STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE

HUDSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

Financial Statement Audit Report Of

Caldwell Community College and Technical Institute

Hudson, North Carolina

For the Year Ended June 30, 2002

STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Caldwell Community College and Technical Institute

This report presents the results of our financial statement audit of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report* (CAFR) and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report,* the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Caldwell Community College and Technical Institute. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Caldwell Community College and Technical Institute. A summary of our reporting objectives and audit results is:

1. **Objective** – To express an opinion on the accompanying financial statements that relate solely to Caldwell Community College and Technical Institute.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective –** To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following significant deficiencies in internal control over financial reporting were noted as a result of our audit:

   Finding

   1. Financial Statement Presentation

   2. Internal Controls Over Bank Reconciliations

   These matters are described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

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.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Caldwell Community College and Technical Institute
Hudson, North Carolina

We have audited the accompanying basic financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caldwell Community College and Technical Institute as of June 30, 2002, 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. 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

March 24, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Basic Financial Statements

Effective July 1, 2001, the College implemented new accounting and reporting standards required by the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Under these new standards, the presentation the College now uses for financial information is similar to that required of private colleges and the College uses reporting concepts in a manner similar to that required of a business enterprise. Prior to July 1, 2001, the College reported its financial information using a fund structure presentation.

The new reporting requirements include Management's Discussion and Analysis (MD&A), the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and Financial Statement Note Disclosures.

This part of the financial report, Management's Discussion and Analysis, provides an introduction and overview to assist the reader in interpreting and understanding the basic financial statements. Currently known facts, decisions, or conditions are discussed in management's analysis of financial position and results of operations. While comparative analysis with the prior year financial report is important to understanding the College's financial position and results of operations, its use in the year the new accounting and reporting standards are implemented is not advisable. Comparative analysis will be presented next year.

The Statement of Net Assets provides information relative to the College's assets, liabilities, and net assets as of the last day of the fiscal year, June 30th. Assets and liabilities on this statement are categorized as either current or noncurrent. Current assets are those that are available to pay for expenses in the next fiscal year. Current liabilities are those payable in the next fiscal year. Net assets on this statement are categorized as either invested in capital assets (net of related debt), restricted, or unrestricted. Restricted net assets are categorized as either nonexpendable or expendable. Overall, the Statement of Net Assets provides information relative to the financial strength of the College and its ability to meet current and long-term obligations.

The Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the results of the College's operations, nonoperating activities, and other activities affecting net assets which occurred during the fiscal year ended June 30th. Nonoperating activities include primarily subsidies from the State in the form of appropriations, noncapital gifts and grants, interest expense on financing activities, investment income (net of investment expenses), and loss on the disposition of capital assets. Other activities include capital gifts or grants and additions to permanent endowments. Overall the Statement of Revenues, Expenses, and Changes in Net Assets provides information relative to the College's management of its operations and its ability to maintain its financial strength.

The Statement of Cash Flows provides information relative to the College's sources and uses of cash funds for operating activities, noncapital financing activities, capital financing activities, and investing activities. This statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of activity reported on the Statement of Revenues, Expenses, and Changes in Net Assets as adjusted for changes in beginning and ending balances of non-cash accounts on the Statement of Net Assets.

The Financial Statement Note Disclosures provide information relative to the significant accounting principles applied in the financial statements, authority for and associated risk of deposits and investment, detailed information on long-term liabilities, detailed information on accounts receivable, accounts payable, revenues and expenses, required information on pension plans and other post employment benefits, insurance against losses, commitments and contingencies, accounting changes, and, if necessary, a discussion of adjustments to prior periods and events subsequent to the College's financial statement period. Overall, the Financial Statement Note Disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the Financial Statements.

Analysis Of Financial Position And Results Of Operations

The College's financial position remains strong with net assets of $27,644,916, an increase of $406,857. The strength of the College's financial position is attributed to factors including enrollment growth, improvements to campus facilities, increased funding for federal grants, and appropriated funds from the State of North Carolina.

