STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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STATE OF NORTH CAROLINA
Office of the State Auditor

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

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Haywood Community College for the year ended June 30, 2005, 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 resulted in no audit findings.

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.

Leslie W. Merritt, Jr.

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

June 21, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have audited the accompanying basic financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Haywood Community College Foundation, Inc., which represent 13 percent, 14 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Haywood Community College Foundation, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Haywood Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Haywood Community College as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2006, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Leslie W. Merritt, Jr.

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

May 4, 2006

Introduction

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

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

Financial Highlights

Total current assets were $2,155,350.16 for the year ended June 30, 2005, and $2,268,958.49 for fiscal year ended June 30, 2004. Total noncurrent assets, for the current year ended, were $15,692,748.40, and $15,428,389.02 for year ended June 30, 2004. Total current liabilities at June 30, 2005, were $652,565.80, which consisted of accounts payable, deferred revenue and the current portion of uncompensated leave balances, and at June 30, 2004, current liabilities were $617,270.73. Total non-current liabilities, which consisted of uncompensated leave balances at June 30, 2005, were $884,131.40 and $527,674.72 at June 30, 2004.

Net Assets - Total net assets at June 30, 2005, decreased by $241,000.70. The following schedule is prepared from the College's Statement of Net Assets, which is presented on the accrual basis of accounting with capital assets net of depreciation and net of related debt (capital lease payable).

Net Assets
June 30, 2005

	June 30, 2005	June 30, 2004	Variance
Current Assets	$ 2,155,350.16	$ 2,268,958.49	$ (113,608.33)
Noncurrent Assets			
Capital Assets, Net of Depreciation	14,559,504.09	12,654,577.46	1,904,926.63
Other	1,133,244.31	2,773,811.56	(1,640,567.25)
Total Assets	17,848,098.56	17,697,347.51	150,751.05
Current Liabilities	652,565.80	617,270.73	35,295.07
Noncurrent Liabilities	884,131.40	527,674.72	356,456.68
Total Liabilities	1,536,697.20	1,144,945.45	391,751.75
Net Assets			
Invested in Capital Assets, Net	14,124,592.77	12,551,798.01	1,572,794.76
Restricted for: Nonexpendable	690,143.04	645,948.59	44,194.45
Restricted for: Expendable	1,385,878.44	3,128,166.90	(1,742,288.46)
Unrestricted	110,787.11	226,488.56	(115,701.45)
Total Net Assets	$ 16,311,401.36	$ 16,552,402.06	$ (241,000.70)

The change in noncurrent assets other is due to construction being completed on the capital improvement project. The increase in noncurrent liabilities is the result of additions to capital leases. The decrease in net assets, Restricted for: expendable, of $1,742,288.46, is primarily the result of recognizing a decrease in the unexpended project-to-date balance for the State Bond Funds due to the capital improvement project being near completion.

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

Operating Results
June 30, 2005

	June 30, 2005	June 30, 2004	Variance
Operating Revenue			
Student Tuition and Fees	$ 1,011,060.18	$ 1,142,867.43	$ (131,807.25)
Federal Grants and Contracts	2,075,848.03	2,135,261.49	(59,413.46)
Sales and Services	639,295.09	839,000.25	(199,705.16)
Other	792,055.83	557,940.99	234,114.84
Total Operating Revenue	4,518,259.13	4,675,070.16	(156,811.03)
Less Operating Expenses	15,771,531.30	15,284,975.87	486,555.43
Operating Loss	(11,253,272.17)	(10,609,905.71)	(643,366.46)
Nonoperating Revenue			
State Aid	7,965,610.22	7,224,942.20	740,668.02
County Appropriations	1,730,222.00	1,647,830.00	82,392.00
Other Nonoperating Revenue	428,491.31	1,091,459.40	(662,968.09)
Total	10,124,323.53	9,964,231.60	160,091.93
Nonoperating Expenses	36,272.72	18,564.62	17,708.10
Loss Before Other Revenues	(1,165,221.36)	(664,238.73)	(500,982.63)
Other Revenues	924,220.66	3,555,779.07	(2,631,558.41)
Increase in Net Assets	(241,000.70)	2,891,540.34	(3,132,541.04)
Net Assets, July 1, 2004	16,552,402.06	13,660,861.72	2,891,540.34
Net Assets, June 30, 2005	$ 16,311,401.36	$ 16,552,402.06	$ (241,000.70)

Total revenues for fiscal year ended June 30, 2005, were $15,566,803.32. Total revenues decreased $2,628,277.51 over the fiscal year 2004 amount of $18,195,080.83. The largest decrease was in capital contributions, which include State bond funds.

