CATAWBA VALLEY COMMUNITY COLLEGE

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2013

And Independent Auditor's Report



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Independent Auditor's Report

Members of the Board of Trustees Catawba Valley Community College Hickory, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Catawba Valley Community College (the "College"), a component unit of the State of North Carolina, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Catawba Valley Community College Foundation, Inc. (the "Foundation") which are presented as component unit exhibits in the accompanying table of contents. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the Foundation as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2013 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Charlotte, North Carolina November 21, 2013

Cherry Bekaert LLP

Overview of the Financial Statement Information

Catawba Valley Community College is pleased to present its financial statements and activities for the fiscal year 2013. Management's Discussion and Analysis of Catawba Valley Community College (CVCC), a component unit of the State of North Carolina, is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2013 and comparative to June 30, 2012. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

The statements presented are in accordance with the standards promulgated by the Governmental Accounting Standards Board (GASB).

Basic Financial Statements

The basic financial statements for the College include the following:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

The Statement of Net Position is shown in classified format. This will show the distinction between current and non-current assets and liabilities. The direct method is used to present the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the statements and schedules.

Financial Information

The College's financial position was significantly affected by the following:

- Catawba County government budget for CVCC increased \$95,120, or 2.60% from the previous year. In addition, the College received approximately \$3,000,000 for capital projects.
- Received Golden Leaf Grant of \$1,370,000, a Pathways Grant of \$10,000, English/Civics Grants of \$23,370, as well as a Rural Economic Grant of \$68,333 during 2012-13. The Manufacturing Solutions Center also received a new grant of \$66,000 during the year.

Condensed Financial Statements

	<u>2013</u>	2012 (As Restated)		Difference	
Assets					
Current Assets	\$ 8,961,421.83	\$	8,919,224.16	\$	42,197.67
Noncurrent Assets					
Capital Assets, Nondepreciable	4,723,984.19		3,219,824.04		1,504,160.15
Capital Assets, Depreciable, Net	41,927,746.43		40,784,533.92		1,143,212.51
Other	1,318,100.08		1,372,242.48		(54,142.40)
Total Assets	 56,931,252.53		54,295,824.60		2,635,427.93
Liabilities	1 502 075 12		1 000 050 55		(25 < 255 < 5)
Current Liabilities	1,603,976.12		1,880,353.77		(276,377.65)
Noncurrent Liabilities	2,075,344.87		1,897,622.57		177,722.30
Total Liabilities	 3,679,320.99		3,777,976.34		(98,655.35)
Net Position					
Net Investment in Capital Assets	46,651,730.62		44,004,357.96		2,647,372.66
Restricted	3,052,169.05		2,504,386.52		547,782.53
Unrestricted	 3,548,031.87		4,009,103.78		(461,071.91)
Total Net Position	\$ 53,251,931.54	\$	50,517,848.26	\$	2,734,083.28

Condensed Financial Statements (continued)

	<u>2012</u>					
		<u>2013</u>		(As Restated)		Difference
Operating Revenue						
Tuition and Fees	\$	4,403,960.57	\$	4,773,698.76	\$	(369,738.19)
Sales and Services		3,428,537.59		3,432,450.42		(3,912.83)
Other		64,685.84		43,973.28		20,712.56
Total Operating Revenue		7,897,184.00		8,250,122.46		(352,938.46)
Less Operating Expenses		45,453,283.92		45,916,046.21		(462,762.29)
Operating Loss		(37,556,099.92)		(37,665,923.75)		109,823.83
Nonoperating Revenues and Other						
Revenues				2 0 1 2 1 - 1 2		
State Aid		20,723,869.20		20,466,716.15		257,153.05
County Appropriations		3,762,213.00		3,667,067.96		95,145.04
Other Nonoperating Revenues		11,877,593.67		11,464,007.71		413,585.96
Total Nonoperating Revenues and Other Revenues		36,363,675.87		35,597,791.82		765,884.05
Loss Before Other Revenues		(1,192,424.05)		(2,068,131.93)		875,707.88
Capital Aid and Grants		3,926,507.33		1,907,417.00		2,019,090.33
Increase in Net Position		2,734,083.28		(160,714.93)		2,894,798.21
Net Position, Beginning		50,517,848.26		50,678,563.19		(160,714.93)
Net Position, Ending	\$	53,251,931.54	\$	50,517,848.26	\$	2,734,083.28

