STATE OF NORTH CAROLINA

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

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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, 2007, 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 certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings 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.

Leslie W. Merritt, Jr.

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

March 13, 2008

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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, 2007, 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 11 percent, 11 percent, and 5 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, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2008, 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

February 26, 2008

Management's Discussion and Analysis

This section of Haywood Community College's annual financial report presents management's discussion and analysis of the College's financial activity for the fiscal year ended June 30, 2007.

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 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 required supplementary information: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows.

The Statement of Net Assets includes all assets and liabilities. This statement combines current financial resources and capital assets.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as operating or nonoperating. The financial reporting model classifies State and county appropriations as nonoperating revenue. Because the College receives the majority of its funding from appropriations, this classification of appropriations results in an operating loss on the statements. Depreciation is recognized and is presented as an operating expense. The 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. Non-financial factors must be analyzed to determine the complete picture of the College's condition. Enrollment levels and the age and condition of its buildings are examples of non-financial factors that have an impact on the College's condition.

The Statement of Cash Flows presents an analysis of cash receipts and cash payments during the period. It shows the College's ability to meet financial obligations as they mature. The information is summarized by the different types of activities: operating activities, noncapital financing activities, capital and related financing activities and investing activities.

Statement of Net Assets

The assets of the College are divided between current and noncurrent assets. Current assets include cash and cash equivalents, receivables, inventories and investments. Noncurrent assets consist of cash, receivables, investments and capital assets net of depreciation and net of related debt (capital lease payable).

Current assets at June 30, 2007, decreased $974,754.29. The decrease is due to the net effect of a $494,281.12 decrease in Restricted Cash and Cash Equivalents related to correcting the presentation of construction funds from current to noncurrent, a $1,258,487.20 decrease in the receivable from the Golden L.E.A.F. Foundation Grant, a $400,000 increase in receivables, and a $436,283.73 increase in Cash and Cash Equivalents related to several proprietary funds.

Noncurrent capital assets increased $4,185,896.95 due to an increase of $2,786,688.35 for construction of the Center for the Advancement of Children, renovations to the Regional High Tech Center and Building 200. The reevaluation of the useful lives of capital assets resulted in a $931,129.60 increase in those assets (Note 15). The $2,047,463.45 increase in noncurrent assets other is due to a $1,104,651.79 increase in Restricted Cash and Cash Equivalents with the correction of construction funds discussed previously. In addition, there was a $705,582.00 Facilities Grant from The North Carolina Community College System and endowment investments increases of $123,389.18.

Condensed Statement of Net Assets
June 30, 2007

	June 30, 2007	June 30, 2006	Variance
Current Assets	$ 3,322,415.36	$ 4,297,169.65	$ (974,754.29)
Noncurrent Assets			
Capital Assets, Net of Depreciation	18,381,357.08	14,195,460.13	4,185,896.95
Other	3,080,073.67	1,032,610.22	2,047,463.45
Total Assets	24,783,846.11	19,525,240.00	5,258,606.11
Current Liabilities	1,039,318.13	547,571.66	491,746.47
Noncurrent Liabilities	780,792.15	872,179.97	(91,387.82)
Total Liabilities	1,820,110.28	1,419,751.63	400,358.65
Net Assets			
Invested in Capital Assets, Net	18,186,690.36	13,899,604.17	4,287,086.19
Restricted for: Nonexpendable	1,321,585.60	794,414.75	527,170.85
Restricted for: Expendable	3,092,706.09	3,431,352.10	(338,646.01)
Unrestricted	362,753.78	(19,882.65)	382,636.43
Total Net Assets	$ 22,963,735.83	$ 18,105,488.37	$ 4,858,247.46

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current liabilities increased due to an increase in accounts payable for goods and services and contracts payable. Noncurrent liabilities include compensated absences that will not be paid within the next fiscal year and capital lease payable; both had decreases during the year.

Net assets are a measure of the value of all the College's assets less liabilities. As of July 1, 2006, net assets as previously reported, $18,105,488.37 was restated by $931,129.60, to show net assets as restated, $19,036,617.97. This restatement was done to extend the useful lives of fully depreciated assets.

