



STATE OF NORTH CAROLINA

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

HAYWOOD COMMUNITY COLLEGE

CLYDE, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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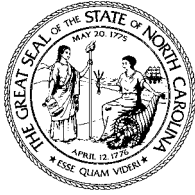
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2010, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

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

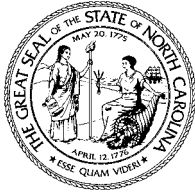
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 2010, 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 25 percent, 26 percent, and 12 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Haywood Community College Foundation Inc., is based on the report of the other auditors.

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

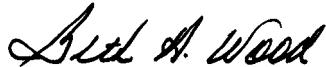
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Haywood Community College as of June 30, 2010, and the changes in its financial position and its cash flows for the year 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

May 12, 2011

HAYWOOD COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010.

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

Using the Annual Report

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

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

The Statement of Net Assets 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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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.

Current assets at June 30, 2010, increased \$2,306,827.29. The increase is due to the net effect of a \$77,973.68 increase in cash and cash equivalents related to several auxiliary funds cash balances, an increase of \$1,892,199.57 in cash and cash equivalents related to the Haywood Community College Foundation, a blended component unit of the College, receiving monies from a donor's estate, a \$21,276.51 increase in short-term and restricted short-term investments, a \$310,651.20 increase in receivables related to increases in student accounts receivable for tuition and fees and financial aid, grant receivables, and an increase in donor pledges receivable, and a \$4,726.33 increase in inventory due in part to the College's bookstore.

The increase in capital assets, net of depreciation is due primarily to construction in progress and equipment purchases. Other noncurrent assets increased \$128,036.14. This is due to a \$27,499.36 decrease in restricted cash and cash equivalents. The restricted investments increased \$1,045,943.07 associated with receiving endowment pledges. In addition, there was a \$39,525.00 decrease in the receivable restricted due from primary government for the North Carolina Community College System Facilities Grant, and receivables decreased \$850,882.57 which was primarily due to receiving pledges made to the Haywood Community College Foundation.

Condensed Statement of Net Assets June 30, 2010

	June 30, 2010	June 30, 2009	Variance
Current Assets	\$ 5,971,331.88	\$ 3,664,504.59	\$ 2,306,827.29
Noncurrent Assets:			
Capital Assets, Net of Depreciation	23,212,985.98	23,005,532.61	207,453.37
Other	5,811,615.11	5,683,578.97	128,036.14
Total Assets	34,995,932.97	32,353,616.17	2,642,316.80
Current Liabilities	753,011.52	972,673.38	(219,661.86)
Noncurrent Liabilities	619,516.27	747,961.62	(128,445.35)
Total Liabilities	1,372,527.79	1,720,635.00	(348,107.21)
Net Assets:			
Invested in Capital Assets	23,212,985.98	22,945,834.37	267,151.61
Restricted for: Nonexpendable	5,305,789.25	5,028,006.01	277,783.24
Restricted for: Expendable	2,217,311.60	2,006,774.06	210,537.54
Unrestricted	2,887,318.35	652,366.73	2,234,951.62
Total Net Assets	<u>\$ 33,623,405.18</u>	<u>\$ 30,632,981.17</u>	<u>\$ 2,990,424.01</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Current liabilities decreased due to a decrease in accounts payable for goods and services. Noncurrent liabilities include compensated absences/accrued vacation leave that will not be paid within the next fiscal year. Compensated absences decreased \$128,445.35 due to retirements and/or individuals leaving the College.

Net assets are a measure of the value of all the College's assets less liabilities. Net assets represent the residual interest in the College's assets after all liabilities are deducted. For reporting purposes, they are divided into four categories: invested in capital assets, restricted nonexpendable, restricted expendable and unrestricted net assets. The increase in the invested in capital assets is in part due to additions to construction in progress and equipment. The increase in restricted nonexpendable is due to additions to the College's permanent endowments. The main increase in unrestricted net assets was mainly due to receiving monies from a donor's estate to be used for scholarships and for other purposes as determined by the College's Board of Trustees. The remaining increase in unrestricted net assets was mostly attributable to increases in self-support classes for summer, student fees and bookstore revenues, which is all directly related to record enrollment for fiscal year 2010.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Operating revenues are received for providing goods and services to the various customers of the College. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the College. Nonoperating revenues are revenues received for which goods and services are not provided, for example, State appropriations and investment income. The following is a condensed Statement of Revenues, Expenses, and Changes in Net Assets for Haywood Community College as of June 30, 2010 and 2009.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