The College's net position at fiscal year ended June 30, 2013, was \$52,251,931.54, an increase of \$2,734,083.28, or 5.4% over the previous year. Of the total net position, \$46,651,730.62 or 87.61% was invested in capital assets with unrestricted net position of \$3,548,031.87, or 6.67% and restricted net position of \$3,052,169.05, or 5.72%. The increase in net position is primarily due to an increase in capital aid and grants received.

Current unrestricted cash decreased during the fiscal year by 3.73% to \$6,167,160.67 and current restricted cash decreased by 48.04% to \$809,000.51. The decrease in unrestricted cash was attributed to a decrease in enrollment of self-supported classes. The decrease of restricted cash was due to a reduction of funds invested in the State Treasurers Investment Fund.

Total liabilities at fiscal year ended June 30, 2013, were \$3,679,320.99, with current liabilities being \$1,603,976.12 and noncurrent liabilities being \$2,075,344.87. Current liabilities are those that will be paid within one year, while noncurrent liabilities are related to compensated absences and will not become due within one year.

Total revenues at fiscal year ended June 30, 2013, were \$48,187,367.20, with operating revenues of \$7,897,184 or 16.38%, non-operating revenues of \$36,363,675.87 or 75.47%, and other capital related revenues of \$3,926,507.33 or 8.15%. The major revenue sources received were from the state county governments totaling \$28,412,589.53. Revenue from Tuition and Fees decreased by \$369,738.19 or 7.75%, while State Aid increased, by \$257,153.05 or 1.26%. Capital Aid and Grants increased by \$2,019,090.33, or 105.85%, due to a large increase in construction projects and its respective funding from state and county sources.

The College's operating expenses, excluding depreciation, remained on par with the prior year, decreasing by only 1%, to \$45,453,283.92 from \$45,916,046.21. The largest expense was in the area of personal services, totaling \$29,984,679.57. Other areas of expenses are for supplies and materials, services, scholarships and fellowships, utilities, and depreciation and amortization totaling \$15,468,604.35. The largest change was utilities, which expenses increased 9.31%, due to higher energy cost.

During the year, the College's construction in progress account encompassed three projects; Ryan's Steakhouse renovation and repurposement into a classroom facility, Business and Industrial Technology Building construction, and Testing Center renovation. For the fiscal year ending June 30, 2013, Capital Assets, Non-depreciable increased 46.72% from \$3,219,824.04 to \$4,723,984.19. This significant change was due to an increase in Construction in Progress as new construction projects began. Capital Assets, depreciable increased slightly from \$40,784,533.92 to \$41,927,746.43, or 2.8%, which includes capital additions of \$2,651,100.91 and depreciation of \$1,299,914.58. Capital Assets, nondepreciable increased by \$1,504,160.15 due to construction in process.

During the year, the College's long-term debt increased 5.22% from \$2,131,202.35 to \$2,242,403.96. This change was due to an increase in compensated absences.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2013, the College had not received its 2013-2014 budget. It is anticipated the Community College System will be provided with funding amounts from the State Legislator similar to the current year's level. The first indicators are anticipating no reversions for the individual colleges in the upcoming fiscal year. The College anticipates receiving roughly \$245,000 in performance based funding. While a management flexibility reduction is expected, it is anticipated to be reduced by approximately \$275,000 compared to the prior year. The College also expects approximately \$150,000 of increased equipment funding. In addition, the College anticipates receiving \$15,700,000 for the construction of a new Vocational Building from Catawba County during the upcoming year.

Request for Information

This report is designed to provide an overview of the College's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should contact the Senior Vice President, Finance and Operations, Catawba Valley Community College, 2550 Highway 70 SE Hickory, NC 28602.