Budgeted FTE (full-time equivalent) increased from 2851 in the 2000-2001 year to 3017 in 2001-2002. This resulted in an equivalent increase in State appropriations. During the year, work progressed on the Distance Learning project, Watauga Site Prep, and the Northeast Site Project. These projects were made possible by State general obligation bonds. These projects will continue into next year and additional projects will be funded through fiscal year 2004. Funding for the Title III program and Student Support Services increased a total of $168,910.

Condensed Financial Information

The following table summarizes the College's assets, liabilities, and net assets as of June 30, 2002.

Condensed Statement of Net Assets
June 30, 2002

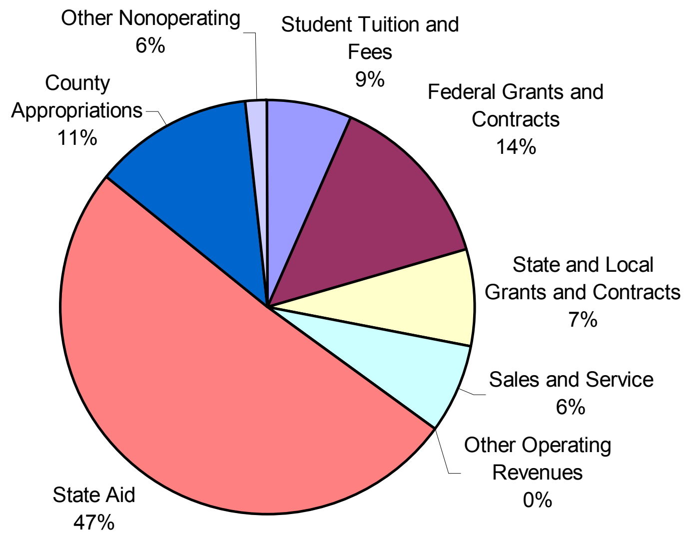
	Amount	Percent
Assets:		
Current Assets	$ 2,521,333	8.68%
Capital Assets, Net	25,051,739	86.27%
Other Noncurrent Assets	1,466,256	5.05%
Total Assets	29, 039,328	100.00%
Liabilities:		
Current Liabilities	511,053	36.65%
Noncurrent Liabilities	883,359	63.35%
Total Liabilities	1,394,412	100.00%
Net Assets:		
Invested in Capital Assets, Net of Related Debt	24,922,996	90.15%
Restricted		
Nonexpendable	359,095	1.30%
Expendable	1,985,044	7.18%
Unrestricted	377,781	1.37%
Total Net Assets	$ 27,644,916	100.00%

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the College's operations for the report period. The following table summarizes the College's revenues, expenses, and changes in net assets for the year ended June 30, 2002.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

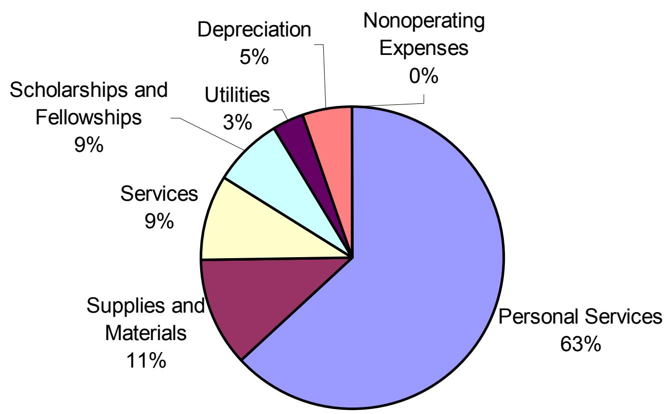
	Amount
Operating Revenues	$ 8,628,142
Operating Expenses	23,294,444
Operating Loss	(14,666,302)
Nonoperating Revenues	14,149,257
Nonoperating Expenses	(147,482)
Loss Before Other Revenues and Expenses	(664,527)
Other Revenues	1,071,384
Increase in Net Assets	406,857
Net Assets Beginning of Year (Restated)	27,238,059
Net Assets End of Year	$ 27,644,916