	June 30, 2010	June 30, 2009	Variance
Operating Revenues:			
Student Tuition and Fees, Net	\$ 1,328,932.07	\$ 1,191,640.58	\$ 137,291.49
Federal Grants and Contracts	98,245.16	265,488.01	(167,242.85)
State and Local Government	219,634.20	204,522.54	15,111.66
Sales and Services, Net	1,244,803.82	1,097,217.88	147,585.94
Other Operating Revenues	381,958.82	410,712.97	(28,754.15)
Total Operating Revenues	3,273,574.07	3,169,581.98	103,992.09
Operating Expenses:			
Salaries and Benefits	12,191,410.42	12,660,459.94	(469,049.52)
Supplies and Materials	2,315,897.27	1,722,291.28	593,605.99
Services	1,534,995.65	2,141,794.64	(606,798.99)
Scholarships and Fellowships	3,310,295.61	2,057,471.99	1,252,823.62
Utilities	323,929.40	380,419.27	(56,489.87)
Depreciation	831,924.99	876,993.15	(45,068.16)
Total Operating Expenses	20,508,453.34	19,839,430.27	669,023.07
Operating Loss	(17,234,879.27)	(16,669,848.29)	(565,030.98)
Nonoperating Revenues:			
State Aid	8,497,260.65	9,175,558.07	(678,297.42)
County Appropriations	2,118,456.00	2,015,255.00	103,201.00
Noncapital Grants, Gifts, and Investment Income	7,451,000.97	6,886,636.12	564,364.85
Total Nonoperating Revenue	18,066,717.62	18,077,449.19	(10,731.57)
Nonoperating Expenses	30,038.13	60,557.83	(30,519.70)
Income Before Other Revenue	801,800.22	1,347,043.07	(545,242.85)
Capital Contributions	1,424,560.83	1,042,860.92	381,699.91
Additions to Endowments	764,062.96	707,490.52	56,572.44
Total Other Revenues	2,188,623.79	1,750,351.44	438,272.35
Increase in Net Assets	2,990,424.01	3,097,394.51	(106,970.50)
Net Assets, Beginning	30,632,981.17	27,709,352.16	2,923,629.01
Restatement		(173,765.50)	173,765.50
Net Assets, Ending	\$ 33,623,405.18	\$ 30,632,981.17	\$ 2,990,424.01

The major components of operating revenues include student tuition and fees; federal, State, and local operating grants; sales and services revenue; and other operating revenues. Sales and services revenue largely is derived from bookstore and childcare center operations. Operating revenues totaled \$3,273,574.07 as compared to the prior year of \$3,169,581.98 resulting in an increase of \$103,992.09 primarily due to an increase in student tuition and fees of \$137,291.49. Federal grants and contracts and state and local grants had a net decrease of \$152,131.19 due to the completion of grants. Sales and services increased \$147,585.94 due mainly to bookstore sales and childcare center receipts as a result of the increase in student enrollment. Other operating revenue decreased \$28,754.15.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 Statement No. 34 and Statement No. 35. Operating expenses were \$669,023.07 above last year primarily due to increases in supplies and materials and scholarships and fellowships of \$593,605.99 and \$1,252,823.62, respectively. The most significant change occurred in scholarships and fellowships due to increased Pell and scholarship awards and disbursements. 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. These increases were offset by decreases in personal services of \$469,049.52, services of \$606,798.99, utilities of \$56,489.87, and depreciation of \$45,068.16. The decrease in personal services for the current year was a result of hiring restrictions implemented during FY 2008-09 by the North Carolina Office of State Budget and Management. The impact of these restrictions resulted in not filling approximately 20 positions during FY 2009-10.

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 \$10,731.57 decrease. The College had a \$678,297.42 decrease in state aid for current operating use. This decrease was a result of a 3% reversion of \$294,035 and a \$297,074.00 Management Flexibility Reduction. County operational appropriations increased slightly by \$103,201.00 due to increased funding from Haywood County. Noncapital grants increased due to increased Pell funding as a result of increased enrollment.