The overall decrease in restricted net assets - expendable is due to a $1,121,742.48 decrease in the receivable due from component units for the Golden L.E.A.F. Grant and an increase of $790,674.90 in restricted net assets - capital projects for the Center for the Advancement of Children. Invested in capital assets increased $2,786,688.35, with construction work in progress for the Center for the Advancement of Children and renovations to the Regional High Tech Center; and a $1,290,251.11 increase in machinery and equipment.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2007

	June 30, 2007	June 30, 2006	Variance
Operating Revenue			
Student Tuition and Fees, Net	$ 1,021,395.57	$ 1,147,575.15	$ (126,179.58)
Federal Grants and Contracts	2,561,910.92	2,220,266.34	341,644.58
Sales and Services	1,202,366.52	788,050.58	414,315.94
Other	894,644.22	952,735.58	(58,091.36)
Total Operating Revenue	5,680,317.23	5,108,627.65	571,689.58
Less Operating Expenses	17,482,681.59	16,590,637.00	892,044.59
Operating Loss	(11,802,364.36)	(11,482,009.35)	(320,355.01)
Nonoperating Revenue			
State Aid	8,852,078.53	8,170,078.85	681,999.68
County Appropriations	1,913,471.00	1,802,373.00	111,098.00
Other Nonoperating Revenue	998,170.03	2,404,906.41	(1,406,736.38)
Total	11,763,719.56	12,377,358.26	(613,638.70)
Nonoperating Expenses	18,202.70	93,473.65	(75,270.95)
Net Nonoperating Revenues	11,745,516.86	12,283,884.61	(538,367.75)
Income (Loss) Before Other Revenues	(56,847.50)	801,875.26	(858,722.76)
Capital Contributions	3,939,239.73	992,211.75	2,947,027.98
Additions to Endowment	44,725.63		44,725.63
Total Other Revenues	3,983,965.36	992,211.75	2,991,753.61
Increase in Net Assets	3,927,117.86	1,794,087.01	2,133,030.85
Net Assets, Beginning	18,105,488.37	16,311,401.36	1,794,087.01
Restatemenent	931,129.60	0.00	931,129.60
Net Assets, Ending	$ 22,963,735.83	$ 18,105,488.37	$ 4,858,247.46

The College's revenues are classified as operating and nonoperating revenues. Total revenues for fiscal year ended June 30, 2007, were $21,428,002.15. Total revenues increased $2,949,804.49 over the fiscal year 2006 amount of $18,478,197.66.

Operating revenues include student tuition and fees; federal, State, and local operating grants; sales and services revenue; and other operating revenues. Sales and services revenue largely is derived from bookstore operations. Federal grant revenue consists mainly of revenue from the Federal Title IV student financial aid programs. Operating revenues totaled $5,680,317.23 as compared to prior year of $5,108,627.65 resulting in an increase of $571,689.58. Federal Contracts and Grants increased $341,644.58 mainly due to the Research Demo House Grant and the National Science Foundation Grant. The Pell grant program is the largest and accounts for $1,613,769.10 of the total which decreased slightly as compared to prior year.

Tuition and fees decreased slightly due to an increase in the tuition discount and an increase in student enrollment that do not pay tuition and fees because they have waivers – Huskins and Early College. Sales and Services also contributed to the increase in Operating Revenues with an overall increase of $414,315.94. Bookstore revenues increased $150,044.41 due to increase of the enrollment increase of the Early College. The Child Care Center revenues increased $191,789.35 due to a full year of operation. For the 2005-2006 year, the Center was in operation for six months. Also, the Center had an increase in slots for the More at Four Program which increased funding received.

Nonoperating revenues comprise the major portion of the College's income and include appropriations from State and local governments, noncapital gifts and grants, and investment income. The largest amount, State Aid, consists of amounts allotted from the North Carolina State Board of Community Colleges to the College for operations. Nonoperating revenues experienced a $613,638.70 decrease which was comprised of the noncapital grants decreasing $1,574,998.53 due to the Golden L.E.A.F. Grant nearing completion and having received the majority of funding during fiscal year 2006. The College had an increase in both State Aid and County Appropriations for current operating use. Other Revenues increased $2,991,753.61 during fiscal year 2007. The largest increase was in county capital aid in the amount of $1,821,500.00 for the Center for the Advancement of Children; an increase in State capital aid of $705,582 for the Facilities Grant as previously explained in the discussion of Noncurrent Assets; and an increase of $418,199.32 in capital grants for the Center for the Advancement of Children.