Catawba Valley Community College Statement of Net Position June 30, 2013

		_
ASSETS Current Assets:		
Cash and Cash Equivalents	\$ 6,167,160.6	
Restricted Cash and Cash Equivalents	809,000.5	
Receivables, Net (Note 3)	465,642.13	
Due from State of North Carolina Component Units	1,212,931.72	
Inventories	306,686.8	<u> </u>
Total Current Assets	8,961,421.83	3
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	1,318,100.0	8
Capital Assets - Nondepreciable (Note 4)	4,723,984.19	
Capital Assets - Depreciable, Net (Note 4)	41,927,746.43	3
Total Noncurrent Assets	47,969,830.70	0
Total Assets	56,931,252.53	3_
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)	1,045,468.03	3
Unearned Revenue	221,386.5	
Funds Held for Others	170,062.4	
Long-Term Liabilities - Current Portion (Note 6)	167,059.09	
Total Current Liabilities	1,603,976.12	2
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)	2,075,344.8	7
Total Liabilities	3,679,320.99	9
NET POSITION		
Net Investment in Capital Assets	46,651,730.62	2
Restricted for:		
Expendable:		
Scholarships and Fellowships	139,046.12	
Capital Projects	1,015,662.5	
Other	1,897,460.3	გ
Unrestricted	3,548,031.8	7_
Total Net Position	\$ 53,251,931.54	4

Exhibit A-1

Catawba Valley Community College Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Year Ended June 30, 2013

For the Fiscal Year Ended June 30, 2013	Exhibit A-2
REVENUES Operating Revenues: Student Tuition and Fees, Net (Note 8) Sales and Services, Net (Note 8) Other Operating Revenues	\$ 4,403,960.57 3,428,537.59 64,685.84
Total Operating Revenues	7,897,184.00
EXPENSES Operating Expenses: Salaries and Benefits Supplies and Materials Services Scholarships and Fellowships Utilities Depreciation and Amortization	29,984,679.57 4,937,451.06 4,437,628.45 4,087,089.42 706,520.84 1,299,914.58
Total Operating Expenses	45,453,283.92
Operating Loss	(37,556,099.92)
NONOPERATING REVENUES (EXPENSES) State Aid County Appropriations Noncapital Grants - Student Financial Aid Noncapital Grants Noncapital Gifts, Net (Note 8) Investment Income, Net Other Nonoperating Revenues (Expenses)	20,723,869.20 3,762,213.00 8,846,643.06 2,693,974.36 508,544.03 27,775.65 (199,343.43)
Net Nonoperating Revenues	36,363,675.87
Loss Before Other Revenues, Expenses, Gains, and Losses	(1,192,424.05)
State Capital Aid Capital Grants	858,913.41 3,067,593.92
Increase in Net Position	2,734,083.28
NET POSITION Net Position, July 1, 2012 as Restated (Note 14)	50,517,848.26
Net Position, June 30, 2013	\$ 53,251,931.54

Catawba Valley Community College Statement of Cash Flows		Exhibit A-3
For the Fiscal Year Ended June 30, 2013		Page 1 of 2
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers Payments to Employees and Fringe Benefits Payments to Vendors and Suppliers Payments for Scholarships and Fellowships Other Receipts	\$	8,184,629.51 (29,860,939.86) (10,399,589.55) (4,087,089.42) 124,280.66
Net Cash Used by Operating Activities		(36,038,708.66)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES State Aid Received County Appropriations Noncapital Grants - Student Financial Aid Noncapital Grants Received Noncapital Gifts and Endowments Received		20,723,869.20 3,762,213.00 8,846,643.06 1,363,393.86 106,505.00
Net Cash Provided by Noncapital Financing Activities		34,802,624.12
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES State Capital Aid Received		040 499 44
Capital Grants Received Acquisition and Construction of Capital Assets		949,488.41 3,067,593.92 (3,759,274.72)
Net Cash Provided by Capital and Related Financing Activities		257,807.61
CASH FLOWS FROM INVESTING ACTIVITIES Investment Income		27,775.65
Net Cash Provided by Investing Activities	,	27,775.65
Net Decrease in Cash and Cash Equivalents Cash and Cash Equivalents, July 1, 2012		(950,501.28) 9,244,762.54
Cash and Cash Equivalents, June 30, 2013	\$	8,294,261.26

