STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

CATAWBA VALLEY COMMUNITY COLLEGE

HICKORY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

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HICKORY, 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, Catawba Valley Community College

This report presents the results of our financial statement audit of Catawba Valley Community College, 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 Catawba Valley Community College. 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 Catawba Valley Community College. 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 Catawba Valley Community College.

   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 and instances of noncompliance were noted as a result of our audit:

   Finding

   1. Financial Statement Package Not Completed On Time
   2. Financial Statement Presentation
   3. 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

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Catawba Valley Community College
Hickory, North Carolina

We have audited the accompanying basic financial statements of Catawba Valley Community College, 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 Catawba Valley Community College 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 February 13, 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 6 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

February 13, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Catawba Valley Community College, 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, 2002. We encourage readers to consider this information in conjunction with the College's financial statements and the footnotes to the financial statements.

Overview of the Financial Statements

Effective July 1, 2001, the College implemented GASB Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements—Management's Discussion and Analysis—for Public Colleges and Universities*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting.

Basic Financial Statements

The basic financial statements for the College include the following:

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

The Statement of Net Assets as well as the Statement of Revenues, Expenses, and Changes in Net Assets are shown in classified format. This will show the distinction between current and noncurrent assets, liabilities, revenues, and expenses. 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. A Bond Schedule providing a summary of the current and upcoming bond projects proposed by the College is shown following the notes to the financial statements.

Financial Information

In future years, when prior-year information is available, a comparative analysis will be presented.

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

- Curriculum enrollment increased 9% for fiscal year 01-02.
- Fiscal year 01-02 tuition rates reflected an increase of 13% with an approved 02-03 increase of 10%.
- Due to Cash Flow shortages, Certifications were cut for May and June 2002, which led to decreases in equipment and other expenditures.
- The State budget was received in October 2001 with funds being reverted back to the state equaling $327,679.93, or 2.3%.
- Catawba County government budget for CVCC increased 3% from 00-01.
- Funds for capital projects from the county decreased by $472,741.00 in 01-02.

Condensed Financial Statements

Statement of Net Assets

Assets	
Current Assets	$ 3,140,058.17
Noncurrent Assets	
Capital Assets, Net	15,466,782.86
Other	239,511.94
Total Assets	18,846,352.97
Liabilities	
Current Liabilities	359,230.74
Noncurrent Liabilities	669,498.89
Total Liabilities	1,028,729.63
Net Assets	
Invested in Capital Assets	15,466,782.86
Restricted	924,700.64
Unrestricted	1,426,139.84
Total Net Assets	$ 17,817,623.34

Statement of Revenues, Expenses, and Changes in Net Assets

Operating Revenues	
Tuition and Fees	$ 3,334,767.64
Federal Grants and Contracts	2,840,771.99
State Grants and Contracts	304,778.36
Sales and Services	2,091,897.84
Other	5,863.74
Total Operating Revenues	8,578,079.57
Less Operating Expenses	22,701,903.64
Net Operating Loss	(14,123,824.07)
Nonoperating Revenues and Other Revenues	
State Aid	11,134,991.28
County Appropriations	1,904,251.92
Noncapital Contributions	130,287.71
Other	1,508,598.73
Total Nonoperating Revenues and Other Revenues	14,678,129.64
Increase in Net Assets	554,305.57
Net Assets, Restated	17,263,317.77
Net Assets Ending	$ 17,817,623.34

The College's net assets at fiscal year ended June 30, 2002 was $17,817,623.34, an increase of $554,305.57, or 3.21% over the previous year, $17,263,317.77, as restated. Of the total net assets, $15,466,782.86, or 86.81% was invested in capital assets with unrestricted assets of $1,426,139.84, or 8% and restricted assets of $924,700.64, or 5.19%.

Total liabilities at fiscal year ended June 30, 2002 were $1,028,729.63, with current liabilities being $359,230.74 and noncurrent liabilities being $669,498.89. Current liabilities are those that will be paid within one year, while noncurrent liabilities will not become due within one year.

