



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT REVIEW REPORT OF CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE

HUDSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT REVIEW REPORT OF
CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE
HUDSON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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REVIEWER'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 review of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, for the year ended June 30, 2003. Our review was made by authority of Article 5A of Chapter 147 of the *North Carolina 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 work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to review procedures as we considered necessary. In addition, we performed review 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 review procedures were conducted in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

The purpose of this report is to present the results of our review of the accompanying financial statements that relate solely to Caldwell Community College and Technical Institute. Our reporting objectives and review results are:

- 1. Objective** - To disclose any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Results - We are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Accountant's Review Report on the financial statements.

REVIEWER'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 that came to our attention during our review of the financial statements.

Results - The following significant deficiency in internal control over financial reporting was noted as a result of our review of the financial statements.

Finding

Internal Controls Over Bank Reconciliations

North Carolina General Statutes require the State Auditor to make reports available to the public. Copies of review 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.
State Auditor

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying Statement of Net Assets of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, as of June 30, 2003, and the related Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows for the year then ended, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the College's management.

A review consists principally of inquiries of College personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A), as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with generally accepted accounting principles. 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 inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

A handwritten signature in cursive script that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

March 30, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Basic Financial Statements

Caldwell Community College and Technical Institute is pleased to present its financial statements for the fiscal year ended June 30, 2003. This management discussion and analysis is designed to provide an introduction and overview to help the reader interpret and understand the accompanying financial statements. Currently known facts, decisions and conditions are discussed in management's analysis of financial position and results of operations. This discussion focuses primarily on fiscal year 2003 and includes highly summarized data that should be read in conjunction with the accompanying financial statements, notes to the financial statements and other supplementary information.

Three basic financial statements are presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities.

Analysis of Financial Position and Results of Operations

The continuing strength of the College's financial position is attributed to factors including improvements to campus facilities, enrollment growth, and appropriated funds from the State of North Carolina. In accordance with the Strategic Plan, the College continued to position itself for future growth and expansion. During the fiscal year, the College purchased land for future use at a cost of \$199,907. The value of land owned by the College increased by \$1,195,055 as a result of site preparation projects financed by State General Obligation Bonds. In addition to the site preparation projects, the College enhanced its ability to deliver instruction through distance learning with bond funds.

Despite continuing pressure on State budgets, State support for the Institution rose 2.8% or \$317,216 as a result of increased enrollment. Budgeted FTE (full-time equivalent) increased from \$3,017 in the 2001-2002 year to \$3,349 in 2002-2003.

Operating revenues in 2003 were \$2,206,048 less than in 2002. The primary reason was due to reclassification of nonexchange revenues to the nonoperating section of Exhibit B.

Total operating expenses increased from \$23,294,444 in 2002 to \$24,648,741 in 2003. The bulk of the increase was due to \$563,100 in renovations that did not qualify for capitalization. In addition, bookstore expenses increased over the prior year.

Condensed Financial Information

The following table summarizes the College's assets, liabilities and net assets as of June 30, 2003 and 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statements of Net Assets
June 30, 2003 and 2002

	2003	2002	Increase (Decrease)
ASSETS			
Current Assets	\$ 2,180,502	\$ 2,521,333	\$ (340,831)
Capital Assets, Net	25,688,422	25,051,739	636,683
Other Noncurrent Assets	690,754	1,466,256	(775,502)
Total Assets	28,559,678	29,039,328	(479,650)
LIABILITIES			
Current Liabilities	422,519	511,053	(88,534)
Noncurrent Liabilities	1,116,232	883,359	232,873
Total Liabilities	1,538,751	1,394,412	144,339
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	25,631,832	24,922,996	708,836
Restricted:			
Nonexpendable	368,046	359,095	8,951
Expendable	776,805	1,985,044	(1,208,239)
Unrestricted	244,244	377,781	(133,537)
Total Net Assets	\$ 27,020,927	\$ 27,644,916	\$ (623,989)

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 years ended June 30, 2003 and 2002.