Catawba Valley Community College Statement of Cash Flows For the Fiscal Year Ended June 30, 2013

Exhibit A-3
Page 2 of 2

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES Operating Loss Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: Depreciation and Amortization Expense Miscellaneous Nonoperating Income Changes in Assets and Liabilities: Receivables, Net Inventories Accounts Payable and Accrued Liabilities Unearned Revenue Funds Held for Others Compensated Absences	\$	(37,556,099.92) 1,299,914.58 8,630.39 427,411.10 (125,962.15) (179,488.95) (27,228.24) 2,912.92 111,201.61
	Ф	· · · · · · · · · · · · · · · · · · ·
Net Cash Used by Operating Activities	\$	(36,038,708.66)
RECONCILIATION OF CASH AND CASH EQUIVALENTS Current Assets: Cash and Cash Equivalents Restricted Cash and Cash Equivalents Noncurrent Assets:	\$	6,167,160.67 809,000.51
Restricted Cash and Cash Equivalents		1,318,100.08
Total Cash and Cash Equivalents - June 30, 2013	\$	8,294,261.26
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES Assets Acquired through Assumption of a Liability Assets Acquired through a Gift Increase in Receivables Related to Nonoperating Income Loss on Disposal of Capital Assets	\$	149,965.95 402,039.03 1,330,580.50 (207,973.82)

Catawba Valley Community College Foundation, Inc. Statement of Net Assets

June 30, 2013	Exhibit B-1
ASSETS Cash and Cash Equivalents Investments Real Estate Held for Resale Pledges Receivable Prepaid Expenses In-kind Gifts	\$ 2,143,811.00 1,300,624.00 627,625.00 315,496.00 2,355.00 37,500.00
Total Assets	4,427,411.00
LIABILITIES	
Total Liabilities	0.00
NET ASSETS Unrestricted Temporarily Restricted Permanently Restricted	1,137,045.00 570,570.00 2,719,796.00
Total Net Assets	\$ 4,427,411.00

Catawba Valley Community College Foundation, Inc. Statement of Activities

	U						
For the	Fiscal	Year	Ended	June	<i>30</i> ,	<i>2013</i>	

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains: Income on Long-Term Investments Net Unrealized and Realized Gains on Long-Term Investments Investment Fees	\$	14,299.00 2,409.00 (3,428.00)
Total Unrestricted Revenues and Gains		13,280.00
Net Assets Released from Restrictions: Satisfaction of Program Restrictions		176,734.00
Total Unrestricted Revenues, Gains, and Other Support		190,014.00
Expenses and Losses: Scholarships and Grants Administration		180,234.00 23,949.00
Total Expenses		204,183.00
Decrease in Unrestricted Net Assets		(14,169.00)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS Revenues and Gains:		
Contributions		130,449.00
Income on Long-Term Investments		37,709.00
Net Unrealized and Realized Gains on Long-Term Investments		8,545.00
Investment Fees		(7,139.00)
Total Temporarily Restricted Revenues and Gains		169,564.00
Net Assets Released from Restrictions: Satisfaction of Program Restrictions		(173,734.00)
Decrease in Temporarily Restricted Net Assets		(4,170.00)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS Revenues and Gains:		
Contributions		54,826.00
Income on Long-Term Investments		14,361.00
Net Unrealized and Realized Gains on Long-Term Investments		23,197.00
Total Permanently Restricted Revenues and Gains		92,384.00
Net Assets Released from Restrictions: Endowment restrictions released for Scholarships		(3,000.00)
Increase in Permanently Restricted Net Assets		89,384.00
Increase in Net Assets		71,045.00
Net Assets at Beginning of Year		4,356,366.00
	•	
Net Assets at End of Year	Ψ	4,427,411.00

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. Catawba Valley 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 discretely presented component unit's financial data are reported in separate financial statements because of their use of different GAAP reporting models and to emphasize their legal separateness.

Discretely Presented Component Unit - Catawba Valley Community College Foundation, Inc. (the "Foundation") is a legally separate, tax-exempt, not-for-profit corporation and is reported as discretely presented component units based on the nature and significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 25 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or incomes thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition

criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2013, the Foundation distributed \$148,650.10 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Catawba Valley Community College Foundation's Office.