Total revenues at fiscal year ended June 30, 2002 were $23,256,209.21, with operating revenues of $8,578,079.57 or 36.9%, nonoperating revenues of $13,249,468.80 or 57.0%, and other capital related revenues of $1,428,660.84 or 6.1%. The major revenue sources received were from the State, county, and federal governments totaling $17,613,454.39.

The College's largest expense was in the area of personal services, totaling $14,617,960.81. Other areas of expenses are for supplies and materials, services, scholarships and fellowships, and utilities totaling $7,430,417.02.

During the year the College had two capital projects in process—the Maintenance Building and Classroom Lab Building. Total construction in progress was $508,327.63 at year-end. This included an increase of $481,001.90 from the prior year.

Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2002, the College had not received any official information on the 2002-2003 budget. However, the State of North Carolina is encountering a budget crisis and the College anticipates further decreases in revenue in the upcoming year.

Catawba Valley Community College
Statement of Net Assets
June 30, 2002

Exhibit A

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	1,686,017.20
Restricted Cash and Cash Equivalents		428,711.30
Receivables (Note 3)		769,755.23
Due from Primary Government		71,832.12
Inventories		183,742.32
Total Current Assets		3,140,058.17
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		70,531.94
Restricted Due from Primary Government		168,980.00
Capital Assets, Net (Note 4)		15,466,782.86
Total Noncurrent Assets		15,706,294.80
Total Assets		18,846,352.97
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		340,938.70
Long-Term Liabilities - Current Portion (Note 6)		18,292.04
Total Current Liabilities		359,230.74
Noncurrent Liabilities:		
Funds Held for Others		60,522.71
Long-Term Liabilities (Note 6)		608,976.18
Total Noncurrent Liabilities		669,498.89
Total Liabilities		1,028,729.63
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		15,466,782.86
Restricted For:		
Expendable:		
Scholarships and Fellowships		120,367.33
Capital Projects		150,048.85
Other		654,284.46
Unrestricted		1,426,139.84
Total Net Assets	$	17,817,623.34

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

Catawba Valley Community College		
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)	$	3,334,767.64
Federal Grants and Contracts		2,840,771.99
State and Local Grants and Contracts		304,778.36
Sales and Services, Net (Note 8)		2,091,897.84
Other Operating Revenues		5,863.74
Total Operating Revenues		8,578,079.57
EXPENSES		
Operating Expenses:		
Personal Services		14,617,960.81
Supplies and Materials		3,010,229.70
Services		1,974,758.80
Scholarships and Fellowships		1,876,233.49
Utilities		569,195.03
Depreciation		653,525.81
Total Operating Expenses		22,701,903.64
Operating Loss		(14,123,824.07)
NONOPERATING REVENUES:		
State Aid		11,134,991.28
County Appropriations		1,904,251.92
Noncapital Gifts (Note 8)		130,287.71
Investment Income		79,715.68
Other Nonoperating Revenues		222.21
Net Nonoperating Revenues		13,249,468.80
Loss Before Other Revenues, Expenses, Gains, and Losses		(874,355.27)
State Capital Aid		918,837.40
County Capital Appropriations		509,823.44
Increase in Net Assets		554,305.57
NET ASSETS		
Net Assets, July 1, 2001 as Restated (Note 16)		17,263,317.77
Net Assets, June 30, 2002	$	17,817,623.34
The accompanying notes to the financial statements are an integral part of this statement.		