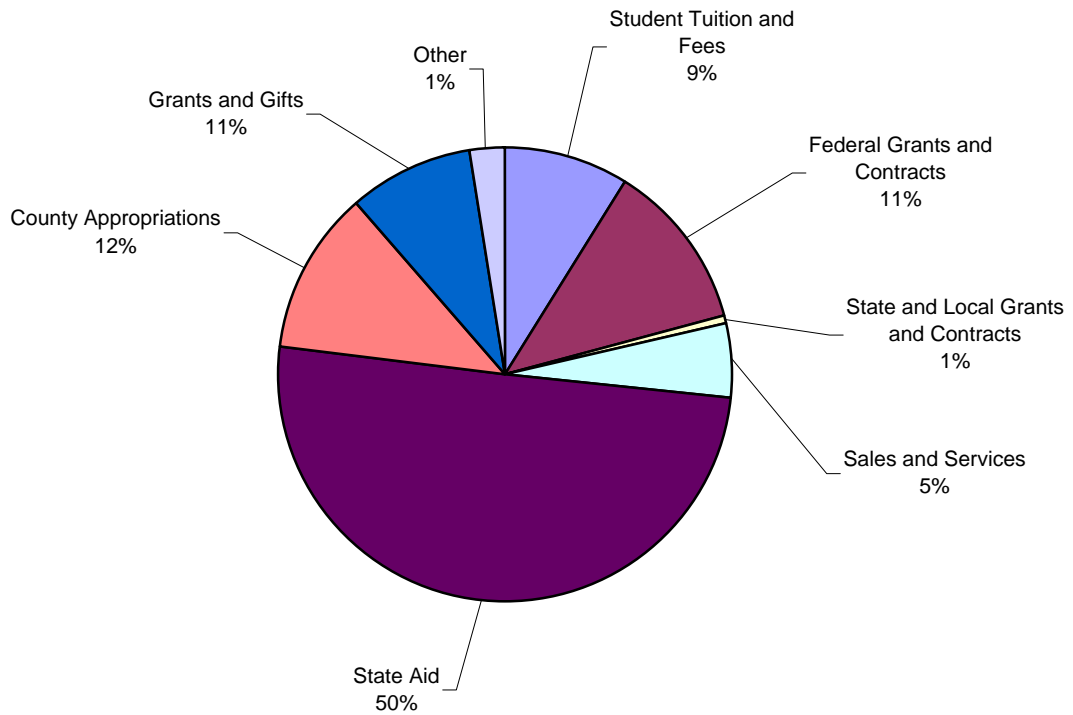
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statements of Revenues, Expenses, and Changes in Net Assets For the Fiscal Years Ended June 30, 2003 and 2002

	2003	2002	Increase (Decrease)
Operating Revenues:			
Student Tuition and Fees	\$ 2,129,037	\$ 2,220,229	\$ (91,192)
Grants and Contracts	3,027,659	5,035,354	(2,007,695)
Sales and Services, Net	1,220,926	1,343,371	(122,445)
Other Operating Revenues	44,472	29,189	15,283
Total Operating Revenues	6,422,094	8,628,143	(2,206,049)
Operating Expenses	24,648,741	23,294,445	1,354,296
Operating Loss	(18,226,647)	(14,666,302)	(3,560,345)
Nonoperating Revenues:			
State Aid	11,490,747	11,173,531	317,216
County Appropriations	2,480,709	2,568,115	(87,406)
Other Nonoperating Revenues	1,950,591	260,129	1,690,462
Total Nonoperating Revenues	15,922,047	14,001,775	1,920,272
Loss Before Other Revenues and Expenses	(2,304,600)	(664,527)	(1,640,073)
Other Revenues - Capital	1,680,611	1,071,384	609,227
Increase (Decrease) in Net Assets	(623,989)	406,857	(1,030,846)
Net Assets Beginning of Year, as Restated	27,644,916	27,238,059	406,857
Net Assets End of Year	\$ 27,020,927	\$ 27,644,916	\$ (623,989)