Decreases in operating revenues of $156,811.03 were due to a $59,413.46 decrease in federal grants and contracts, Federal Pell Grant; a $199,705.16 decrease in sales and services; and a $234,114.84 increase in other operating revenues. A portion of the decrease in sales and services occurred with the elimination of internal sales from the Printshop and recording the scholarship discount attributable to bookstore revenue.

Operating expenses increased $486,555.43 due to a $257,318.24 increase in supplies and materials, an increase in personal services of $484,470.78, and increases in services of $283,263.53 and a decrease in scholarships of $541,354.95. The significant change in nonoperating revenues was a decrease of $785,459.73 in noncapital gifts. The decrease in other revenues, State capital aid, was a direct result of the unexpended project-to-date balance for the State Bond Funds decreased $1,500,836.14. Other revenues were also affected by a $19,389.84 decrease in County Capital Appropriations and a $108,887.60 decrease in Capital Grants.

Capital Asset and Debt Administration

Capital Assets – The Investment in Capital Assets, Net of Related Debt, for June 30, 2005, was $14,124,592.77. The related debt is a Capital Lease Payable of $434,911.32 to finance the purchase of computers and telephone equipment. Capital Assets additions for the fiscal year were $2,730,681.06. This included construction in progress $1,822,385.70, additions to buildings, machinery and equipment and infrastructure $908,295.36. There was also a reclassification from buildings of $42,860.07.

The overall increase to capital assets from the prior fiscal year was $1,904,926.63. There was also a restatement to reduce the buildings balance in the amount of $42,860.07, as stated in Note 16. There were additions of $2,730,681.06 and a disposal of machinery and equipment, net of accumulated depreciation in the amount of $25,231.42. The depreciation for the fiscal year was $804,809.02.

Analysis of Financial Position

For the year ended June 30, 2005, the College had a net increase in cash and cash equivalents of $43,001.86, representing a 2% increase in cash and cash equivalents when compared to the July 1, 2004, balance. The increase is attributable to cash from noncapital financing activities such as State aid received, county appropriations, other nonoperating activities and investment income. Management concludes that the College's financial position has remained strong during this fiscal year.

Local Facts and Information

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

Haywood Community College
Statement of Net Assets
June 30, 2005 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	711,494.76
Restricted Cash and Cash Equivalents		912,104.73
Short-Term Investments		104,365.44
Restricted Short-Term Investments		107,760.85
Receivables, Net (Note 4)		139,400.26
Inventories		180,224.12
Total Current Assets		2,155,350.16
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		765,851.45
Receivables, Net (Note 4)		106,334.02
Restricted Due from Primary Government		200,904.22
Endowment Investments		60,154.62
Capital Assets - Nondepreciable, Net (Note 5)		4,270,834.19
Capital Assets - Depreciable, Net (Note 5)		10,288,669.90
Total Noncurrent Assets		15,692,748.40
Total Assets		17,848,098.56
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		293,946.79
Deferred Revenue		98,720.52
Long-Term Liabilities - Current Portion (Note 7)		259,898.49
Total Current Liabilities		652,565.80
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		884,131.40
Total Noncurrent Liabilities		884,131.40
Total Liabilities		1,536,697.20
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		14,124,592.77
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		690,143.04
Expendable:		
Scholarships and Fellowships		370,509.04
Loans		6,243.82
Capital Projects		799,753.29
Other		209,372.29
Unrestricted		110,787.11
Total Net Assets	$	16,311,401.36