The majority of operating expenses is for direct personnel costs and fringe benefits. Other expenses are for operating activities which are necessary and essential to the mission of the College. Depreciation expense is recognized in accordance with GASB 35. Operating expenses showed an increase in 2006-07 of $892,044.59. The most significant change resulted from an increase in salaries and benefits of $557,058.80. This increase is due to a sizable across the board raise. Supplies and materials also increased $205,503.24. As previously explained, purchases are recorded as a capital asset if the item costs $5,000 or more. Most items considered equipment for instructional programs cost less than $5,000 and are therefore, for financial statement purposes classified as supplies.

Capital Asset Activity

Haywood Community College's capital assets as of June 30, 2007, amount to $18,381,357.08 net of accumulated depreciation of $10,087,617.61. Significant capital activity in the current year consists of additions to construction in progress of $2,786,688.35. Most of the increase is for the Center for the Advancement of Children completed in January 2008. Buildings increased mainly due to the completion of renovations of Building 200. A restatement of $931,129.60 to accumulated depreciation was done to extend the useful lives of fully depreciated assets. Because depreciation is intended to allocate the cost of a capital asset over its entire useful life, it normally is not appropriate to report assets still in service as fully depreciated.

Analysis of Financial Position

For the year ended June 30, 2007, the College had a net increase in cash and cash equivalents of $1,046,654.40, representing a 43% increase in cash and cash equivalents when compared to the July 1, 2006, 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.

Economic Factors and Next Year's Budget

The College anticipates continued growth in the 2007-08 year. State and county funding remain stable. However, the State of North Carolina has experienced a revenue shortfall during the past several years and this may have significant impact on future budgets. Management feels that by using a conservative realistic approach in handling its resources, Haywood Community College will be able to continue providing a superior education to its students in a quality learning environment.

Haywood Community College
Statement of Net Assets
June 30, 2007

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 1,143,994.02
Restricted Cash and Cash Equivalents	996,820.05
Short-Term Investments	109,636.29
Restricted Short-Term Investments	139,584.66
Receivables, Net (Note 4)	462,283.85
Due from State of North Carolina Component Units	314,621.80
Inventories	155,474.69
Total Current Assets	3,322,415.36
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	1,331,173.22
Receivables, Net (Note 4)	242,702.50
Restricted Due from Primary Government	705,582.00
Endowment Investments	800,615.95
Capital Assets - Nondepreciable (Note 5)	4,354,076.28
Capital Assets - Depreciable, Net (Note 5)	14,027,280.80
Total Noncurrent Assets	21,461,430.75
Total Assets	24,783,846.11
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	699,831.31
Unearned Revenue	98,785.97
Long-Term Liabilities - Current Portion (Note 7)	240,700.85
Total Current Liabilities	1,039,318.13
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	780,792.15
Total Liabilities	1,820,110.28
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	18,186,690.36
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	1,321,585.60
Expendable:	
Scholarships and Fellowships	320,473.20
Loans	9,427.95
Capital Projects	2,224,261.32
Other	538,543.62
Unrestricted	362,753.78
Total Net Assets	$ 22,963,735.83

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, 2007

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	1,021,395.57
Federal Grants and Contracts		2,561,910.92
State and Local Grants and Contracts		366,347.33
Sales and Services, Net (Note 9)		1,202,366.52
Other Operating Revenues		528,296.89
Total Operating Revenues		5,680,317.23
EXPENSES		
Operating Expenses:		
Personal Services		11,567,237.97
Supplies and Materials		1,875,487.73
Services		1,720,039.27
Scholarships and Fellowships		1,039,034.46
Utilities		367,029.09
Depreciation		913,853.07
Total Operating Expenses		17,482,681.59
Operating Loss		(11,802,364.36)
NONOPERATING REVENUES (EXPENSES)		
State Aid		8,852,078.53
County Appropriations		1,913,471.00
Noncapital Grants		166,703.48
Noncapital Gifts		638,714.87
Investment Income, Net		192,751.68
Other Nonoperating Expenses		(18,202.70)
Net Nonoperating Revenues		11,745,516.86
Income Before Other Revenues		(56,847.50)
State Capital Aid		1,090,809.09
County Capital Aid		2,321,500.00
Capital Grants		420,460.58
Capital Gifts		106,470.06
Additions to Endowments		44,725.63
Increase in Net Assets		3,927,117.86
NET ASSETS		
Net Assets, July 1, 2006 as Restated (Note 15)		19,036,617.97
Net Assets, June 30, 2007	$	22,963,735.83

