39,530,548.09, net of accumulated depreciation of $17,148,629.32. This represents an increase of $2,356,849.72 from the prior year.

	June 30, 2017	June 30, 2016	Variance
Capital Assets, Nondepreciable			
Land and Permanent Easements	$ 4,560,825.09	$ 4,560,825.09	$ 0.00
Construction In Progress	4,842,913.32	1,628,926.75	3,213,986.57
Total Capital Assets, Nondepreciable	9,403,738.41	6,189,751.84	3,213,986.57
Capital Assets, Depreciable, Net			
Buildings	24,652,947.72	25,328,101.40	(675,153.68)
Machinery and Equipment	2,996,884.02	3,149,874.81	(152,990.79)
General Infrastructure	2,476,977.94	2,505,970.32	(28,992.38)
Total Capital Assets, Depreciable, Net	30,126,809.68	30,983,946.53	(857,136.85)
Capital Assets, Net	$ 39,530,548.09	$ 37,173,698.37	$ 2,356,849.72

Construction in progress increased $3,213,986.57 due to the construction of the Public Services Training Facility and the construction of a College motor pool service kiosk. Depreciable capital assets had a net decrease of $857,136.85. This decrease includes the following: a $32,051.85 increase to general infrastructure; the acquisition of machinery and equipment for $498,560.22; the write-off of obsolete machinery and equipment in the amount of $164,288.52; and a $1,223,460.40 net increase in accumulated depreciation for buildings, machinery and equipment, and general infrastructure.

For details on the College's capitalization and deprecation polices see note 1H of the notes to the financial statements.

Economic Factors and Next Year's Budget

The economic position of the College is closely tied to that of the State. In fiscal year 2016-2017, the College had a decrease of approximately 1.5% in full-time equivalent (FTE) students. This reduction in FTE results in a reduction of approximately .6% of Net State Allocation for the 2017-2018 fiscal year or $71,586.00. Management feels that by using a conservative realistic approach in handling its resources, the College will be able to continue providing a superior education to its students in a quality learning environment. 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 enrollment to remain level for the 2017-2018 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.

FINANCIAL STATEMENTS

Haywood Community College
Statement of Net Position — *Exhibit A-1*
June 30, 2017 — *Page 1 of 2*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	3,553,269.73
Restricted Cash and Cash Equivalents		777,080.95
Short-Term Investments		2,407,325.95
Restricted Short-Term Investments		177,643.14
Receivables, Net (Note 5)		356,161.25
Due from State of North Carolina Component Units		3,366.61
Inventories		240,389.33
Total Current Assets		7,515,236.96
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		865,090.67
Restricted Due from Primary Government		12,650.00
Restricted Investments		8,547,888.78
Capital Assets - Nondepreciable (Note 6)		9,403,738.41
Capital Assets - Depreciable, Net (Note 6)		30,126,809.68
Total Noncurrent Assets		48,956,177.54
Total Assets		56,471,414.50
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows Related to Pensions		3,605,072.00
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 7)		799,507.92
Unearned Revenue		147,563.21
Funds Held for Others		4,000.00
Long-Term Liabilities - Current Portion (Note 8)		233,394.54
Total Current Liabilities		1,184,465.67
Noncurrent Liabilities:		
Long-Term Liabilities (Note 8)		6,254,812.78
Total Liabilities		7,439,278.45
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows Related to Pensions		404,544.00

NET POSITION

Net Investment in Capital Assets	39,301,274.25
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	8,547,888.78
Expendable:	
Scholarships and Fellowships	421,487.84
Capital Projects	899,205.78
Restricted for Specific Programs	408,972.23
Unrestricted	2,653,835.17
Total Net Position	$ 52,232,664.05