The financial market made some strides of improvement during the period and the College's investments were able to rebound slightly. The College's investment policy is a fairly conservative and well diversified mix of fixed, equity and alternative investments. The investment mix is reviewed quarterly and monitored month to month by College personnel, the Finance Committee and the portfolio managers. The net \$423,211.94 investment income is summarized as follows: Interest and dividends \$119,993.46 gain, realized loss on sale of \$1,311.70 and unrealized gain or increase in market value of securities held as of June 30, 2010 of \$304,530.18. The increase in market value was positively impacted by investing endowment funds received during the year.

Other revenues consist of capital contributions and additions to endowments. Capital contributions are made up of capital aid received from the State, capital appropriations received from Haywood County and capital grants. State capital aid increased due to special allotment funding during fiscal year 2010 such as Technical Education, Health Sciences, and other special allotments appropriated to the College. County capital aid increased due to sales tax proceeds given to the College to use for facility renovations and repairs. Additions to endowments grew by \$56,572.44 during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Haywood Community College's net assets increased by \$2,990,424.01 which brings ending net assets to \$33,623,405.18 reflecting a fiscally sound position.

Capital Assets

Haywood Community College's capital assets as of June 30, 2010, amount to \$23,212,985.98 net of accumulated depreciation of \$12,103,175.70. This represents an increase of \$207,453.37 from the prior year.

Capital Assets			
	June 30, 2010	June 30, 2009	Variance
Capital Assets, Nondepreciable			
Land	\$ 4,130,401.02	\$ 4,130,401.02	\$ 0.00
Construction In Progress	1,011,368.88	328,037.65	683,331.23
Total Capital Assets, Nondepreciable	5,141,769.90	4,458,438.67	683,331.23
Capital Assets, Depreciable, Net			
Buildings	14,595,194.55	15,006,768.40	(411,573.85)
Machinery & Equipment	2,585,046.95	2,627,242.42	(42,195.47)
Infrastructure	890,974.58	913,083.12	(22,108.54)
Total Capital Assets, Depreciable	18,071,216.08	18,547,093.94	(475,877.86)
Total Capital Assets, Net	\$ 23,212,985.98	\$ 23,005,532.61	\$ 207,453.37

Construction in progress increased \$683,331.23 for the following projects: Research Demonstration House, Creative Arts building and Administrative Services building. The change in total depreciable capital assets includes the demolition of a greenhouse/office building recorded on the books at \$16,424.00. The demolition of the building was due to preparing the site for the new Administrative Support Services Building. The change also includes the purchase of equipment for \$381,711.66; the write-off of obsolete equipment in the amount of \$51,490.05; and \$789,675.47 in accumulated depreciation for buildings, machinery and equipment, and infrastructure.

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased items cost more than \$5,000 at the date of purchase and have a useful life of more than one year. Library books are not included as assets. The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure and buildings are depreciated over a 10 to 100 year period, and equipment is depreciated in 2 to 30 years, depending on the expected useful life of the infrastructure, equipment, or building.

Economic Factors and Next Year's Budget

The economic position of the College is closely tied to that of the state. The College received its 2010-2011 state budget allocation of \$13,064,781 in August 2010, which represented an increase of \$1,213,111 or 10.2% from the previous year. The increase in state funding for the

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

2010-2011 academic year included no salary increases and a \$396,943 Management Flexibility Reduction. In addition, the North Carolina Community College System has advised all community colleges to reserve another 2% for possible further reversion. This represents another \$261,296 that the College cannot allocate. Management feels that by using a conservative realistic approach in handling its resources, Haywood Community College will be able to continue providing a superior education to its students in a quality learning environment, even through a period of economic hardship. The College is continuing to evaluate future programs, and will continue to add programs that are needed in the community. The College anticipates continued growth in the 2010-2011 year.

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

Haywood Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 3,617,681.61
Restricted Cash and Cash Equivalents	726,945.88
Short-Term Investments	111,418.87
Restricted Short-Term Investments	123,193.92
Receivables, Net (Note 4)	1,105,634.79
Due from State of North Carolina Component Units	109,644.82
Inventories	176,811.99
Total Current Assets	<u>5,971,331.88</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,132,505.46
Receivables, Net (Note 4)	1,126,507.43
Restricted Due from Primary Government	4,500.00
Restricted Investments	3,548,102.22
Capital Assets - Nondepreciable (Note 5)	5,141,769.90
Capital Assets - Depreciable, Net (Note 5)	18,071,216.08
Total Noncurrent Assets	<u>29,024,601.09</u>
Total Assets	<u>34,995,932.97</u>