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

Haywood Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2005 ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,011,060.18
Federal Grants and Contracts		2,075,848.03
State and Local Grants and Contracts		376,976.72
Sales and Services, Net (Note 9)		639,295.09
Other Operating Revenues		415,079.11
Total Operating Revenues		4,518,259.13
EXPENSES		
Operating Expenses:		
Personal Services		9,862,087.42
Supplies and Materials		1,903,473.92
Services		1,686,802.44
Scholarships and Fellowships		1,202,765.20
Utilities		311,593.30
Depreciation		804,809.02
Total Operating Expenses		15,771,531.30
Operating Loss		(11,253,272.17)
NONOPERATING REVENUES (EXPENSES)		
State Aid		7,965,610.22
County Appropriations		1,730,222.00
Noncapital Grants		285,976.67
Noncapital Gifts		45,056.13
Investment Income, Net		97,458.51
Other Nonoperating Expenses		(36,272.72)
Net Nonoperating Revenues		10,088,050.81
Loss Before Other Revenues and Expenses		(1,165,221.36)
State Capital Aid		421,983.41
County Capital Appropriations		500,000.00
Capital Grants		2,237.25
Decrease in Net Assets		(241,000.70)
NET ASSETS		
Net Assets, July 1, 2004 as Restated (Note 16)		16,552,402.06
Net Assets, June 30, 2005	$	16,311,401.36

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

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 4,597,569.62
Payments to Employees and Fringe Benefits	(9,869,729.23)
Payments to Vendors and Suppliers	(3,989,515.76)
Payments for Scholarships and Fellowships	(1,184,680.02)
Other Payments	(12,291.01)
Net Cash Used by Operating Activities	(10,458,646.40)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,965,610.22
County Appropriations	1,730,222.00
Noncapital Grants Received	285,976.67
Noncapital Gifts and Endowments Received	48,021.21
Cash Provided by Noncapital Financing Activities	10,029,830.10
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid	1,852,819.55
County Capital Appropriations	500,000.00
Capital Grants Received	2,237.25
Capital Gifts Received	322,757.15
Acquisition and Construction of Capital Assets	(2,173,200.50)
Principal Paid on Capital Leases	(104,042.69)
Net Cash Provided by Capital and Related Financing Activities	400,570.76
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	71,247.40
Cash Provided by Investing Activities	71,247.40
Net Increase in Cash and Cash Equivalents	43,001.86
Cash and Cash Equivalents, July 1, 2004	2,346,449.08
Cash and Cash Equivalents, June 30, 2005	$ 2,389,450.94
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ (11,253,272.17)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	804,809.02
Miscellaneous Nonoperating Income	(15,327.31)
Changes in Assets and Liabilities:	
Receivables, Net	91,133.21
Inventories	(24,303.03)
Accounts Payable and Accrued Liabilities	(49,754.45)
Deferred Revenue	15,230.62
Compensated Absences	(27,162.29)
Net Cash Used by Operating Activities	$ (10,458,646.40)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	711,494.76
Restricted Cash and Cash Equivalents		912,104.73
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		765,851.45
Total Cash and Cash Equivalents - June 30, 2005	$	2,389,450.94

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	557,480.56
Assets Acquired through a Gift		8,860.40
Change in Fair Value of Investments		26,211.11
Capital Asset Write-Offs		81,767.30

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Haywood Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit – Although legally separate, Haywood Community College Foundation, Inc., is reported as if it were part of the College. The Foundation is governed by a 28-member board of which four are Haywood Community College employees, three are trustees of the College, and the remaining 21 must be approved by the Haywood Community College trustees. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Haywood Community College Board of Trustees and the Foundation's sole purpose is to benefit Haywood Community College, its financial statements have been blended with those of the College.

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

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

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

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

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

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

E. **Investments** - This classification includes mutual funds, common stocks and government securities. These investments are accounted for at fair value, as determined by quoted market prices, or an amount determined by management if quoted market prices are not available. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

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

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

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 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 includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *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. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $1,246.75, and deposits in private financial institutions with a carrying value of $638,408.73 and a bank balance of $729,365.87.