Catawba Valley Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Exhibit C

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	8,456,515.81
Payments to Employees and Fringe Benefits		(14,491,854.74)
Payments to Vendors and Suppliers		(5,423,002.03)
Payments for Scholarships and Fellowships		(1,876,233.49)
Other Receipts		2,653.75
Net Cash Used by Operating Activities		(13,331,920.70)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,134,991.28
County Appropriations		1,904,251.92
Noncapital Grants Received		(430,357.31)
Noncapital Gifts and Endowments Received		130,287.71
Net Cash Provided by Noncapital Financing Activities		12,739,173.60
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		765,857.40
County Capital Appropriations		509,823.44
Proceeds from Sale of Capital Assets		222.21
Acquisition and Construction of Capital Assets		(679,758.93)
Net Cash Provided by Capital and Related Financing Activities		596,144.12
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments		80,815.23
Net Cash Provided by Investing Activities		80,815.23
Net Increase in Cash and Cash Equivalents		84,212.25
Cash and Cash Equivalents, July 1, 2001		2,101,048.19
Cash and Cash Equivalents, June 30, 2002	$	2,185,260.44
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:		
Operating Loss	$	(14,123,824.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		653,525.81
Changes in Assets and Liabilities:		
Receivables, Net		(121,563.76)
Inventories		(15,009.34)
Accounts Payable and Accrued Liabilities		268,118.62
Funds Held for Others		2,653.75
Compensated Absences		4,178.29
Net Cash Used by Operating Activities	$	(13,331,920.70)
Noncash Investing, Capital, and Financing Activities:		
Increase in Receivables Related to Nonoperating Income		583,337.31

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

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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. 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 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. **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 at book value with no provision for doubtful accounts considered necessary.

F. **Inventories** – Inventories, consisting of expendable supplies, merchandise for resale, and fuel oil held for consumption, are stated at the lower of cost or market value 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 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, 10 to 50 years for buildings, and 3 to 15 years for equipment.

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

I. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consist of 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 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.

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

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

Invested in Capital Assets – This represents the College's total investment in capital assets.

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

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

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

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

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 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.

M. 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.

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.

NOTE 2 - 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 $1,975.00. The carrying amount of cash on deposit was $2,183,285.44 and the bank balance was $2,409,809.61.

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	$ 1,327,681.81	$ 1,327,681.81
Cash on Deposit with Private Financial Institutions	855,603.63	1,082,127.80
	$ 2,183,285.44	$ 2,409,809.61

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, $100,000.00 of the bank balance was covered by federal depository insurance and $982,127.80 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 - RECEIVABLES

Receivables at June 30, 2002 were as follows:

	Amount
Current Receivables:	
Students	$ 226,980.19
Accounts	31,141.71
Intergovernmental	483,777.11
Investment Earnings	5,343.71
Other	22,512.51
Total Current Receivables	$ 769,755.23

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	$ 1,389,489.82	$ 0.00	$ 0.00	$ 1,389,489.82
Construction in Progress	27,325.73	481,001.90		508,327.63
Total Capital Assets, Non-Depreciable	1,416,815.55	481,001.90		1,897,817.45
Capital Assets, Depreciable:				
Buildings	21,001,591.76			21,001,591.76
General Infrastructure	960,482.16			960,482.16
Machinery and Equipment	3,930,261.40	198,757.03	42,498.69	4,086,519.74
Total Capital Assets, Depreciable	25,892,335.32	198,757.03	42,498.69	26,048,593.66
Less Accumulated Depreciation:				
Buildings	8,784,568.62	414,710.53		9,199,279.15
General Infrastructure	960,482.16			960,482.16
Machinery and Equipment	2,123,550.35	238,815.28	42,498.69	2,319,866.94
Total Accumulated Depreciation	11,868,601.13	653,525.81	42,498.69	12,479,628.25
Total Capital Assets, Depreciable, Net	14,023,734.19	(454,768.78)		13,568,965.41
Capital Assets, Net	$ 15,440,549.74	$ 26,233.12	$ 0.00	$ 15,466,782.86

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	$ 183,316.09
Accrued Payroll	135,591.38
Contract Retainage	22,031.23
Total Accounts Payable and Accrued Liabilities	$ 340,938.70

NOTE 6 - LONG-TERM LIABILITIES

Changes in 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
Compensated Absences	$ 623,089.93	$ 467,564.12	$ 463,385.83	$ 627,268.22	$ 18,292.04