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	446,707.33
Unearned Revenue	146,652.72
Long-Term Liabilities - Current Portion (Note 7)	159,651.47
Total Current Liabilities	<u>753,011.52</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	619,516.27
Total Liabilities	<u>1,372,527.79</u>

NET ASSETS

Invested in Capital Assets	23,212,985.98
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	5,305,789.25
Expendable:	
Scholarships and Fellowships	595,765.10
Loans	8,113.29
Capital Projects	1,171,622.77
Other	441,810.44
Unrestricted	<u>2,887,318.35</u>
Total Net Assets	<u>\$ 33,623,405.18</u>

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

***Haywood Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2010***

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 9)	\$ 1,328,932.07
Federal Grants and Contracts	98,245.16
State and Local Grants and Contracts	219,634.20
Sales and Services, Net (Note 9)	1,244,803.82
Other Operating Revenues	381,958.82

Total Operating Revenues	<u>3,273,574.07</u>
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EXPENSES

Operating Expenses:

Salaries and Benefits	12,191,410.42
Supplies and Materials	2,315,897.27
Services	1,534,995.65
Scholarships and Fellowships	3,310,295.61
Utilities	323,929.40
Depreciation	831,924.99

Total Operating Expenses	<u>20,508,453.34</u>
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Operating Loss	<u>(17,234,879.27)</u>
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NONOPERATING REVENUES (EXPENSES)

State Aid	8,497,260.65
County Appropriations	2,118,456.00
Noncapital Grants - Federal Student Financial Aid	4,792,727.59
Noncapital Grants	844,804.95
Noncapital Gifts, Net (Note 9)	1,390,256.49
Investment Income (Net of Investment Expense of \$20,178.63)	423,211.94
Other Nonoperating Expenses	(30,038.13)

Net Nonoperating Revenues	<u>18,036,679.49</u>
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Income Before Other Revenues	801,800.22
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State Capital Aid	667,048.08
County Capital Aid	668,531.26
Capital Grants	88,981.49
Additions to Endowments	764,062.96

Increase in Net Assets	<u>2,990,424.01</u>
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NET ASSETS

Net Assets, July 1, 2009	<u>30,632,981.17</u>
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Net Assets, June 30, 2010	<u><u>\$ 33,623,405.18</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 3,075,913.13
Payments to Employees and Fringe Benefits	(12,275,748.90)
Payments to Vendors and Suppliers	(4,398,445.95)
Payments for Scholarships and Fellowships	(3,324,421.18)
Other Payments	(4,373.60)
	<hr/>
Net Cash Used by Operating Activities	(16,927,076.50)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	8,497,260.65
County Appropriations	2,118,456.00
Noncapital Grants - Federal Student Financial Aid	4,792,727.59
Noncapital Grants Received	844,804.95
Noncapital Gifts and Endowments Received	2,826,341.54
	<hr/>
Cash Provided by Noncapital Financing Activities	19,079,590.73

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	706,573.08
County Capital Aid	665,631.26
Capital Grants Received	171,719.09
Acquisition and Construction of Capital Assets	(1,065,042.89)
Principal Paid on Capital Leases	(59,698.24)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	419,182.30

CASH FLOWS FROM INVESTING ACTIVITIES

Loss from Sales and Maturities of Investments	(38.14)
Investment Income	119,993.46
Purchase of Investments and Related Fees	(748,977.96)
	<hr/>
Net Cash Used by Investing Activities	(629,022.64)

Net Increase in Cash and Cash Equivalents	1,942,673.89
Cash and Cash Equivalents, July 1, 2009	3,534,459.06
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 5,477,132.95

Haywood Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010

Exhibit A-3
Page 2

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

Operating Loss	\$ (17,234,879.27)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	831,924.99
Miscellaneous Nonoperating Income	(4,373.60)
Changes in Assets and Liabilities:	
Receivables, Net	(226,613.32)
Inventories	(4,726.33)
Accounts Payable and Accrued Liabilities	(218,706.50)
Unearned Revenue	14,826.81
Compensated Absences	(84,529.28)
Net Cash Used by Operating Activities	<u><u>\$ (16,927,076.50)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 3,617,681.61
Restricted Cash and Cash Equivalents	726,945.88
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>1,132,505.46</u>
Total Cash and Cash Equivalents - June 30, 2010	<u><u>\$ 5,477,132.95</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through a Gift	\$ 14,985.00
Change in Fair Value of Investments	304,530.18
Increase in Receivables Related to Nonoperating Income	2,900.00
Capital Asset Write-Offs	67,914.05