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, 2017 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 10)	$	1,321,729.51
State and Local Grants and Contracts		750.00
Sales and Services, Net (Note 10)		1,652,194.47
Other Operating Revenues		307,038.57
Total Operating Revenues		3,281,712.55
EXPENSES		
Operating Expenses:		
Salaries and Benefits		12,743,350.54
Supplies and Materials		1,613,363.99
Services		2,436,910.41
Scholarships and Fellowships		1,570,199.23
Utilities		370,305.90
Depreciation		1,355,077.41
Total Operating Expenses		20,089,207.48
Operating Loss		(16,807,494.93)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,857,389.61
County Appropriations		2,407,669.00
Noncapital Grants - Student Financial Aid		2,966,781.39
Noncapital Grants		259,083.31
Noncapital Gifts		450,995.57
Investment Income (Net of Investment Expense of $63,187.06)		1,013,698.71
Other Nonoperating Expenses		(28,171.51)
Net Nonoperating Revenues		15,927,446.08
Loss Before Other Revenues		(880,048.85)
State Capital Aid		336,640.29
County Capital Aid		2,763,316.17
Capital Grants		72,940.11
Capital Gifts		35,000.00
Additions to Endowments		36,459.33
Increase in Net Position		2,364,307.05
NET POSITION		
Net Position, July 1, 2016		49,868,357.00
Net Position, June 30, 2017	$	52,232,664.05

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

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 3,299,211.13
Payments to Employees and Fringe Benefits	(12,536,441.46)
Payments to Vendors and Suppliers	(4,413,138.85)
Payments for Scholarships and Fellowships	(1,570,199.23)
Other Receipts	8,500.00
Net Cash Used by Operating Activities	(15,212,068.41)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,857,389.61
County Appropriations	2,407,669.00
Noncapital Grants - Student Financial Aid	2,966,781.39
Noncapital Grants	256,181.38
Noncapital Gifts and Endowments	455,342.25
Cash Provided by Noncapital Financing Activities	14,943,363.63
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	336,640.29
County Capital Aid	135,000.00
Capital Grants	72,940.11
Proceeds from Insurance on Capital Assets	395,000.00
Acquisition and Construction of Capital Assets	(853,903.25)
Net Cash Provided by Capital and Related Financing Activities	85,677.15
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	155,688.84
Purchase of Investments and Related Fees	(99,746.39)
Net Cash Provided by Investing Activities	55,942.45
Net Decrease in Cash and Cash Equivalents	(127,085.18)
Cash and Cash Equivalents, July 1, 2016	5,322,526.53
Cash and Cash Equivalents, June 30, 2017	$ 5,195,441.35

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(16,807,494.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,355,077.41
Nonoperating Other Income		4,500.00
Changes in Assets and Deferred Outflows of Resources:		
Receivables, Net		28,273.26
Inventories		17,257.35
Deferred Outflows for Pensions		(2,827,124.00)
Changes in Liabilities and Deferred Inflows of Resources:		
Accounts Payable and Accrued Liabilities		40,924.54
Unearned Revenue		(10,774.68)
Net Pension Liability		3,170,292.00
Funds Held for Others		4,000.00
Deferred Inflows for Pensions		(153,591.00)
Compensated Absences		(33,408.36)
Net Cash Used by Operating Activities	$	(15,212,068.41)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	3,553,269.73
Restricted Cash and Cash Equivalents		777,080.95
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		865,090.67
Total Cash and Cash Equivalents - June 30, 2017	$	5,195,441.35

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	229,273.84
Assets Acquired through a Gift		35,000.00
Assets Acquired through Payments on the College's Behalf		2,628,316.17
Change in Fair Value of Investments		921,196.93
Increase in Receivables Related to Nonoperating Income		35,479.26
Loss on Disposal of Capital Assets		(32,671.51)

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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. Other related foundations and similar nonprofit corporations for which the College is not financially accountable are not part of the accompanying financial statements.

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 three 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 Foundation Director, 185 Freedlander Drive, Clyde, NC 28721 or by calling 828-627-2821.

Condensed combining information regarding the blended component unit is provided in Note 16.

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

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

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

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

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

E. **Investments** - To the extent available, investments are recorded at fair value based on quoted market prices in active markets on a trade-date basis. Additional information regarding the fair value measurement of investments is disclosed in Note 3. The net change in the value of investments is recognized as a component of investment income.

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.

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 acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

Asset Class	Estimated Useful Life
Buildings	10-100 years
Machinery and Equipment	2-30 years
General Infrastructure	10-75 years

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 net pension liability and compensated absences that will not be paid within the next fiscal year.