NOTE 7 - OPERATING LEASE OBLIGATIONS

Rental expense for all operating leases during the year was $101,089.40.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 3,733,129.19	$ 0.00	$ 398,361.55	$ 3,334,767.64
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	$ 1,504,635.26	$ 11,373.09	$ 160,350.30	$ 1,332,911.87
Child Development Cener	306,598.96			306,598.96
Other	229,292.28			229,292.28
Sales and services of Educational and Related Activities	223,094.73			223,094.73
Total Sales and Services	$ 2,263,621.23	$ 11,373.09	$ 160,350.30	$ 2,091,897.84
Nonoperating - Noncapital Gifts	$ 130,287.71	$ 0.00	$ 0.00	$ 130,287.71

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	$ 9,374,864.01	$ 687,441.49	$ 651,032.06	$ 935.00	$ 52,951.50	$ 0.00	$ 10,767,224.06
Academic Support	1,495,176.10	86,370.53	57,236.07		2,727.67		1,641,510.37
Student Services	1,034,302.90	42,403.64	117,651.62	22,606.92	4,816.60		1,221,781.68
Institutional Support	2,149,368.25	188,840.01	474,393.15				2,812,601.41
Operations and Maintenance of Plant	451,555.48	774,411.00	568,595.41		508,111.83		2,302,673.72
Student Financial Aid			5,330.45	1,849,435.57			1,854,766.02
Auxiliary Enterprises	112,694.07	1,230,763.03	100,520.04	3,256.00	587.43		1,447,820.57
Depreciation						653,525.81	653,525.81
Total Operating Expenses	$ 14,617,960.81	$ 3,010,229.70	$ 1,974,758.80	$ 1,876,233.49	$ 569,195.03	$ 653,525.81	$ 22,701,903.64

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 $12,453,535.55, of which $10,204,686.39 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $612,281.18 and $201,032.32, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2002, 2001, and 2000, which were $201,032.32, $524,260.86, and $773,447.28, 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 $189,250.00 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 $112,289.16 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 $239,810.13. 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 $53,064.37. 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 contracts with private insurance companies with coverage of $10,000 per occurrence and no deductible for forgery or alteration and $5,000 per occurrence and no deductible for public employee dishonesty.

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 and other purchases. Outstanding commitments on construction contracts were $1,212,230.00 and on other purchases were $84,493.15 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 $9,781,165.00 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 - CATAWBA VALLEY COMMUNITY COLLEGE FOUNDATION, INC.

The Catawba Valley Community College Foundation, 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, fellowships, 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 $88,712.64 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 interfund 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	$ 30,446,431.08
Implementation of GASB 34/35	(13,183,113.31)
July 1, 2001 Net Assets as Restated	$ 17,263,317.77

Catawba Valley Community College
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							
Renovations - Alexander Center	Mar 2002	$ 1,000,000.00	$ 0.00	$ 1,000,000.00	$ 48,750.00	4.88%	Mar 2003
Paap Building Renovations	Apr 2002	200,000.00		200,000.00	10,920.00	5.46%	Apr 2003
Projects Pending Approval by the State Board							
Old Testing Center Renovations	Aug 2003	150,000.00		150,000.00			Dec 2004
Classroom/Laboratory Building	Aug 2003	7,567,306.00	5,500,000.00	13,067,306.00			Jan 2004
Renovate Interior Space	Jan 2003	504,339.00		504,339.00			Aug 2003
Renovations - Vacated Library Space	Jan 2004	575,000.00		575,000.00			Jul 2005
Total All Projects		$ 9,996,645.00	$ 5,500,000.00	$ 15,496,645.00	$ 59,670.00		

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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STATE OF NORTH CAROLINA
Office of the State Auditor

Ralph Campbell, Jr.
State Auditor

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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
Catawba Valley Community College
Hickory, North Carolina

We have audited the financial statements of Catawba Valley Community College, 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 February 13, 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 Package Not Completed On Time

2. Financial Statement Presentation

3. 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 all 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

February 13, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Findings and Recommendations - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control or noncompliance with laws.