While the College shows an operating loss, this is an expected outcome for public colleges under the new accounting and reporting requirements. The operating loss occurs as a result of the new requirement to report State appropriations and gifts as other than operating revenue. In all, the College increased its net assets by $408,857. The following is a graphic illustration of revenues by source (both operating and nonoperating):



As a result of the new accounting and reporting standards, tuition and fees are now shown net of amounts received in other revenue accounts for student financial aid. This method of net reporting is referred to as discounting. In addition, sales and services are now shown net of amounts charged internally to other College departments. This method of net reporting is referred to as elimination of internal sales. These changes remove the duplication of revenues and expenses on the College's financial statements as a whole. In prior years these items were shown as revenues and expenses as required in the fund based financial statements.

The following chart summarizes the College's expenses (operating and nonoperating) for the reporting period:



As a result of the new accounting and reporting standards, operating expenses are reduced for discounting and the elimination of internal sales. Scholarships and fellowships now represent payments to students exclusive of tuition and fees amounts received from other college revenue sources. In addition, depreciation is now recorded to report the utilization of long-lived assets. In prior years, capital assets were shown at historical cost with no depreciation.

The Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. The following table summarizes the College's cash receipts and payments for the year ended June 30, 2002:

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

	Amounts
Cash Provided/(Used) by:	
Operating Activities	$ (13,432,355)
Noncapital Financing Activities	14,081,065
Capital and Related Financing Activities	(418,011)
Investing Activities	53,947
Net Increase in Cash	284,646
Cash-Beginning of the Year	1,682,716
Cash-Ending of the Year	$ 1,967,362

Capital Assets Activities

With the passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, the College is in excellent position to improve and modernize its facilities. The Referendum provided $7,031,041 in State funds to the College over a six-year period beginning in fiscal year 2001. The projects financed by these bonds are listed in detail in the Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.

Economic Forecast

Management believes that the College is well-positioned to continue its strong financial condition and level of excellence in service to students, the community, and governmental agencies. The College's strong financial position, as evidenced by its continued growth in enrollment, acquisition of grant funding from the federal government and other sources, and its access to capital construction funding from North Carolina bond issue will provide a high degree of flexibility in supporting expected growth in the future. This flexibility, along with the College's ongoing efforts toward revenue enhancement and cost containment, will enable the College to provide the necessary resources to support this level of excellence.

A crucial element of the College's future will continue to be our relationship with the State of North Carolina. Education continues to be recognized as an investment in North Carolina's future and is well supported by the State of North Carolina General Assembly and North Carolina's citizens. The State continues to fully fund enrollment increase, providing substantial additional resources to the College.

While it is not possible to predict all future events, management believes that the College's financial condition is strong enough to weather any foreseeable economic uncertainties.

Caldwell Community College and Technical Institute
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,052,105.38
Restricted Cash and Cash Equivalents		768,513.56
Short-Term Investments		150,000.00
Restricted Short-Term Investments		165,000.00
Receivables, Net (Note 3)		88,917.90
Due from Primary Government		10,237.32
Inventories		286,559.08
Total Current Assets		2,521,333.24
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		146,744.00
Restricted Due from Primary Government		1,319,512.23
Capital Assets, Net (Note 4)		25,051,738.78
Total Noncurrent Assets		26,517,995.01
Total Assets		29,039,328.25
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		224,052.44
Funds Held for Others		153,543.75
Long-Term Liabilities - Current Portion (Note 6)		133,457.33
Total Current Liabilities		511,053.52
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		883,358.89
Total Noncurrent Liabilities		883,358.89
Total Liabilities		1,394,412.41
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		24,922,996.30
Restricted For:		
Nonexpendable:		
Scholarships and Fellowships		254,094.53
Other		105,000.00
Expendable:		
Scholarships and Fellowships		312,533.42
Capital Projects		1,208,396.82
Other		464,113.80
Unrestricted		377,780.97
Total Net Assets	$	27,644,915.84