The net pension liability represents the College's proportionate share of the collective net pension liability reported in the State of North Carolina's 2016 *Comprehensive Annual Financial Report.* This liability represents the College's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 12 for further information regarding the College's policies for recognizing liabilities, expenses, and deferred outflows of resources and deferred inflows of resources related to pensions.

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

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

M. 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 liabilities 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 outflows of resources and deferred inflows of resources.

N. **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 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.

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

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

P. **Internal Sales Activities** – The College bookstore and print shop 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.

Q. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriations and county capital appropriations do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

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, 2017 was $1,295.00. The carrying amount of the College's deposits not with the State Treasurer was $3,223,333.25, and the bank balance was $3,311,770.38.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2017, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

At June 30, 2017, the amount shown on the Statement of Net Position as cash and cash equivalents includes $1,970,813.10, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.6 years as of June 30, 2017. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at https://www.nctreasurer.com/ in the Audited Financial Statements section.

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 investments by type and investments subject to interest rate risk at June 30, 2017, for the College's investments. Interest rate risk is defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures - An Amendment of GASB Statement No.3,* as the risk a government may face should interest rate variances affect the value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Amount	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
Money Market Mutual Funds	$ 306,299.35	$ 306,299.35	$ 0.00	$ 0.00	$ 0.00
Government Obligations	307,831.25	6,003.66	85,856.15	28,124.04	187,847.40
Municipal Bond	5,076.00		5,076.00		
Corporate Obligations	239,912.66	21,062.81	48,720.71	110,726.46	59,402.68
Total Debt Securities	859,119.26	$ 333,365.82	$ 139,652.86	$ 138,850.50	$ 247,250.08
Other Securities					
Domestic Mutual Funds	5,680,007.49				
Foreign Mutual Funds	1,361,201.03				
Domestic Stocks	131,756.10				
Future Strategy Funds	552,388.84				
Real Estate Funds	305,701.95				
Community Foundation of WNC	2,242,683.20				
Total Investments	$ 11,132,857.87				

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, 2017, the College's investments were rated as follows:

	Amount	AAA AA+	AA A+	A A-	BBB+	BBB and below	Unrated
Money Market Mutual Funds	$ 306,299.35	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 306,299.35
Government Obligations	221,979.14	70,250.26					151,728.88
Municipal Bond	5,076.00						5,076.00
Corporate Obligations	239,912.66	16,586.56	41,649.30	53,460.03	82,537.87	45,678.90	
Totals	$ 773,267.15	$ 86,836.82	$ 41,649.30	$ 53,460.03	$ 82,537.87	$ 45,678.90	$ 463,104.23

Rating Agency: Standard & Poor's

The Community Foundation of Western North Carolina, Inc. - At June 30, 2017, the Foundation's investments include $2,242,683.20, which represents the Foundation's equity portion in The Community Foundation of Western North Carolina, Inc. (CFWNC). CFWNC is an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating. Investment risks associated with CFWNC are included in their audited financial statements, which may be obtained from The Community Foundation of Western North Carolina, Inc., 4 Vanderbilt Park Drive, Suite 300, Asheville, NC 28803.

C. Reconciliation of Deposits and Investments - A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2017, is as follows:

Cash on Hand	$ 1,295.00
Carrying Amount of Deposits with Private Financial Institutions	3,223,333.25
Investments in the Short-Term Investment Fund	1,970,813.10
Other Investments	11,132,857.87
Total Deposits and Investments	$ 16,328,299.22
Deposits	
Current:	
Cash and Cash Equivalents	$ 3,553,269.73
Restricted Cash and Cash Equivalents	777,080.95
Noncurrent:	
Restricted Cash and Cash Equivalents	865,090.67
Total Deposits	5,195,441.35
Investments	
Current:	
Short-Term Investments	2,407,325.95
Restricted Short-Term Investments	177,643.14
Noncurrent:	
Restricted Investments	8,547,888.78
Total Investments	11,132,857.87
Total Deposits and Investments	$ 16,328,299.22

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The following table summarizes the College's investments, including the Short-Term Investment Fund, within the fair value hierarchy at June 30, 2017:

		Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments by Fair Value Level				
Debt Securities				
Money Market Mutual Funds	$ 306,299.35	$ 306,299.35	$ 0.00	$ 0.00
Government Obligations	307,831.25	307,831.25		
Municipal Bond	5,076.00	5,076.00		
Corporate Obligations	239,912.66	239,912.66		
Total Debt Securities	859,119.26	859,119.26		
Other Securities				
Short-Term Investment Fund	1,970,813.10		1,970,813.10	
Domestic Mutual Funds	5,680,007.49	5,680,007.49		
Foreign Mutual Funds	1,361,201.03	1,361,201.03		
Domestic Stocks	131,756.10	131,756.10		
Future Strategy Funds	552,388.84	552,388.84		
Real Estate Funds	305,701.95	305,701.95		
Community Foundation of WNC	2,242,683.20		2,242,683.20	
Total Investments by Fair Value Level	$ 13,103,670.97	$ 8,890,174.67	$ 4,213,496.30	$ 0.00

Short-Term Investment Fund - Ownership interest of the STIF is determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian.

Community Foundation of Western North Carolina, Inc. - Ownership interests of the CFWNC are determined on a market unit valuation basis each month.

Debt and Equity Securities - Debt and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

NOTE 4 - 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 to 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 the monthly portfolio market value, with a budgeting lead year 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, 2017, net appreciation of $397,949.70 was available to be spent, of which $308,048.29 was classified in net position as restricted expendable: scholarships and fellowships as it is restricted for specific purposes. The remaining portion of net appreciation available to be spent is classified as unrestricted net position.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 255,480.36	$ 59,667.36	$ 195,813.00
Student Sponsors	14,759.43		14,759.43
Accounts	101,739.90		101,739.90
Intergovernmental	7,665.20		7,665.20
Pledges	35,271.27	1,763.55	33,507.72
Other	2,676.00		2,676.00
Total Current Receivables	$ 417,592.16	$ 61,430.91	$ 356,161.25

NOTE 6 - CAPITAL ASSETS

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

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Capital Assets, Nondepreciable:				
Land and Permanent Easements	$ 4,560,825.09	$ 0.00	$ 0.00	$ 4,560,825.09
Construction in Progress	1,628,926.75	3,213,986.57		4,842,913.32
Total Capital Assets, Nondepreciable	6,189,751.84	3,213,986.57		9,403,738.41
Capital Assets, Depreciable:				
Buildings	36,155,090.40			36,155,090.40
Machinery and Equipment	7,504,789.68	498,560.22	164,288.52	7,839,061.38
General Infrastructure	3,249,235.37	32,051.85		3,281,287.22
Total Capital Assets, Depreciable	46,909,115.45	530,612.07	164,288.52	47,275,439.00
Less Accumulated Depreciation for:				
Buildings	10,826,989.00	675,153.68		11,502,142.68
Machinery and Equipment	4,354,914.87	618,879.50	131,617.01	4,842,177.36
General Infrastructure	743,265.05	61,044.23		804,309.28
Total Accumulated Depreciation	15,925,168.92	1,355,077.41	131,617.01	17,148,629.32
Total Capital Assets, Depreciable, Net	30,983,946.53	(824,465.34)	32,671.51	30,126,809.68
Capital Assets, Net	$ 37,173,698.37	$ 2,389,521.23	$ 32,671.51	$ 39,530,548.09

The capital assets schedule above includes land and buildings in the amount of $15,161,620.47 for which the College does not hold 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. On October 1, 2015, the College entered into an agreement with Haywood County whereas the College deeded approximately 16.4 acres to Haywood County for the purpose of constructing the Public Services Training Facility. In order for the County to obtain the financing needed to provide the resources for these projects, the College transferred titles for land and buildings to the County for use as collateral until the debt is satisfied, at which time the titles revert back to the College.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Current Accounts Payable and Accrued Liabilities:	
Accounts Payable	$ 409,112.26
Accrued Payroll	390,395.66
Total Current Accounts Payable and Accrued Liabilities	$ 799,507.92

NOTE 8 - LONG-TERM LIABILITIES

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
Net Pension Liability	$ 2,339,732.00	$ 3,170,292.00	$ 0.00	$ 5,510,024.00	$ 0.00
Compensated Absences	1,011,591.68	761,145.89	794,554.25	978,183.32	233,394.54
Total Long-Term Liabilities	$ 3,351,323.68	$ 3,931,437.89	$ 794,554.25	$ 6,488,207.32	$ 233,394.54

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

NOTE 9 - OPERATING LEASE OBLIGATIONS

The College entered into operating leases for copiers and a printer. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2017:

Fiscal Year	Amount
2018	$ 58,862.15
2019	2,470.03
Total Minimum Lease Payments	$ 61,332.18

Rental expense for all operating leases during the year was $64,490.61.