College's General Statement

College personnel do not disagree with any of the findings outlined herein. As one of eight pilot colleges testing and implementing the new computer information system, college officials anticipated extra demands on various personnel at the College, especially in the business office and student personnel offices. Unanticipated was the major extent to which these demands would impact these key personnel. For example, the Controller was required to be away from campus for training and orientation purposes as many as seven workdays during some months. These absences, plus the inability of the new system to provide accurate and timely information, created circumstances in which College staff had to duplicate many of the financial records through alternative methodology. Working under budget constraints, College staff felt that once we were able to handle the first onslaught of additional time demands, the process would smooth out and the necessity of hiring additional staff would be removed. This has proven to be inaccurate and the College has added an additional business office person with at least another to be employed.

The impact upon all phases of the College due to inability to have correct financial information is major. College officials believe the personnel needs of the business office and the "bugs" in the software system are well on the way toward being resolved.

1. FINANCIAL STATEMENT PACKAGE NOT COMPLETED ON TIME

   Catawba Valley Community College submitted its financial statements to the Office of the State Controller after the mandatory date established by General Statute 143-20.1. The year-end reports due August 31, 2002 were not finalized until six business days after the deadline. The College is a pilot site for the conversion to the Colleague Computer System. Difficulties encountered during the conversion process have contributed to the delay in financial reporting.

   Recommendation: We recommend that the College allocate sufficient resources to the financial reporting function and communicate to employees the importance of timely and accurate reporting.

   College's Response: One person in the finance office has the responsibility of completing the financial reports in addition to overseeing the implementation of the new software for the financial applications. Contacts were made with both the North Carolina Community College System offices and the Office of the State Controller to relay concerns about delays caused by the State's new accounting software. During the weeks before the reporting deadline, new methods to obtain certain information were requested of the College that added to the time requirements needed to comply with the August 31, 2002 deadline. In addition, the new software required more personnel time to manage the system. Although every effort was made to remit the statements as required, the statements were finalized six days beyond the deadline. These unanticipated problems resulted in the audit finding.

2. FINANCIAL STATEMENT PRESENTATION

The College's June 30, 2002 financial statements and 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 financial statements submitted did not agree with the College's general ledger balances. Other misstatements occurred in capital assets, tuition and fees, county capital appropriations, State capital aid, and various expense accounts. The conversion to the new accounting software contributed to these presentation errors.

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 in a timely manner by employees performing their normal assigned duties.

Recommendation: We recommend that the College implement controls to ensure that financial statements are reviewed to verify that all account balances and related notes properly reflect the financial activity of the College prior to submission of the statements and notes to the Office of the State Controller.

College's Response: Financial reporting pro forma packages for 2002 were more numerous and cumbersome than in prior years. Reports were directly affected by requirements or changes from the following:

- Office of the State Controller
- Governmental Accounting Standards Board
- New State software system (Datatel/Colleague)

It was understood that the new State software system would be capable of producing the revised financial statements. When the new system failed to produce the revised financial statements, complications and delays occurred. The Governmental Accounting Standards Board adopted major changes in reporting requirements that caused many adjustments based on changing accounting methods. As previously mentioned, one person had the responsibility of completing the financial reports, in addition to overseeing the implementation of the new software for the financial applications. Significantly more personnel time to manage the new software system has been required.

3. INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The College did not complete reconciliations of their Special Funds bank account for four months during the 2001 – 2002 fiscal year. Interest earnings in this account were not consistently posted to the general ledger in a timely manner. Implementation of the new Colleague Computer System contributed 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: It is agreed that bank reconciliations should be prepared properly and timely. Many attempts were made to reconcile the bank statements. Due to complications with the Colleague software, plus extensive training of personnel requiring time spent away from the Institution, and attempting to implement new changes, the statements were not reconciled on a timely basis.

College's General Response

All three exceptions outlined above concern staff time/workload assignments. An additional staff person has been employed to help address the complications experienced with the new State accounting software and other reporting requirements changes. Further, it is expected that additional staff will be added within a short time period. Institutional personnel are optimistic that the new personnel, along with refinements in the software underway by the manufacturers, will enable the College to remedy the concerns noted by the auditors and concurred in by the College.

College's Additional Comments

Some time ago the following information (was submitted to the System office) in response to a financial survey conducted by the NC Community College System, and appears germane to the audit situation at hand.

At this time, the new software system does not free any time for business office personnel but creates a much greater time demand to use and monitor the system.