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, 2007 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 5,773,849.08
Payments to Employees and Fringe Benefits	(11,579,783.45)
Payments to Vendors and Suppliers	(3,942,955.43)
Payments for Scholarships and Fellowships	(1,034,932.97)
Other Payments	(12,277.08)
Net Cash Used by Operating Activities	(10,796,099.85)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	8,852,078.53
County Appropriations	1,913,471.00
Noncapital Grants Received	1,425,190.68
Noncapital Gifts and Endowments Received	279,552.56
Cash Provided by Noncapital Financing Activities	12,470,292.77
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	417,531.11
County Capital Aid	2,321,500.00
Capital Grants Received	248,960.58
Capital Gifts Received	156,821.22
Acquisition and Construction of Capital Assets	(3,719,818.27)
Principal Paid on Capital Debt and Leases	(101,189.24)
Net Cash Used by Capital and Related Financing Activities	(676,194.60)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	10,453.24
Investment Income	82,928.47
Purchase of Investments and Related Fees	(44,725.63)
Net Cash Provided by Investing Activities	48,656.08
Net Increase in Cash and Cash Equivalents	1,046,654.40
Cash and Cash Equivalents, July 1, 2006	2,425,332.89
Cash and Cash Equivalents, June 30, 2007	$ 3,471,987.29

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(11,802,364.36)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		913,853.07
Miscellaneous Nonoperating Income		(12,277.08)
Changes in Assets and Liabilities:		
Receivables, Net		56,971.23
Inventories		897.17
Accounts Payable and Accrued Liabilities		9,504.23
Unearned Revenue		40,662.11
Compensated Absences		(3,346.22)
Net Cash Used by Operating Activities	$	(10,796,099.85)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	1,143,994.02
Restricted Cash and Cash Equivalents		996,820.05
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		1,331,173.22
Total Cash and Cash Equivalents - June 30, 2007	$	3,471,987.29

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	454,727.77
Assets Acquired through a Gift		5,161.33
Change in Fair Value of Investments		109,823.21
Increase in Receivables Related to Nonoperating Income		1,193,153.43
Capital Asset Write-Offs		150,284.24

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 they were part of the College.

Blended Component Units - 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 consisting of four Haywood Community College employees, three 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 Executive Director of Business Operations, 185 Freedlander Drive, Clyde, NC 28721, or by calling (828) 627-2821.

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

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 –** Except for money market funds, 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.

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

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

G. **Inventories –** Inventories, consisting of expendable supplies, are valued at cost using 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 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.

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 by the College.

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 $1,296.95, and deposits in private financial institutions with a carrying value of $1,800,324.03, and a bank balance of $2,074,057.15.

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

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2007, 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, 2007, the amount shown on the Statement of Net Assets as cash and cash equivalents includes $1,670,366.31, 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 1.6 years as of June 30, 2007. 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, 2007, 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

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasury Bonds	$ 6,477.35	$ 0.00	$ 0.00	$ 0.00	$ 6,477.35
Money Market Mutual Funds	112,933.20	112,933.20			
Domestic Bonds	304,202.02		304,202.02		
International Mutual Bond Funds	42,524.26			42,524.26	
		$ 112,933.20	$ 304,202.02	$ 42,524.26	$ 6,477.35
Other Securities					
Domestic Stocks	425,305.45				
International Mutual Funds	158,394.62				
	$ 1,049,836.90				

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2007, the College's investments were rated as follows:

	Fair Value	AAA	AAA-	BA
U.S. Treasury Bonds	$ 6,477.35	$ 6,477.35	$ 0.00	$ 0.00
Money Market Mutual Funds	112,933.61	112,933.61		
Domestic Bonds	304,202.02		255,518.90	48,683.12
International Mutual Bond Funds	42,524.26	42,524.26		

Rating Agency: Standard & Poors

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
Money Market Mutual Funds	$	112,933.61
Domestic Bonds		304,202.02
International Mutual Bond Funds		42,524.26
Domestic Stocks		425,305.45
International Mutual Funds		158,394.62
Total	$	1,043,359.96

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2007, is as follows:

Cash on Hand	$	1,296.95
Carrying Amount of Deposits with Private Financial Institutions		1,800,324.03
Investments in the Short Term Investment Fund		1,670,366.31
Other Investments		1,049,836.90
Total Deposits and Investments	$	4,521,824.19
Current:		
Cash and Cash Equivalents	$	1,143,994.02
Restricted Cash and Cash Equivalents		996,820.05
Short-Term Investments		109,636.29
Restricted Short-Term Investments		139,584.66
Noncurrent:		
Restricted Cash and Cash Equivalents		1,331,173.22
Endowment Investments		800,615.95
Total	$	4,521,824.19