NOTE 10 - 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, Net	$ 2,637,930.18	$ 0.00	$ 1,239,844.61	$ 76,356.06	$ 1,321,729.51
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	$ 9,108.19	$ 0.00	$ 0.00	$ 0.00	$ 9,108.19
Print Shop	226,979.11	82,689.94			144,289.17
Bookstore	971,578.28	5,466.72	533,134.96		432,976.60
Child Care Center	999,583.46				999,583.46
Other	66,237.05				66,237.05
Total Sales and Services, Net	$ 2,273,486.09	$ 88,156.66	$ 533,134.96	$ 0.00	$ 1,652,194.47

NOTE 11 - 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	$ 6,590,364.92	$ 514,779.11	$ 334,416.12	$ 0.00	$ 0.00	$ 0.00	$ 7,439,560.15
Academic Support	965,405.96	77,783.38	46,784.12				1,089,973.46
Student Services	733,576.48	28,370.60	116,747.10	32,556.00			911,250.18
Institutional Support	2,812,995.04	84,417.52	984,657.21	424.82			3,882,494.59
Operations and Maintenance of Plant	651,528.50	82,386.94	678,778.09		370,305.90		1,782,999.43
Student Financial Aid	15.00	672.19	32,900.80	1,537,218.41			1,570,806.40
Auxiliary Enterprises	989,464.64	824,954.25	242,626.97				2,057,045.86
Depreciation						1,355,077.41	1,355,077.41
Total Operating Expenses	$ 12,743,350.54	$ 1,613,363.99	$ 2,436,910.41	$ 1,570,199.23	$ 370,305.90	$ 1,355,077.41	$ 20,089,207.48

NOTE 12 - PENSION PLANS

Defined Benefit Plan

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit pension plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their annual pay. The contribution rate for employers is set each year by the North Carolina General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The College's contractually-required contribution rate for the year ended June 30, 2017 was 9.98% of covered payroll. Employee contributions to the pension plan were $493,729.06, and the College's contributions were $821,236.00 for the year ended June 30, 2017.

The TSERS plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2016 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at http://www.osc.nc.gov/ or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to *North Carolina General Statutes*, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-Term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2016 *Comprehensive Annual Financial Report*.

Net Pension Liability: At June 30, 2017, the College reported a liability of $5,510,024.00 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. The College's proportion of the net pension liability was based on the present value of future salaries for the College relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2016, the College's proportion was 0.05995%, which was a decrease of 0.00354 from its proportion measured as of June 30, 2015.

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2015
Inflation	3%
Salary Increases*	3.50% - 8.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.
** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (the valuation date) are summarized in the following table:

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

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan at June 30, 2016 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability		
1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
$ 10,363,290.92	$ 5,510,024.00	$ 1,429,092.30

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017, the College recognized pension expense of $1,009,974.00. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Employer Balances of Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions by Classification:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Actual and Expected Experience	$ 0.00	$ 260,411.00
Changes of Assumptions	812,595.00	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,965,051.00	
Change in Proportion and Differences Between Agency's Contributions and Proportionate Share of Contributions	6,190.00	144,133.00
Contributions Subsequent to the Measurement Date	821,236.00	
Total	$ 3,605,072.00	$ 404,544.00

The amount of $821,236.00 reported as deferred outflows of resources related to pensions will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of the Net Amount of the Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources That will be Recognized in Pension Expense:

Year Ended June 30:	Amount
2018	$ 373,149.00
2019	385,135.00
2020	1,037,083.00
2021	583,925.00
Total	$ 2,379,292.00