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, 2005, 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 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 and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2005, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,749,795.46 which represents the College's equity position in the State Treasurer's Short-Term Investment

Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.41 years as of June 30, 2005. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2005, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries	$ 7,284.35	$ 0.00	$ 0.00	$ 0.00	$ 7,284.35
Other Securities					
Mutual Funds	13,220.76				
Domestic Stocks	251,775.80				
Total Investments	$ 272,280.91				

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal policy for custodial credit risk. The College's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty
U.S. Government Securities	$ 7,284.35
Corporate Common Stock	251,775.80
Mutual Funds	13,220.76
Total	$ 272,280.91

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in common stocks. These investments are 92% of the College's investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2005, is as follows:

Cash on Hand	$	1,246.75
Carrying Amount of Deposits with Private Financial Institutions		638,408.73
Investments in the Short Term Investment Fund		1,749,795.46
Other Investments		272,280.91
Total Deposits and Investments	$	2,661,731.85
Current:		
Cash and Cash Equivalents	$	711,494.76
Restricted Cash and Cash Equivalents		912,104.73
Short-Term Investments		104,365.44
Restricted Short-Term Investments		107,760.85
Noncurrent:		
Restricted Cash and Cash Equivalents		765,851.45
Endowment Investments		60,154.62
Total	$	2,661,731.85

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are separately invested or pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

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 estimation of the current year's earnings based upon historical performance. To the extent that the income for the current year exceeds the payout, the excess is added to the scholarship fund for the subsequent year payout. If current year earnings do not meet the payout requirements, the College uses accumulated income and appreciation from restricted, expendable net asset endowment balances to make up the difference. At June 30, 2005, net appreciation of $21,375.40 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 57,297.52	$ 5,556.64	$ 51,740.88
Accounts	45,564.15		45,564.15
Pledges	44,310.77	2,215.54	42,095.23
Total Current Receivables	$ 147,172.44	$ 7,772.18	$ 139,400.26
Noncurrent Receivables:			
Pledges	$ 111,930.55	$ 5,596.53	$ 106,334.02

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:				
Land	$ 1,285,451.02	$ 0.00	$ 0.00	$ 1,285,451.02
Construction in Progress	1,162,997.47	1,822,385.70		2,985,383.17
Total Capital Assets, Nondepreciable	2,448,448.49	1,822,385.70		4,270,834.19
Capital Assets, Depreciable:				
Buildings	13,667,716.38	288,899.55		13,956,615.93
Machinery and Equipment	4,006,726.88	575,292.93	81,767.30	4,500,252.51
General Infrastructure	1,326,992.09	44,102.88		1,371,094.97
Total Capital Assets, Depreciable	19,001,435.35	908,295.36	81,767.30	19,827,963.41
Less Accumulated Depreciation:				
Buildings	5,692,274.62	354,565.76		6,046,840.38
Machinery and Equipment	2,550,294.32	342,416.57	60,821.89	2,831,889.00
General Infrastructure	552,737.44	107,826.69		660,564.13
Total Accumulated Depreciation	8,795,306.38	804,809.02	60,821.89	9,539,293.51
Total Capital Assets, Depreciable, Net	10,206,128.97	103,486.34	20,945.41	10,288,669.90
Capital Assets, Net	$ 12,654,577.46	$ 1,925,872.04	$ 20,945.41	$ 14,559,504.09

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	$ 58,770.26
Accrued Payroll	113,870.53
Contract Retainage	121,306.00
Total Accounts Payable and Accrued Liabilities	$ 293,946.79

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Capital Leases Payable	$ 102,779.45	$ 436,174.56	$ 104,042.69	$ 434,911.32	$ 151,332.44
Compensated Absences	736,280.86	531,717.80	558,880.09	709,118.57	108,566.05
Total Long-Term Liabilities	$ 839,060.31	$ 967,892.36	$ 662,922.78	$ 1,144,029.89	$ 259,898.49