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

Caldwell Community College and Technical Institute		
Statement of Revenues, Expenses, and Changes in Net Assets		
For the Fiscal Year Ended June 30, 2002		***Exhibit B***
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	2,220,228.66
Federal Grants and Contracts		3,302,730.70
State and Local Grants and Contracts		1,732,623.14
Sales and Services, Net (Note 8)		1,343,370.77
Other Operating Revenues		29,189.21
Total Operating Revenues		8,628,142.48
EXPENSES		
Operating Expenses:		
Personal Services		14,579,091.20
Supplies and Materials		2,459,662.97
Services		2,104,527.68
Scholarships and Fellowships		2,154,201.19
Utilities		786,069.41
Depreciation		1,210,892.35
Total Operating Expenses		23,294,444.80
Operating Loss		(14,666,302.32)
NONOPERATING REVENUES (EXPENSES)		
State Aid		11,173,531.16
County Appropriations		2,568,115.00
Noncapital Gifts, Net (Note 8)		349,656.28
Investment Income, Net		57,954.53
Other Nonoperating Expenses		(147,481.58)
Net Nonoperating Revenues		14,001,775.39
Loss Before Other Revenues, Expenses, Gains, and Losses		(664,526.93)
State Capital Aid		735,083.84
County Capital Appropriations		336,300.00
Increase in Net Assets		406,856.91
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		27,238,058.93
Net Assets, June 30, 2002	$	27,644,915.84
The accompanying notes to the financial statements are an integral part of this statement.		

Caldwell Community College and Technical Institute
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 8,769,657.61
Payments to Employees and Fringe Benefits	(14,599,448.92)
Payments to Vendors and Suppliers	(5,370,015.94)
Payments for Scholarships and Fellowships	(2,154,201.19)
Other Payments	(78,346.99)
Net Cash Used by Operating Activities	(13,432,355.43)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	11,173,531.16
County Appropriations	2,568,115.00
Noncapital Grants Received	(10,237.32)
Noncapital Gifts and Endowments Received	349,656.28
Net Cash Provided by Noncapital Financing Activities	14,081,065.12
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	(320,829.16)
County Capital Appropriations	336,300.00
Capital Grants Received	70,862.97
Acquisition and Construction of Capital Assets	(435,835.76)
Principal Paid on Capital Debt and Leases	(68,508.57)
Net Cash Used by Capital and Related Financing Activities	(418,010.52)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Investments	57,947.45
Purchase of Investments and Related Fees	(4,000.00)
Net Cash Provided by Investing Activities	53,947.45
Net Increase in Cash and Cash Equivalents	284,646.62
Cash and Cash Equivalents, July 1, 2001	1,682,716.32
Cash and Cash Equivalents, June 30, 2002	$ 1,967,362.94

Caldwell Community College and Technical Institute
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Page 2
Exhibit C

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(14,666,302.32)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,210,892.35
Miscellaneous Nonoperating Income		(121,484.97)
Changes in Assets and Liabilities:		
Receivables, Net		141,515.13
Inventories		3,009.70
Accounts Payable and Accrued Liabilities		(190,439.96)
Funds Held for Others		43,137.98
Compensated Absences		147,316.66
Net Cash Used by Operating Activities	$	(13,432,355.43)
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Increase in Receivables Related to Nonoperating Income	$	1,066,150.32

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Caldwell Community College and Technical Institute 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

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* effective for the College's year ended June 30, 2002, the full scope of the College's activities is considered to be a single business-type activity (BTA) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

D. Cash and Cash Equivalents – This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool). The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. Investments - This classification consists of certificates of deposit held by the College. Certificates of deposit 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 charges 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.

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

H. Capital Assets – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of one or more years. Library books are expensed.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 15 to 40 years for buildings, and 3 to 15 years for equipment.