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.

- **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.
- **D.** Cash and Cash Equivalents This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. 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.** 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, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

- **F. Inventories** Inventories, consisting of expendable supplies, merchandise for resale, and fuel oil held for consumption are valued at the lower of cost or market using the first-in, first-out method.
- **G.** 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 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.

- **H.** 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.
- I. Noncurrent Long-Term Liabilities Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- **J.** 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 July 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.

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 June 30 is retained by employees and transferred into the next fiscal 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.

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

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

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

Restricted Net Position - **Expendable** - Expendable restricted net position includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The College did not have any nonexpendable restricted net position at June 30, 2013.

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

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

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

are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

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

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

- N. 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 such as the College bookstore. 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.
- **O. County Appropriations -** County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and

county capital appropriation do not revert and are available for future use as approved by the county commissioners.

P. Changes in Accounting Principles - Effective July 1, 2012, the College adopted the provisions of GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34 (Statement No. 61). Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. Statement No. 61 also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Statement No. 61 also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. In the case of the College, the implementation did not affect the College's reporting of component units.

Effective July 1, 2012, the College adopted the provisions of GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (Statement No. 63). This implementation required the College to present a Statement of Net Position, replacing previously presented Statement of Net Assets, in the College's basic financial statements. The College's implementation also required the Statement of Net Position to present deferred outflows and inflows of resources in separate sections following total assets and total liabilities sections, respectively. In the case of the College, the implementation of this standard was limited to presenting Net Position in place of Net Assets throughout the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute* 147-77 to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Position as cash and cash equivalents includes cash on hand totaling \$5,458.00, and deposits in private financial institutions with a carrying value of \$2,389,764.10 and a bank balance of \$2,595,741.74.

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, 2013, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, 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, 2013, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$5,899,039.16, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2013. Assets and shares of the STIF are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports".

Investments of the College's component unit, the Foundation, are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. The following table sets forth the Foundation's assets at fair value as of June 30, 2013:

Investment Type

 Equity Investment
 \$ 1,300,624.00

 Real Estate Investment Fund
 627,625.00

 Total Investments
 \$ 1,928,249.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, were as follows:

	R	Net leceivables
Current Receivables:		
Students	\$	302,753.91
Accounts		11,945.71
Intergovernmental		150,924.82
Other		17.68
Total Current Receivables	\$	465,642.12

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2013, is presented as follows:

	Balance			Balance
	July 1, 2012	Increases	Decreases	June 30, 2013
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 2,947,228.80	\$ -	\$ -	\$ 2,947,228.80
		+	φ -	, , , , , , , , , , , , , , , , , , , ,
Construction in Progress	272,595.24	1,504,160.15		1,776,755.39
Total Capital Assets, Nondepreciable	3,219,824.04	1,504,160.15		4,723,984.19
Capital Assets, Depreciable:				
Buildings	43,708,920.13	1,714,337.38	-	45,423,257.51
Machinery and Equipment	7,097,447.59	936,763.53	396,816.61	7,637,394.51
General Infrastructure	1,299,036.17			1,299,036.17
Total Capital Assets, Depreciable	52,105,403.89	2,651,100.91	396,816.61	54,359,688.19
Less Accumulated Depreciation/Amortization for:				
Buildings	8,634,102.83	795,929.96	-	9,430,032.79
Machinery and Equipment	1,632,514.03	19,577.40	188,842.79	1,463,248.64
General Infrastructure	1,054,253.11	484,407.22		1,538,660.33
Total Accumulated Depreciation	11,320,869.97	1,299,914.58	188,842.79	12,431,941.76
Total Capital Assets, Depreciable, Net	40,784,533.92	1,351,186.33	207,973.82	41,927,746.43
Capital Assets, Net	\$ 44,004,357.96	\$ 2,855,346.48	\$ 207,973.82	\$ 46,651,730.62

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2013, were as follows:

	Amount		
Accounts Payable Accrued Payroll Contract Retainage	\$	158,617.48 736,884.60 149,965.95	
Total Accounts Payable and Accrued Liabilities	\$	1,045,468.03	