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

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

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

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

For the period July 1, 2016 through December 31, 2016, the College contributed 5.60% of the covered payroll under TSERS to the Fund, and for the period January 1, 2017 through June 30, 2017, the College contributed 6.02% of the covered payroll under TSERS to the Fund. Required contribution rates for the years ended June 30, 2016, and 2015, were 5.60% and 5.49%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2017, 2016, and 2015, which were $478,094.30, $470,881.17, and $467,572.47, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

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

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2017, the College made a statutory contribution of .38% of covered payroll under TSERS to the DIPNC. Required contribution rates for the years ended June 30, 2016, and 2015, were .41% in both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2017, 2016, and 2015, which were $31,269.51, $34,475.23, and $34,918.89, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 14 - RISK MANAGEMENT

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

A. Public Entity Risk Pool

Public School Insurance Fund

Fire and other property losses are covered by the Public School Insurance Fund (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a $10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the $10 million deductible. Membership insured property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

B. Employee Benefit Plans

1. State Health Plan

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

2. Death Benefit Plan of North Carolina

Term life insurance (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

C. Other Risk Management and Insurance Activities

1. Automobile Insurance

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

2. Public Officers' and Employees' Liability Insurance

The risk of tort claims of up to $1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

3. Employee Dishonesty and Computer Fraud

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $100,000 deductible. The College has coverage with a private insurance company for employees paid directly from county and institutional funds. The coverage is $25,000 for employee theft,

$25,000 for forgery, $25,000 for theft on campus, and $5,000 for theft off campus, with a $500 deductible for each occurrence.

4. Statewide Workers' Compensation Program

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

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

5. Other Insurance Held by the College

The College purchased other authorized coverage from private insurance companies through the North Carolina Department of Insurance.

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 for Educators Legal Liability and a $25,000 deductible for Employment Practices Liability. Those insured by the policy are directors, officers, and trustees; employees; volunteers; and estate and legal representatives. The D&O Policy is paid by the Board entirely from county and Foundation funds. The D&O Policy also covers employment practices liability.

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

The College has purchased a Cyber Liability Insurance Policy. The policy has a $1,000,000 limit of insurance. This policy is paid entirely from county funds.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $767,528.36 and on other purchases were $33,062.79 at June 30, 2017.

B. Other Contingent Receivables - The College has received notification of other gifts and grants for which funds have not been disbursed by the resource provider and for which conditions attached to the gift or grant have not been satisfied or, in the case of permanent endowments, cannot begin to be satisfied. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The amount is estimated to be $450,000 for permanent endowments.

NOTE 16 - BLENDED COMPONENT UNIT

Condensed combining information for the College's blended component unit for the year ended June 30, 2017, is presented as follows:

Condensed Statement of Net Position

June 30, 2017

	Haywood Community College	Haywood Community College Foundation, Inc.	Total
ASSETS			
Current Assets	$ 3,872,842.32	$ 3,642,394.64	$ 7,515,236.96
Capital Assets, Net	38,795,718.09	734,830.00	39,530,548.09
Other Noncurrent Assets	1,125,532.50	8,300,096.95	9,425,629.45
Total Assets	43,794,092.91	12,677,321.59	56,471,414.50
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,605,072.00		3,605,072.00
LIABILITIES			
Current Liabilities	1,182,668.65	1,797.02	1,184,465.67
Long-Term Liabilities	6,251,882.49	2,930.29	6,254,812.78
Total Liabilities	7,434,551.14	4,727.31	7,439,278.45
TOTAL DEFERRED INFLOWS OF RESOURCES	404,544.00		404,544.00
NET POSITION			
Net Investment in Capital Assets	38,566,444.25	734,830.00	39,301,274.25
Restricted - Nonexpendable	247,791.83	8,300,096.95	8,547,888.78
Restricted - Expendable	1,194,105.87	535,559.98	1,729,665.85
Unrestricted	(448,272.18)	3,102,107.35	2,653,835.17
Total Net Position	$ 39,560,069.77	$ 12,672,594.28	$ 52,232,664.05

Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	Haywood Community College	Haywood Community College Foundation, Inc.	Total
OPERATING REVENUES			
Student Tuition and Fees, Net	$ 1,321,729.51	$ 0.00	$ 1,321,729.51
Sales and Services, Net	1,652,194.47		1,652,194.47
Other Operating Revenues	90,042.45	217,746.12	307,788.57
Total Operating Revenues	3,063,966.43	217,746.12	3,281,712.55
OPERATING EXPENSES			
Operating Expenses	18,279,702.81	454,427.26	18,734,130.07
Depreciation	1,355,077.41		1,355,077.41
Total Operating Expenses	19,634,780.22	454,427.26	20,089,207.48
Operating Loss	(16,570,813.79)	(236,681.14)	(16,807,494.93)
NONOPERATING REVENUES (EXPENSES)			
State Aid	8,857,389.61		8,857,389.61
County Appropriations	2,407,669.00		2,407,669.00
Noncapital Grants - Student Financial Aid	2,966,781.39		2,966,781.39
Noncapital Grants	259,083.31		259,083.31
Noncapital Gifts	276,252.68	174,742.89	450,995.57
Investment Income, Net	44,419.65	969,279.06	1,013,698.71
Other Nonoperating Expenses	(28,171.51)		(28,171.51)
Net Nonoperating Revenues	14,783,424.13	1,144,021.95	15,927,446.08
State Capital Aid	336,640.29		336,640.29
County Capital Aid	2,763,316.17		2,763,316.17
Capital Grants	72,940.11		72,940.11
Capital Gifts		35,000.00	35,000.00
Transfers	225,541.87	(225,541.87)	
Additions to Endowments		36,459.33	36,459.33
Increase in Net Position	1,611,048.78	753,258.27	2,364,307.05
NET POSITION			
Net Position, July 1, 2016	37,949,020.99	11,919,336.01	49,868,357.00
Net Position, June 30, 2017	$ 39,560,069.77	$ 12,672,594.28	$ 52,232,664.05

Condensed Statement of Cash Flows
June 30, 2017

	Haywood Community College	Haywood Community College Foundation, Inc.	Total
Net Cash Used by Operating Activities	$ (14,783,268.47)	$ (428,799.94)	$ (15,212,068.41)
Cash Provided by Noncapital Financing Activities	14,764,274.06	179,089.57	14,943,363.63
Net Cash Provided by Capital and Related Financing Activities	85,677.15		85,677.15
Net Cash Provided by Investing Activities	27,005.59	28,936.86	55,942.45
Net Increase (Decrease) in Cash and Cash Equivalents	93,688.33	(220,773.51)	(127,085.18)
Cash and Cash Equivalents, July 1, 2016	4,080,511.19	1,242,015.34	5,322,526.53
Cash and Cash Equivalents, June 30, 2017	$ 4,174,199.52	$ 1,021,241.83	$ 5,195,441.35

NOTE 17 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

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

> GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*
>
> GASB Statement No. 82, *Pension Issues – An amendment of GASB Statement No. 67, No. 68, and No. 73*

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Haywood Community College
Required Supplementary Information
Schedule of the Proportionate Net Pension Liability
Teachers' and State Employees' Retirement System
Last Four Fiscal Years ***Exhibit B-1***

	2016	2015	2014	2013
Proportionate Share Percentage of Collective Net Pension Liability	0.05995%	0.06349%	0.06286%	0.06400%
Proportionate Share of TSERS Collective Net Pension Liability	$ 5,510,024.00	$ 2,339,732.00	$ 736,984.00	$ 3,885,452.00
Covered Payroll	$ 8,408,592.32	$ 8,516,802.77	$ 8,467,778.61	$ 8,559,100.10
Net Pension Liability as a Percentage of Covered Payroll	65.53%	27.47%	8.70%	45.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.32%	94.64%	98.24%	90.60%

Haywood Community College
Required Supplementary Information
Schedule of College Contributions
Teachers' and State Employees' Retirement System
Last Ten Fiscal Years ***Exhibit B-2***

	2017	2016	2015	2014	2013
Contractually Required Contribution	$ 821,236.00	$ 769,386.20	$ 779,287.46	$ 735,849.96	$ 712,973.04
Contributions in Relation to the Contractually Determined Contribution	821,236.00	769,386.20	779,287.46	735,849.96	712,973.04
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 8,228,817.64	$ 8,408,592.32	$ 8,516,802.77	$ 8,467,778.61	$ 8,559,100.10
Contributions as a Percentage of Covered Payroll	9.98%	9.15%	9.15%	8.69%	8.33%