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

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HAYWOOD COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Blended Component Unit - Although legally separate, Haywood Community College Foundation, Inc. is reported as if it were part of the College. The Foundation can be governed by a 25-member board consisting of 3 Haywood Community College Trustees, 1 honorary member, and the remaining 21 must be approved by the Haywood Community College Board of Trustees. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Haywood Community College Board of Trustees and the Foundation's sole purpose is to benefit Haywood Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Investments** - Except for money market funds, investments generally are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year. 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 100 years for buildings, and 2 to 30 years for equipment.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

Invested in Capital Assets - This represents the College's total investment in 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

- O. Internal Sales Activities** - The College bookstore and print shop operations provide goods and services to College departments, as well as to its customers. All internal sales activities to College departments from the College bookstore and print shop have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in these auxiliary operations and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- P. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$1,643.70, and deposits in private financial institutions with a carrying value of \$1,190,853.63, and a bank balance of \$2,050,678.04.

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, 2010, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,284,635.62, 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, 2010. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "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 and corporate bonds/notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

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

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More than 10
Debt Securities					
Money Market Mutual Funds	\$ 942,878.14	\$ 942,878.14	\$ 0.00	\$ 0.00	\$ 0.00
Domestic Mutual Bonds	907,434.12		907,434.12		
International Mutual Bond Funds	134,230.18			134,230.18	
		<u>\$ 942,878.14</u>	<u>\$ 907,434.12</u>	<u>\$ 134,230.18</u>	<u>\$ 0.00</u>
Other Securities					
Domestic Stocks	91,724.75				
Domestic Mutual Funds	1,377,578.26				
International Mutual Funds	328,869.56				
Total Investments	<u>\$ 3,782,715.01</u>				

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2010, the College's investments were rated as follows:

	Fair Value	AAA Aaa	AA Aa	A-	Unrated
Money Market Mutual Funds	\$ 942,878.14	\$ 942,878.14	\$ 0.00	\$ 0.00	\$ 0.00
Domestic Mutual Bonds	907,434.12	348,555.69	558,878.43		
International Mutual Bond Funds	134,230.18	134,230.18			
Domestic Stocks	91,724.75			91,724.75	
Domestic Mutual Funds	1,377,578.26				1,377,578.26
International Mutual Funds	328,869.56				328,869.56

Rating Agency: Standards & Poor's

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	\$ 942,878.14
Domestic Mutual Bonds	907,434.12
International Mutual Bond Funds	134,230.18
Domestic Stocks	91,724.75
Domestic Mutual Funds	1,377,578.26
International Mutual Funds	328,869.56
Total	<u>\$ 3,782,715.01</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. 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 PIMCO Low Duration II, PIMCO Total Return II, JP Morgan Prime Money Market, Goldman Sachs Large Cap Value, T Rowe Price Blue Chip Growth, and Harbour International Fund. These investments are 9.21%, 14.77%, 24.29%, 13.18%, 13.45%, and 8.69%, respectively, of College's investments.

Foreign Currency Risk: Foreign currency risk is defined by GASB Statement No. 40 as the risk that changes in exchange rates will adversely affect the fair value of an investment. The College's investment policy permits it to invest up to 17% in the Endowment and Restricted Fund Pool and up to 11% in the Unrestricted Fund Pool in foreign currency. The College's current position is 12.08% in the Endowment and Restricted Fund Pool and .16% in the Unrestricted Fund Pool.