NOTE 6 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities for the year ended June 30, 2013, is presented as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Compensated absences	\$ 2,131,202.35	\$ 1,168,434.59	\$ 1,057,232.98	\$ 2,242,403.96	\$ 167,059.09
	\$ 2,131,202.35	\$ 1,168,434.59	\$ 1,057,232.98	\$ 2,242,403.96	\$ 167,059.09

NOTE 7 - LEASE OBLIGATIONS

A. Operating Lease Obligations - The College entered into operating leases for equipment and facilities. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2013:

Fiscal Year		Amount		
2014	\$	92,497.32		
2015		86,259.21		
2016		47,669.16		
2017		12,060.87		
Total Minimum Lease Payments	\$	238,486.56		

NOTE 8 - REVENUES

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

	Internal Gross Sales Revenues Eliminations		Less Scholarship Discounts	Net Revenues	
Operating Revenues:	Revenues	Eminations	Discounts	Revenues	
Student Tuition and Fees	\$ 7,810,445.54	\$ -	\$ 3,406,484.97	\$ 4,403,960.57	
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	3,188,400.48	43,448.00	1,658,744.24	1,486,208.24	
Other	384,584.45	33,886.79	-	350,697.66	
Sales and Services of Education and				-	
Related Activities	1,250,906.59	-	-	1,250,906.59	
Independent Operations	340,725.10			340,725.10	
Total Sales and Services	\$ 5,164,616.62	\$ 77,334.79	\$ 1,658,744.24	\$ 3,428,537.59	
Nonoperating - Noncapital Gifts	\$ 508,544.03	\$ -	\$ -	\$ 508,544.03	

NOTE 9 - 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	\$ 18,699,737.50	\$ 1,725,927.64	\$ 950,408.71	\$ - \$	-	\$ -	\$ 21,376,073.85
Academic Support	3,091,293.23	134,183.72	187,379.41	-	-	-	3,412,856.36
Student Services	2,587,600.39	97,841.84	576,466.38	-	-	-	3,261,908.61
Institutional Support	4,482,908.77	152,504.45	1,088,945.30	-	-	-	5,724,358.52
Operations and Maintenance of Plant	903,581.60	329,308.23	1,537,046.16	-	706,520.84	-	3,476,456.83
Student Financial Aid	-	-	34,226.43	4,087,089.42	-	-	4,121,315.85
Auxiliary Enterprises	219,558.08	2,497,685.18	63,156.06	-	-	-	2,780,399.32
Depreciation						1,299,914.58	1,299,914.58
Total Operating Expenses	\$ 29,984,679.57	\$ 4,937,451.06	\$ 4,437,628.45	\$ 4,087,089.42 \$	706,520.84	\$ 1,299,914.58	\$ 45,453,283.92

NOTE 10 - 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 (TSERS) is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is administered by a 14-member Board of Trustees, with the North Carolina State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2013, these rates were set at 8.33% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$23,630,717.24, of which \$18,864,156.61 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$(**A**) 1,571,384.25 and \$(**B**) 1,131,849.82, respectively.

Required employer contribution rates for the years ended June 30, 2012, and 2011, were 7.44% and 4.93%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2013, 2012, and 2011, which were \$1,571,384.25, \$1,432,941.99, and \$911,059.74, respectively.

The TSERS financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.osc.nc.gov/ and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code 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 \$36,093.00 for the year ended June 30, 2013.

Internal Revenue Code 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 voluntary contributions by employees amounted to \$325,735.00 for the year ended June 30, 2013.

Internal Revenue Code 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. The plan administrators are VALIC. No costs are incurred by the College. The voluntary contributions by employees amounted to \$27,124.00 for the year ended June 30, 2013.

NOTE 11 - 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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year, the College contributed 5.30% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2012, and 2011, were 5.0% and 4.9%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2013, 2012, and 2011, which were \$999,800.30, \$954,326.51, and \$905,515.77, 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 "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

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

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2013, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2012, and 2011, were .52%. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2013, 2012, and 2011, which were \$83,002.29, \$99,193.12, and \$95,973.17, 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 12 - RISK MANAGEMENT

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

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from county or institutional funds. This coverage is with a private insurance company with coverage of \$5,000 per employee with a \$250 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund 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.