I. **Restricted Assets** – Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

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

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

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

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

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

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

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

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

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

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

N. **Revenue and Expense Recognition** – The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges, and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either capital or noncapital financing or investing activities. Operating expenses are all expense transactions incurred other than those related to capital or noncapital financing or investing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

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 by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was $2,900.00. The carrying amount of cash on deposit was $2,279,462.94 and the bank balance was $2,669,825.06.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 786,694.35	$ 786,694.37
Cash on Deposit with Private Financial Institutions	1,492,768.59	1,883,130.69
	$ 2,279,462.94	$ 2,669,825.06

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with General Statutes 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2002, $300,000.00 of the bank balance was covered by federal depository insurance, 1,583,130.69 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

B. Investments –The College is authorized to invest idle funds as provided by General Statute 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 General Statute 159-30(c), as follows: 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 non-guaranteed 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.

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

At June 30, 2002, the College held certificates of deposit in the amount of $315,000.00 which are not subject to categorization of custodial credit risk. The aforementioned certificates of deposit are a component of the deposit totals reported in the deposits section of this note.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 75,068.64	$ 14,874.16	$ 60,194.48
Accounts	2,907.93		2,907.93
Intergovernmental	22,456.68		22,456.68
Investment Earnings	3,358.81		3,358.81
Total Current Receivables	$ 103,792.06	$ 14,874.16	$ 88,917.90

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance July 1, 2001	Increases	Decreases	Balance June 30, 2002
Capital Assets, Non-Depreciable:				
Land	$ 2,600,165.45	$ 82,694.10	$ 0.00	$ 2,682,859.55
Capital Assets, Depreciable:				
Buildings	26,061,017.56			26,061,017.56
Machinery and Equipment	3,795,024.10	353,141.66	132,815.66	4,015,350.10
General Infrastructure	645,892.33			645,892.33
Total Capital Assets, Depreciable	30,501,933.99	353,141.66	132,815.66	30,722,259.99
Less Accumulated Depreciation:				
Buildings	5,048,084.98	661,258.80		5,709,343.78
Machinery and Equipment	1,926,547.22	502,726.06	106,819.05	2,322,454.23
General Infrastructure	274,675.26	46,907.49		321,582.75
Total Accumulated Depreciation	7,249,307.46	1,210,892.35	106,819.05	8,353,380.76
Total Capital Assets, Depreciable, Net	23,252,626.53	(857,750.69)	25,996.61	22,368,879.23
Capital Assets, Net	$ 25,852,791.98	$ (775,056.59)	$ 25,996.61	$ 25,051,738.78

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2002 were as follows:

	Amount
Accounts Payable	$ 116,882.82
Accrued Payroll	107,169.62
Total Accounts Payable and Accrued Liabilities	$ 224,052.44

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Current Portion
Notes and Capital Leases Payable					
Capital Leases Payable	$ 197,251.05	$ 0.00	$ 68,508.57	$ 128,742.48	$ 72,152.86
Compensated Absences	740,757.08	673,736.22	526,419.56	888,073.74	61,304.47
Total Long-Term Liabilities	$ 938,008.13	$ 673,736.22	$ 594,928.13	$ 1,016,816.22	$ 133,457.33

Additional information regarding capital lease obligations is included in Note 7.

NOTE 7 - LEASE OBLIGATIONS

A. Capital Lease Obligations - Capital lease obligations relating to a telephone system are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

Fiscal Year	Amount
2003	$ 77,138.16
2004	57,853.62
Total Minimum Lease Payments	134,991.78
Amount Representing Interest (8.2% Rate of Interest)	6,249.30
Present Value of Future Lease Payments	$ 128,742.48

Leased assets amounted to $427,976.87 at June 30, 2002.