NOTE 3 - ENDOWMENT INVESTMENTS

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

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 limits spending to 4% of the endowment principal's market value. Under this policy, the Endowment Fund Pool will be distributed using the moving average method of determining year to year the amount to be "paid out" in order to smooth distributions from the aggregate endowment fund pool. The

Endowment Fund Pool "portfolio value" will be determined on a 36-month moving average of monthly portfolio market value, with a budgeting lead of one year. That is, the moving average will be determined one year before the fiscal year in which the funds are to be distributed. At June 30, 2007, net appreciation of $15,955.20 was available to be spent, all of which was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2007, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 42,882.02	$ 8,252.34	$ 34,629.68
Accounts	6,443.98		6,443.98
Pledges	422,326.51	1,116.32	421,210.19
Total Current Receivables	$ 471,652.51	$ 9,368.66	$ 462,283.85
Noncurrent Receivables:			
Intergovernmental	$ 171,500.00	$ 0.00	$ 171,500.00
Pledges	74,950.00	3,747.50	71,202.50
Total Noncurrent Receivables	$ 246,450.00	$ 3,747.50	$ 242,702.50

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2007, is presented as follows:

	Balance July 1, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital Assets, Nondepreciable:				
Land	$ 1,285,451.02	$ 0.00	$ 0.00	$ 1,285,451.02
Construction in Progress	3,112,632.10	2,786,688.35	2,830,695.19	3,068,625.26
Total Capital Assets, Nondepreciable	4,398,083.12	2,786,688.35	2,830,695.19	4,354,076.28
Capital Assets, Depreciable:				
Buildings	13,968,649.63	2,928,301.77		16,896,951.40
Machinery and Equipment	4,681,006.18	1,290,251.11	150,284.24	5,820,973.05
General Infrastructure	1,396,973.96			1,396,973.96
Total Capital Assets, Depreciable	20,046,629.77	4,218,552.88	150,284.24	24,114,898.41
Less Accumulated Depreciation:				
Buildings	6,247,186.86	398,022.55		6,645,209.41
Machinery and Equipment	2,673,434.40	443,540.00	144,358.62	2,972,615.78
General Infrastructure	397,501.90	72,290.52		469,792.42
Total Accumulated Depreciation	9,318,123.16	913,853.07	144,358.62	10,087,617.61
Total Capital Assets, Depreciable, Net	10,728,506.61	3,304,699.81	5,925.62	14,027,280.80
Capital Assets, Net	$ 15,126,589.73	$ 6,091,388.16	$ 2,836,620.81	$ 18,381,357.08

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2007, were as follows:

	Amount
Accounts Payable	$ 401,852.93
Accrued Payroll	170,492.17
Contract Retainage	127,486.21
Total Accounts Payable and Accrued Liabilities	$ 699,831.31

NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Current Portion
Capital Leases Payable	$ 295,855.96	$ 0.00	$ 101,189.24	$ 194,666.72	$ 86,993.84
Compensated Absences	830,172.50	620,608.28	623,954.50	826,826.28	153,707.01
Total Long-Term Liabilities	$ 1,126,028.46	$ 620,608.28	$ 725,143.74	$ 1,021,493.00	$ 240,700.85

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, 2007:

Fiscal Year	Amount
2008	$ 88,995.08
2009	64,523.84
2010	64,524.84
Total Minimum Lease Payments	218,043.76
Amount Representing Interest	23,377.04
Present Value of Future Lease Payments	$ 194,666.72

Machinery and equipment acquired under capital lease amounted to $630,914.56 at June 30, 2007.

B. Operating Lease Obligations - Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2007:

Fiscal Year	Amount
2008	$ 105,752.52
2009	105,752.52
2010	105,752.52
2011	27,740.43
Total Minimum Lease Payments	$ 344,997.99

Rental expense for all operating leases during the year was $105,752.52.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 1,581,464.69	$ 0.00	$ 560,069.12	$ 0.00	$ 1,021,395.57
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Dining	$ 128,902.78	$ 0.00	$ 0.00	$ 0.00	$ 128,902.78
Printshop	217,268.46	121,003.31			96,265.15
Bookstore	909,833.14		350,672.60	534.03	558,626.51
Child Care Center	329,226.99				329,226.99
Other	89,345.09				89,345.09
Total Sales and Services	$ 1,674,576.46	$ 121,003.31	$ 350,672.60	$ 534.03	$ 1,202,366.52