	2012	2011	2010	2009	2008
Contractually Required Contribution	$ 633,916.00	$ 417,154.11	$ 296,904.63	$ 286,392.21	$ 253,504.80
Contributions in Relation to the Contractually Determined Contribution	633,916.00	417,154.11	296,904.63	286,392.21	253,504.80
Contribution Deficiency (Excess)	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Covered Payroll	$ 8,520,376.38	$ 8,461,543.57	$ 8,316,656.42	$ 8,523,577.53	$ 8,311,632.65
Contributions as a Percentage of Covered Payroll	7.44%	4.93%	3.57%	3.36%	3.05%

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

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

Changes of Benefit Terms:

Cost of Living Increase

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

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

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

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
http://www.ncauditor.net

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 (College), a component unit of the State of North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated January 22, 2018. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Findings, Recommendations, and Responses section, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Findings, Recommendations, and Responses section to be a material weakness.

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.*

College's Response to Finding

The College's response to the finding identified in our audit is described in the accompanying Findings, Recommendations, and Responses section. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Purpose of this Report

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

January 22, 2018

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a deficiency in internal control.

IMPROPER SEGREGATION OF DUTIES INCREASED RISK OF UNDETECTED ERRORS

Duties were not properly segregated in the College's Business Office during the audit period. A member of management had the ability to post journal entries that changed the financial records without independent review. As a result, there was an increased risk of errors or fraud occurring without detection.

During the audit period, the Business Office did not ensure adequate separation of duties for 48 of the 719 (7%) journal entries. A senior manager performed more than one of the following functions: prepared, posted, and reviewed entries.

Specifically:

- 37 of 48 (77%) were prepared, posted, and reviewed by the same individual
- 11 of 48 (23%) were posted and reviewed by the same individual. (A separate individual prepared the entries.)

Even though a report of the prior day's journal entry postings to the accounting records was reviewed, the reviewer was the same senior manager who posted the journal entries.

While no instances of error or misappropriation were identified during the audit period, an increased risk existed because there was no independent review of journal entries prepared and posted by this employee.

According to the College, independent reviews of journal entries were not performed because of limited staff availability.

Best practices require adequate segregation of duties. Specifically, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) states that segregation of duties generally entails dividing the responsibility for recording, authorizing, and approving transactions. Segregation of duties is fundamental to mitigating the risk of error or fraud because it reduces, but can't absolutely prevent, the possibility of one person acting alone.

Recommendation: College management should reassign responsibilities over journal entry processing to properly segregate duties. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

College's Response: See page 46 for the College's response to this finding.

HCC
HAYWOOD COMMUNITY COLLEGE
BUSINESS OFFICE

January 22, 2018

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Dear Auditor Wood:

We are providing this letter in connection with the audit finding of Haywood Community College as of June 30, 2017.

Improper Segregation of Duties Increased Risk of Undetected Errors

OSA Recommendations

College management should reassign responsibilities over journal entry processing to properly segregate duties. If it is not practical to segregate all incompatible duties, then effective monitoring procedures should be implemented to reduce the risk of errors or fraud.

Agency Response

Haywood Community College is in agreement with the finding and the recommendation made by the State Auditor's Office.

Haywood Community College has made a thorough review of its process of completing journal entries, especially those entries made at year end. The deficiency occurred during a period the Business Office was short-staffed and year-end processes and reporting needed to be completed in a timely manner. Senior management will be involved with the review process of completed journal entries. If presented with unique challenges in the future, management will need to assess how to better accomplish duties and still remain in compliance.

The Vice President of Business Operations/CFO and the Business Office Director have already implemented changes to the way journal entries are prepared, posted, and reviewed. In the past and as well as the future, HCC values and will follow the guidance of the State Auditor's Office.

Barbara M. Parker
Dr. Barbara M. Parker
President

Karen J. Denney
Karen J. Denney
Vice President of Business Operations

185 Freedlander Drive, Clyde NC 28721 T 828.627.4500 **haywood.edu**

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477** or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Brad Young
Director of External Affairs

919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit required 402.5 hours at an approximate cost of $41,458.