B. Operating Lease Obligations - Rental expense for all operating leases during the year was $61,661.96.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less: Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 2,900,456.35	$ 662,727.19	$ 17,500.50	$ 2,220,228.66
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,196,928.10	$ 273,328.16	$ 3,110.34	$ 920,489.60
Other	279,807.00			279,807.00
Sales and Services of Educational and Related Activities	143,074.17			143,074.17
Total Sales and Services	$ 1,619,809.27	$ 273,328.16	$ 3,110.34	$ 1,343,370.77
Nonoperating - Noncapital Gifts	$ 349,656.28	$ 0.00	$ 0.00	$ 349,656.28

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	$ 8,345,544.36	$ 367,900.33	$ 478,973.09	$ 76,155.80	$ 12,158.45	$ 0.00	$ 9,280,732.03
Academic Support	1,253,610.27	94,108.11	77,955.24				1,425,673.62
Student Services	1,336,378.26	33,122.08	44,246.95	77,169.58	422.87		1,491,339.74
Institutional Support	2,700,808.37	312,179.71	485,450.11	30,490.25	83,880.83		3,612,809.27
Operations and Maintenance of Plant	771,363.46	647,411.55	563,429.55		689,607.26		2,671,811.82
Student Financial Aid			2,043.42	1,961,812.49			1,963,855.91
Auxiliary Enterprises	171,386.48	1,004,941.19	452,429.32	8,573.07			1,637,330.06
Depreciation						1,210,892.35	1,210,892.35
Total Operating Expenses	$ 14,579,091.20	$ 2,459,662.97	$ 2,104,527.68	$ 2,154,201.19	$ 786,069.41	$ 1,210,892.35	$ 23,294,444.80

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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, members of the Teachers' and State Employees' Retirement System qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.81% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

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, 2002, these rates were set at 1.97% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2002, the College had a total payroll of $12,009,669.66, of which $10,209,319.13 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $612,559.15 and $201,123.59, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $201,123.59, $491,891.90, and $712,970.87, respectively.

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

B. 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. The voluntary contributions by employees amounted to $175,633.09 for the year ended June 30, 2002.

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 non-profit 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 $42,417.88 for the year ended June 30, 2002.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

A. **Health Care for Long-Term Disability Beneficiaries and Retirees** - The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 2.35% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2002, the College's total contribution to the Plan was $239,919.00. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report.*

B. **Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2002, the College's total contribution to the DIPNC was $53,088.46. 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.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $11,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

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

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

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. All employees are covered by a contract with a private insurance company with coverage of $100,000 per occurrence and a $1,000 deductible.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor. Effective for the October 1, 2001 through

September 30, 2002 year, the Plan no longer offers health coverage through HMO plans.

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

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. Outstanding commitments on construction contracts were $771,674.80 at June 30, 2002.

B. **Community College General Obligation Bonds** – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds are authorized to be issued over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO), establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization $5,975,428.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - THE FOUNDATION OF CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE, INC.

The Foundation of Caldwell Community College and Technical Institute, Inc. is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated $358,416.71 for the year ended June 30, 2002.

NOTE 15 - ACCOUNTING CHANGES

Effective July 1, 2001, the College implemented 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 financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent, and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* Changes in existing disclosures include more detailed information on obligations under leases. New disclosures include the major components of receivable and payable balances.

NOTE 16 - NET ASSET RESTATEMENT

As referred to in Note 15, the College implemented 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.*

July 1, 2001 Fund Equity as previously reported	$	35,595,792.79
Implementation of GASB 34/35		(8,357,733.86)
July 1, 2001 Net Assets as Restated	$	27,238,058.93

Caldwell Community College & Technical Institute
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2002

Schedule 1

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
Projects Approved by the State Board							
Northeast Site Project	Sep 2004	$ 600,000.00	$ 419,780.56	$ 1,019,780.56	$ 48,150.40	4.72%	May 2006
Watauga Site Preparation	Jan 2001	888,000.00		888,000.00	42,665.10	4.80%	Jun 2003
Distance Learning - Renovations	Jan 2001	535,000.00	10,000.00	545,000.00	28,672.20	5.26%	Mar 2003
Projects Pending Approval by the State Board							
Renovations B & D Buildings	Mar 2002	1,000,000.00		1,000,000.00			Mar 2004
Civic Center - Renovations	Feb 2002	1,291,000.00		1,291,000.00			Apr 2004
Transportation Center - Site Work and New Construction	Sep 2004	934,831.00		934,831.00			May 2006
Renovations - Existing Facilities	Jun 2004	247,800.00		247,800.00			Feb 2005
New Construction and Renovations	Feb 2003	1,534,710.00		1,534,710.00			Apr 2005
Total All Projects		$ 7,031,341.00	$ 429,780.56	$ 7,461,121.56	$ 119,487.70		