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	$ 6,996,049.64	$ 659,483.27	$ 502,907.73	$ 0.00	$ 0.00	$ 0.00	$ 8,158,440.64
Public Service	389.98						389.98
Academic Support	1,053,906.70	46,726.09	67,558.85				1,168,191.64
Student Services	636,268.64	44,292.92	109,807.46				790,369.02
Institutional Support	1,689,076.63	198,908.07	756,089.93				2,644,074.63
Operations and Maintenance of Plant	707,304.92	125,478.00	185,615.97		367,029.09		1,385,427.98
Student Financial Aid		2,474.47	23,099.07	1,039,034.46			1,064,608.00
Auxiliary Enterprises	484,241.46	798,124.91	74,960.26				1,357,326.63
Depreciation						913,853.07	913,853.07
Total Operating Expenses	$ 11,567,237.97	$ 1,875,487.73	$ 1,720,039.27	$ 1,039,034.46	$ 367,029.09	$ 913,853.07	$ 17,482,681.59

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, 2007, these rates were set at 2.66% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2007, the College had a total payroll of $9,501,178.09, of which $7,993,324.45 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $479,600.39 and $212,622.44, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2007, 2006, and 2005, which were $212,622.44, $159,188.26, and $147,874.13, 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 $40,052.00 for the year ended June 30, 2007.

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 $102,725.00 for the year ended June 30, 2007.

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 $27,987.00 for the year ended June 30, 2007.

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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2007, the College's total contribution to the Plan was $303,746.33. 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. Disability Income – 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 .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2007, the College's total contribution to the DIPNC was $41,565.29. 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. The College also has purchased, with county funds, the following: an employment practices liability policy with a $1,000,000 limit of insurance and a $35,000 deductible; and a $1,000,000 trustee and fiduciary liability and employee benefits administration coverage with a $10,000 deductible.

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 $75,000 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. The employer contribution rate was .16% for the current fiscal year. In addition, the College provides life insurance via Fort Dearborn Life Insurance equal to 1½ times the salary up to $50,000 to all full-time employees, $5,000 for spouses, and $2,000 for children. This is paid entirely from county funds.

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

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $2,617,276.65 at June 30, 2007.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2006, net assets as previously reported was restated as follows

	Amount
July 1, 2006 Net Assets as Previously Reported	$ 18,105,488.37
Error in Establishing Useful Lives of Capital Assets	931,129.60
July 1, 2006 Net Assets as Restated	$ 19,036,617.97

NOTE 16 - SUBSEQUENT EVENTS

During the September 2004 floods, property owned by Haywood Community College was destroyed. The Haywood County Board of Commissioners, meeting in regular session July 9, 2007, approved the acquisition of the Haywood Community College property for the amount of $1,023,000.

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

Board of Trustees
Haywood Community College
Clyde, North Carolina

We have audited 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, 2007, and have issued our report thereon dated February 26, 2008. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Haywood Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Haywood Community College Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The College's response to the finding identified in our audit is described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College, the Board of Trustees, the State Board of Community Colleges, the Governor, the State Controller, and the General Assembly, 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

February 26, 2008

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the Haywood Community College had several misstatements and could be misleading to readers:

a) Restricted cash and cash equivalents noncurrent were understated $1,124,893.95 while restricted cash and cash and cash equivalents current were overstated by the same amount. The College incorrectly recorded unexpended plant funds as current assets.

b) Receivable were understated by $400,000.00 when a bequest received near year end was not recorded.

Recommendation: The College should place greater emphasis on the year end financial reporting process and implement internal controls to ensure the completeness and accuracy of the financial Statements.

Response:

a) Haywood Community College has updated the Statement Format Contents List within the financial statement processor to properly reflect unexpended plant funds as noncurrent assets. This will ensure that this classification will be done correctly in the future.

b) Haywood Community College has a procedure in place to properly record pledged amounts to the Foundation. The procedure is for the Foundation to forward all copies of correspondence regarding pledges to the Business Office and to enter all pledges into their software specifically designed to track all pledges. The error occurred during the transition between the former Director and the new Director. This error was brought to the auditors' attention prior to the beginning of the audit. The College will ensure this accounting will be done correctly in the future.

Haywood Community College has made a thorough review of its process of completing the year end financial statements and documentation of supporting schedules and has implemented controls both internally and externally to ensure that they are adequately prepared, reviewed and maintained. In the past and as well as in the future, HCC values and will follow the guidance of the State Auditor's Office, the Office of the State Controller and the North Carolina Community College System's Office

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