The College has international investments in PIMCO Foreign Bond Fund and Harbour International Fund totaling \$134,230.18 and \$328,869.56 respectively. PIMCO Foreign Bond Fund is an unhedged international bond fund. Net currency exposure, as of June 30, 2010, was 99%. Harbour International Fund utilized currency hedges only as a defensive basis back into the U.S. dollar. As of June 30, 2010, net currency exposure was 94.35%.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	\$ 1,643.70
Carrying Amount of Deposits with Private Financial Institutions	1,190,853.63
Investments in the Short Term Investment Fund	4,284,635.62
Other Investments	3,782,715.01
	<hr/>
Total Deposits and Investments	\$ 9,259,847.96
	<hr/>
Current:	
Cash and Cash Equivalents	\$ 3,617,681.61
Restricted Cash and Cash Equivalents	726,945.88
Short-Term Investments	111,418.87
Restricted Short-Term Investments	123,193.92
Noncurrent:	
Restricted Cash and Cash Equivalents	1,132,505.46
Endowment Investments	3,548,102.22
	<hr/>
Total	\$ 9,259,847.96
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable 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 allows an annual payout of up to 4% of the endowment principal's market value. Under this policy, the Endowment Fund Pool will be distributed using the moving average method of determining year to year the amount to be "paid out" in order to smooth distributions from the aggregate endowment fund pool. The Endowment Fund Pool "portfolio value" will be determined on a 36-month moving average of monthly portfolio market value, with a budgeting lead of one year. That is, the moving average will be determined one year before the fiscal year in which the funds are to be distributed. At June 30, 2010, endowment net assets of \$78,359.00 were available to be spent, of which all was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 73,223.01	\$ 12,472.82	\$ 60,750.19
Accounts	161,913.88		161,913.88
Intergovernmental	77,437.74		77,437.74
Pledges	<u>816,843.93</u>	<u>11,310.95</u>	<u>805,532.98</u>
Total Current Receivables	<u><u>\$ 1,129,418.56</u></u>	<u><u>\$ 23,783.77</u></u>	<u><u>\$ 1,105,634.79</u></u>
Noncurrent Receivables:			
Intergovernmental	\$ 2,900.00	\$ 0.00	\$ 2,900.00
Accounts	26,469.85		26,469.85
Pledges	<u>1,125,276.40</u>	<u>28,138.82</u>	<u>1,097,137.58</u>
Total Noncurrent Receivables	<u><u>\$ 1,154,646.25</u></u>	<u><u>\$ 28,138.82</u></u>	<u><u>\$ 1,126,507.43</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 4,130,401.02	\$ 0.00	\$ 0.00	\$ 4,130,401.02
Construction in Progress	328,037.65	683,331.23		1,011,368.88
Total Capital Assets, Nondepreciable	4,458,438.67	683,331.23		5,141,769.90
Capital Assets, Depreciable:				
Buildings	22,397,641.57		16,424.00	22,381,217.57
Machinery and Equipment	6,053,663.09	381,711.66	51,490.05	6,383,884.70
General Infrastructure	1,409,289.51			1,409,289.51
Total Capital Assets, Depreciable	29,860,594.17	381,711.66	67,914.05	30,174,391.78
Less Accumulated Depreciation for:				
Buildings	7,390,873.17	402,147.78	6,997.93	7,786,023.02
Machinery and Equipment	3,426,420.67	407,668.67	35,251.59	3,798,837.75
General Infrastructure	496,206.39	22,108.54		518,314.93
Total Accumulated Depreciation	11,313,500.23	831,924.99	42,249.52	12,103,175.70
Total Capital Assets, Depreciable, Net	18,547,093.94	(450,213.33)	25,664.53	18,071,216.08
Capital Assets, Net	\$ 23,005,532.61	\$ 233,117.90	\$ 25,664.53	\$ 23,212,985.98

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010 were as follows:

	Amount
Accounts Payable	\$ 52,698.41
Accrued Payroll	394,008.92
Total Accounts Payable and Accrued Liabilities	\$ 446,707.33

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010 is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Capital Leases Payable	59,698.24	0.00	59,698.24	0.00	0.00
Compensated Absences	863,697.00	726,732.06	811,261.32	779,167.74	159,651.47
Total Long-Term Liabilities	\$ 923,395.24	\$ 726,732.06	\$ 870,959.56	\$ 779,167.74	\$ 159,651.47

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - LEASE OBLIGATIONS

- A. Capital Lease Obligations** - Capital lease obligations relating to telephone equipment were paid in full at June 30, 2010.

Machinery and equipment acquired under capital lease amounted to \$436,174.56 at June 30, 2010.