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of six hundred million dollars of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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

Board of Trustees
Caldwell Community College and Technical Institute
Hudson, North Carolina

We have audited the financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 24, 2003.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board 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* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* during the year ended June 30, 2002.

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.

Compliance

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 grants, 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.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The following reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Financial Statement Presentation

2. Internal Controls Over Bank Reconciliations

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe both of the reportable conditions described above are material weaknesses.

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor
March 24, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations – The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control.

1. FINANCIAL STATEMENT PRESENTATION

   The College's June 30, 2002 financial statements and related notes contained material misstatements. Overstatements and understatements in the financial statements and related notes were not detected and corrected by the College prior to submitting their financial package to the Office of the State Controller.

   The most significant of these issues include not capitalizing land improvement costs associated with approved bond construction projects, not recording the capital lease portion of an asset, not disclosing outstanding commitments on construction projects, omitting expenses for approved bond construction projects, and not maintaining and providing adequate supporting documentation to track all expenses incurred by the College.

   Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material errors and misstatements in a timely manner by employees performing their normal assigned duties.

   Recommendation: We recommend that the College implement controls to ensure that the financial statements are reviewed and material misstatements and presentation errors are detected and corrected prior to submission of the statements and related notes to the Office of the State Controller.

   College's Response: The College recognizes the importance of an accurate and fair presentation of our financial position. We strive to ensure that our year-end financial statements are free of material errors and misstatements. CCC&TI is a pilot site for the implementation of the new community college accounting system. Unforeseen problems with the implementation have affected our ability to effectively collect and report financial information. These problems are not limited to CCC&TI but have affected all of the pilot colleges. The problems have been identified and are being addressed both at the College and on a system-wide level. Significant progress has been made in resolving the problems. If all the corrections that have been promised are delivered, the system should present no obstacle to the timely and accurate completion of the financial statements for 2002-2003.

In addition, we have restructured the Finance department to more evenly distribute the year-end workload. Each person involved understands the importance of accuracy and adequate documentation.

2. INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The College did not properly complete reconciliations of their special funds bank account for eleven months during the 2001-2002 fiscal year. Bank reconciliations for the local funds bank account were not prepared timely for nine months during the fiscal year. The College did perform some reviews of the transactions listed on the bank statements. However, interest earnings and charges in these accounts were not consistently and properly posted to the general ledger in a timely manner. Interest earnings from the STIF account were not posted timely for eight months during the fiscal year. Implementation of the new Colleague accounting software contributed in part to the College's inability to balance and complete the bank reconciliation process for all months during the audit year.

Recommendation: For adequate internal controls over cash, we recommend that the College reconcile bank statements and post reconciling items in a timely manner. These internal controls should include a review process to ensure that the bank reconciliations are prepared properly and timely.

College's Response: The College agrees that bank reconciliations should be prepared in a timely and accurate manner. Problems with the software implementation made it difficult to complete timely bank reconciliations during the audit year. The College did, however, clear checks and verify deposits and charges as the bank statements were received. We believe that these alternate procedures would have allowed us to discover any questionable or fraudulent transactions in time to take corrective action. The bank reconciliations did show variances as a result of inaccurate postings resulting from the migration to the new system, thus we were unable to clear those variances on a monthly basis. All variances were corrected and all interest and fee postings were completed prior to the end of the fiscal year in order to maintain adequate internal controls over cash.

We remain committed to the full completion of bank reconciliations, including posting interest and fees, in the month they are received.

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May 19, 2003

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