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 13 - COMMITMENTS AND CONTINGENCIES

A. Commitments - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$1,531,896.26 and on other purchases were \$591,641.90 at June 30, 2013.

NOTE 14 - NET POSITION RESTATEMENT

As of July 1, 2012, net position as previously reported was restated as follows:

		Amount
uly 1, 2012 Net Position as Previously Reported		50,524,183.86
Prior year contract payable accural error		(6,335.60)
July 1, 2012 Net Position as Restated	\$	50,517,848.26

NOTE 15 - SUBSEQUENT EVENTS

The College has evaluated subsequent events through November 21, 2013, which is the date the financial statements were available to be issued.

On July 27, 2013, the City of Hickory received an average of over five inches of rain within a reported six-hour period on this particular day, making it the third largest precipitation amount recorded for the City since records of this

nature were started in 1949. Infrastructure throughout the foothills and piedmont of North Carolina and South Carolina were severely strained and failures were widespread. Typical engineering design standards do not typically address a build-out based on the capacity and intensity of a rain event of this magnitude. The Hickory area was declared a state natural disaster area by the governor of North Carolina due to flooding and storm water damages resulting from the volume and intensity of the rainfall and oversaturated soils.

A large sinkhole, approximately 30 feet deep and 40-50 feet in diameter, opened up in the ground in front of the Tarlton Complex sometime toward the end of the storms. The sinkhole formed as a result of a cavernous opening created when a 72-inch corrugated metal storm pipe failed. Damage to infrastructure was minimal and emergency measures were taken in accordance with state laws.

The storm pipe will be replaced (approximately 760 linear feet) using 72-inch reinforced concrete pipe. Early projections based on reasonable assumptions place this project cost at as much as \$1.5 million. The project is projected to take between 60 and 90 days and should be completed by January 2014.

NOTE 16 - AUDIT HOURS AND COST

The audit required 428 hours at an approximate cost of \$31,000. The cost represents 0.054% of the College's total assets and 0.068% of total expenses subjected to audit.



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

Members of the Board of Trustees Catawba Valley Community College Hickory, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Catawba Valley Community College (the "College") as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2013. Our report includes a reference to other auditors who audited the financial statements of Catawba Valley Community College Foundation, Inc. (the "Foundation"), 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 separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

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 that are required to be reported under *Government Auditing Standards*.

College's Response to Finding

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

Purpose of this Report

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

Charlotte, North Carolina November 21, 2013

Therry Bekaert LLP

CATAWBA VALLEY COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2013

2013-01 Material Weakness in Controls over Financial Reporting

- a. Criteria: Controls over financial reporting should ensure that the appropriate year-end closing entries are identified and recorded for financial statement reporting purposes to ensure that no significant or material journal entries would result from the audit process.
- Condition: During our audit, we identified corrections to the general ledger that materially impacted the financial statements.
- c. **Cause:** The corrections were due to an oversight on the part of the College with regard to year end closing procedures and application accounting standards regarding capitalizing certain renovation expenditures.
- d. **Effect:** There is a risk that the financial statements might be materially misstated if there are not sufficient controls in place over the financial reporting process.
- e. **Recommendation:** The College should reduce the variance threshold that is used during the analytical review process and perform a more detailed review of the financial statements including a thorough review of the financial statements in comparison to the reporting checklist and prior year closing entries. In the future, infrequent or unusual transactions should be reviewed for the appropriate accounting treatment or changes that may have occurred in accounting treatment since the previous occurrence of the transaction. The College should develop a detailed year-end financial reporting checklist for its internal use. This checklist should, at a minimum, encompass matters covered by the most recent checklist issued by the System's office, but should further consider any changes that should be made to update that checklist to allow for an accurate and complete year-end close.
- f. **Management response and corrective action plan:** The College concurs with the recommendation and has implemented additional procedures to ensure the completeness and accuracy of the financial statements. The Chief Business Administrator will conduct an extensive review that will incorporate additional steps to capture the deficiencies noted.