- B. Operating Lease Obligations** - The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

<u>Fiscal Year</u>	<u>Year</u>
2011	\$ 27,740.43

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:

	<u>Gross Revenues</u>	<u>Internal Sales Eliminations</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
Operating Revenues:					
Student Tuition and Fees	\$ 2,699,968.15	\$ 0.00	\$ 1,364,537.22	\$ 6,498.86	\$ 1,328,932.07
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Vending	\$ 41,040.10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 41,040.10
Print Shop	118,192.45	110,451.25			7,741.20
Bookstore	1,403,586.44		814,538.50		589,047.94
Child Care Center	536,567.16				536,567.16
Other	70,407.42				70,407.42
Total Sales and Services	<u>\$ 2,169,793.57</u>	<u>\$ 110,451.25</u>	<u>\$ 814,538.50</u>	<u>\$ 0.00</u>	<u>\$ 1,244,803.82</u>
Nonoperating -Noncapital Gifts	<u>\$ 1,384,443.62</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (5,812.87)</u>	<u>\$ 1,390,256.49</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 7,070,327.14	\$ 864,589.74	\$ 388,389.51	\$ 0.00	\$ 0.00	\$ 0.00	\$ 8,323,306.39
Academic Support	875,219.04	58,308.68	36,358.06				969,885.78
Student Services	646,715.81	31,115.52	99,897.44	33,326.00			811,054.77
Institutional Support	2,111,013.50	49,408.42	495,439.44	1,932.82			2,657,794.18
Operations and Maintenance of Plant	833,937.93	160,969.65	422,935.78		323,929.40		1,741,772.76
Student Financial Aid		1,000.00	15,332.88	3,273,036.79			3,289,369.67
Auxiliary Enterprises	654,197.00	1,150,505.26	76,642.54	2,000.00			1,883,344.80
Depreciation						831,924.99	831,924.99
Total Operating Expenses	<u>\$ 12,191,410.42</u>	<u>\$ 2,315,897.27</u>	<u>\$ 1,534,995.65</u>	<u>\$ 3,310,295.61</u>	<u>\$ 323,929.40</u>	<u>\$ 831,924.99</u>	<u>\$ 20,508,453.34</u>

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

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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$9,974,705.41, of which \$8,316,656.42 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$296,904.63 and \$498,999.39, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$296,904.63, \$286,392.21, and \$253,504.80, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

- B. Supplemental Retirement Income Plans** - 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The College did not have any employer contributions on behalf of College law enforcement officers at June 30, 2010. The voluntary contributions by employees amounted to \$98,133.00 for the year ended June 30, 2010.

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 \$11,600.00 for the year ended June 30, 2010.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

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

The Plan's benefit and contribution provisions are established by *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

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

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$374,249.54, \$349,466.68, and \$340,776.94, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the College made a statutory contribution

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$43,246.61, \$44,322.60, and \$43,220.49, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 13 - RISK MANAGEMENT

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

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer. In addition, the College has purchased a commercial Directors and Officers Liability Insurance Policy (D&O). The policy has a \$1,000,000 limit of insurance and is subject to a \$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 has also purchased, with county funds, the following: an employment practices liability policy with a \$1,000,000 limit of insurance and a \$25,000 deductible; and a \$1,000,000 trustee and fiduciary liability and employee benefits coverage with no deductible.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and retains the risk for the \$10,000,000 deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the \$10,000,000 deductible. There have been no significant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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. The College does not have any significant outstanding commitments at June 30, 2010.
- B. Other Contingent Receivables** - The College has received notification from Haywood County that reimbursement of expenditures paid by the College for the Creative Arts Building will be contingent upon the County securing a loan to pay for the building. In accordance with accounting principles generally accepted in the United States of America, these amounts have not been recorded on the accompanying financial statements. The purpose and amount of other contingent receivables at year-end is as follows:

Purpose	Amount
Creative Arts Building	\$ 634,501.17

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by GASB:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51 requires reporting certain intangible assets as capital assets.

NOTE 16 - SUBSEQUENT EVENTS

On October 15, 2010 the College entered into a lease agreement with Haywood County whereas the College deeded approximately 3.2 acres to the County, for the purpose of constructing the Creative Arts Building project. In order for the County to obtain the financing needed to provide the resources to the College for this project, the College transferred title of the land, building, improvements and fixtures to the County for use as collateral until the debt is satisfied, at which time the land, building, improvements and fixtures will be transferred to the College. The County's financing term period is fifteen years.

Haywood Community College received notification from the Appalachian Regional Commission of a grant for \$100,000 to assist with the College's green technology programs.



Beth A. Wood, CPA
State Auditor

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

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, 2010, and have issued our report thereon dated May 12, 2011. Our report was modified to include a reference to other auditors.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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

Internal Control Over Financial Reporting

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

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

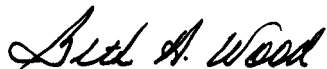
**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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

Compliance and Other Matters

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

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



Beth A. Wood, CPA
State Auditor

May 12, 2011

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