Catawba Valley Community College is one of eight pilot schools testing and implementing the new Computer Information System. Considerable personnel time and efforts have been expended (since the inception of the project) for training, serving on build teams and implementation of the system. There has been much frustration and stress in carrying out the regular workload in addition to implementing the new software as required. All applications of the system impact business office applications and responsibilities in some manner. Consequently, staff in the business office is directly affected by the system and is constantly monitoring its effect upon the general ledger.

Staffing for the business office is at a minimum to carry out normal routine duties. Due to the complexities of the new software, the system has increased the workload of personnel considerably. In order to meet deadlines, many business office personnel have worked beyond a "normal" workday as well as one weekends since early 2001.

Catawba Valley Community College's new software implementation calendar follows:

1.	July 1, 2001	Accounts Payable
		General Ledger
		Purchase Orders
2.	January 1, 2002	Payroll
3.	July 1, 2002	Student Registration
		Receipting
		Contracts for part-time personnel

When the above processes were implemented, there were "glitches" in the software. Only going "live" identified problems. At times, both ACS and DATATEL identified "workarounds". For example, the new system does not provide for adequate information on part-time contracts, nor does the system provide correct information on payroll encumbrances. In addition, after encumbrances are in place, there is no report for verification of encumbrances. Many times, institutional personnel have worked hours identifying inadequacies of the system in addition to cause and effect on the record keeping.

Status reports show that the vendors have met their obligations but these reports do not reflect extra time required to make corrections or adjust programming. Therefore, due to the timeliness and accuracy of the release of applications and functions, the pilot schools have been on the "hot seat" to get information reported by the deadlines set by the system office. There is a great deal of concern regarding auditing of financial records and FTE auditing of class attendance. The new system's documentation and audit tracking has not yet been proven to be as reliable as the legacy system.

While the system may have improved the record keeping for student records, the system is not "financial application friendly" resulting in much additional work in the financial area. For example, on the Unix system, one person was assigned payroll duties. At that time, it appeared that some additional assistance was needed (an additional half-time person). With the implementation of the new system (which requires an enormous time for payroll matters), an additional full-time person has been assigned with the result that two full-time persons are now responsible for the payroll duties.

Applications affecting the student services seem to work well. However, curriculum student applications that interfaced with financial applications now require more processing time than on the legacy system. The financial aid interface is particularly cumbersome. The process of delivering financial aid to students has lengthened. Although some data entry has been eliminated, the number of steps to completion has increased. Less data is available for responsible decision-making and required reporting is cumbersome. Again, all processing requires many more steps than previous processing, adding to the workload of a staff already stretched to the limit. Audit tracking is still unproven and suspect.

Here again, however, processes take more time than before and audit tracking is unproven.

The Corporate and Continuing Education Division at CVCC has seen a complete revamping of how business is done and consequently workloads have increased two to threefold Also, seventeen of the enhancements are for this division. All have not been completed and implemented. As with other areas, many "glitches" have been resolved using "workarounds" identified by the vendors.

The impact on Administrative Computing has also increased. Now, not only will this department administer one system, they will be administering two systems and three to four additional servers that interface with the new CIS system.

The system requires more personnel time to perform normal daily operations and staff in constantly striving under pressure to meet required deadlines. Continued assessment of workloads will determine if additional personnel are needed on the business office in particular. Other areas using the system will be monitored as well.

These are just a few of the concerns. It is understood that the project will go forward; however, under the circumstances, the Phase I pilot schools should be given some consideration when deadlines are not met. Appropriate contacts should be made with the State Auditors Office and others as needed to express these concerns.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Cuyler A. Dunbar	President, Catawba Valley Community College
Dr. Ray Lane	Vice President of Fiscal Affairs Catawba Valley Community College
Mr. Claude S. Abernethy, Jr.	Chairman, Board of Trustees Catawba Valley Community College

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Richard T. Morgan, Co-Chairman
Senator Kever M. Clark	Representative Martha B. Alexander
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Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	Minority Leader of the N. C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
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April 14, 2003

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