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

NOTE 8 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to computer and telephone equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 157,497.02
2007	113,466.32
2008	88,995.08
2009	64,523.84
2010	64,524.84
Total Minimum Lease Payments	489,007.10
Amount Representing Interest	54,095.78
Present Value of Future Lease Payments	$ 434,911.32

Machinery and equipment acquired under capital lease amounted to $119,370.00 at June 30, 2005.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

Fiscal Year	Amount
2006	$ 6,062.35

Rental expense for all operating leases during the year was $12,124.70.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,561,820.04	$ 0.00	$ 550,759.86	$ 1,011,060.18
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Dining	$ 136,522.51	$ 0.00	$ 0.00	$ 136,522.51
Printshop	105,003.23	98,023.65		6,979.58
Bookstore	804,506.08		378,797.52	425,708.56
Other	70,084.44			70,084.44
Total Sales and Services	$ 1,116,116.26	$ 98,023.65	$ 378,797.52	$ 639,295.09

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 5,803,293.92	$ 830,859.88	$ 557,243.30	$ 0.00	$ 0.00	$ 0.00	$ 7,191,397.10
Public Service	(4,723.08)	(658.75)	2,461.15				(2,920.68)
Academic Support	852,111.73	65,727.36	79,423.13				997,262.22
Student Services	463,509.30	37,115.84	83,924.59	28,857.00			613,406.73
Institutional Support	1,778,824.15	92,367.73	677,363.17				2,548,555.05
Operations and Maintenance of Plant	760,507.39	146,405.26	229,599.60		311,593.30		1,448,105.55
Student Financial Aid			17,426.50	1,170,908.20			1,188,334.70
Auxiliary Enterprises	208,564.01	731,656.60	39,361.00	3,000.00			982,581.61
Depreciation						804,809.02	804,809.02
Total Operating Expenses	$ 9,862,087.42	$ 1,903,473.92	$ 1,686,802.44	$ 1,202,765.20	$ 311,593.30	$ 804,809.02	$ 15,771,531.30

NOTE 11 - PENSION PLANS

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

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes*. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of $8,230,837.86, of which $6,814,476.06 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $408,868.56 and $147,874.13, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were $147,874.13, $14,127.59, and $0.00, respectively.

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

B. Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred*

Compensation Trust Fund. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $74,078.00 for the year ended June 30, 2005.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $69,708.00 for the year ended June 30, 2005.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to $29,514.88 for the year ended June 30, 2005.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was $218,063.23. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was $30,324.41. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer. In addition, the College has purchased a commercial Directors and Officers Liability Insurance Policy (D&O). The policy has a $1,000,000 limit of insurance and is subject to a $25,000 deductible. Those insured by the policy are Haywood Community College as the organization; directors, officers, and trustees; employees; volunteers; and estate and legal representatives. The D&O Policy is paid by the Board entirely from county and Haywood Community College Foundation funds.

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

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

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

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

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year. In addition, the College provides life insurance via American United Life Insurance equal to 1 1/2 times the salary up to $50,000 to all full-time employees, $5,000 for spouses, and $1,000 for children. This is paid entirely from county funds.

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

NOTE 14 - COMMITMENTS 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 $118,466.81 at June 30, 2005.

B. **Pending Litigation and Claims –** The College is a party to litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of these matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any of these matters will not have a material adverse effect on the financial position of the College.

C. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College has received its entire allotment of bond funds.

NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2004, net assets as previously reported was restated as follows:

	Amount
July 1, 2004 Net Assets as Previously Reported	$ 16,595,262.13
Restatement - Correction to Buildings	(42,860.07)
July 1, 2004 Net Assets as Restated	$ 16,552,402.06

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State Auditor

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 the financial statements of Haywood Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated May 4, 2006. We did not audit the financial statements of Haywood Community College Foundation, Inc., which represent 13 percent, 14 percent, and 2 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Haywood Community College Foundation, Inc, is based on the report of the other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

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. The financial statements of Haywood Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to Haywood Community College Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the

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

risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

<u>Compliance and Other Matters</u>

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

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

Leslie W. Merritt, Jr.

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

May 4, 2006

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