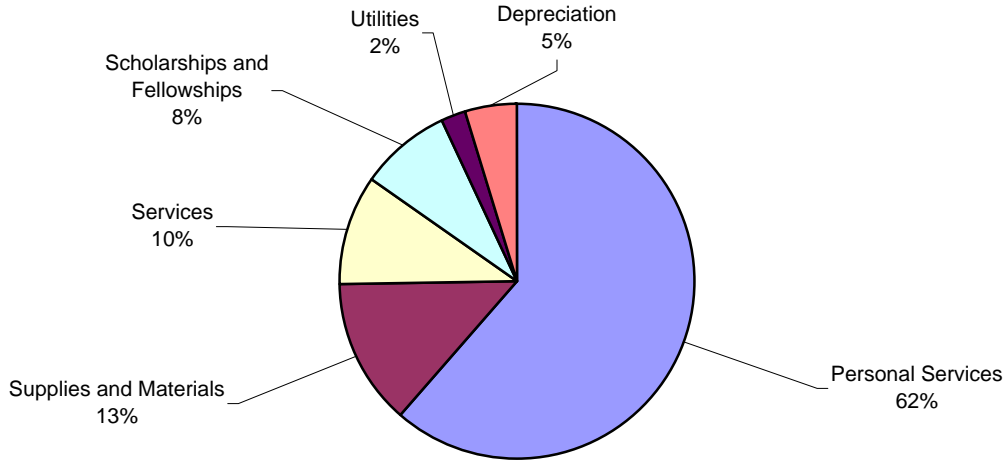
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following is a graphic illustration of revenues by source (operating and nonoperating).



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



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, 2003.

Condensed Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

	<u>Amount</u>
Cash Provided/(Used) by:	
Operating Activities	\$ (17,281,936)
Noncapital Financing Activities	15,481,610
Capital and Related Financing Activities	607,227
Investing Activities	<u>49,242</u>
Net Decrease in Cash	(1,143,857)
Cash-Beginning of the Year	<u>1,967,363</u>
Cash-End of the Year	<u><u>\$ 823,506</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets and Long-Term Debt Activities

Capital Assets

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 \$7,031,341 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.

Long-Term Debt

The College does not have long-term debt activity.

Economic Forecast

Even though the State's sluggish economy has resulted in reductions in State support for the College, management believes the College is well positioned to continue to provide excellent service to students, the community, and governmental agencies. The College's financial position remains sound, 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 the North Carolina bond issue provides sufficient flexibility to support 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.

State general funds comprise over half the College's total operating revenues. Reductions in State support in FY 2004 appear reasonably possible based on indications from State officials. The amount of the future reductions, if any, cannot be readily determined at this time.

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.

<i>Caldwell Community College and Technical Institute</i>		
<i>Statement of Net Assets</i>		
<i>June 30, 2003</i>		<i>Exhibit A</i>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 518,021.57	
Restricted Cash and Cash Equivalents	194,898.54	
Short-Term Investments	150,000.00	
Restricted Short-Term Investments	165,000.00	
Receivables (Note 3)	878,440.36	
Inventories	274,141.18	
Total Current Assets	2,180,501.65	
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	110,585.55	
Restricted Due from Primary Government	580,168.45	
Capital Assets - Nondepreciable, Net (Note 4)	4,077,821.82	
Capital Assets - Depreciable, Net (Note 4)	21,610,600.18	
Total Noncurrent Assets	26,379,176.00	
Total Assets	28,559,677.65	
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)	200,966.86	
Funds Held for Others	129,322.58	
Long-Term Liabilities - Current Portion (Note 6)	92,229.85	
Total Current Liabilities	422,519.29	
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)	1,116,231.46	
Total Noncurrent Liabilities	1,116,231.46	
Total Liabilities	1,538,750.75	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	25,631,832.38	
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships	263,045.55	
Other	105,000.00	
Expendable:		
Scholarships and Fellowships	284,944.57	
Capital Projects	212,689.49	
Other	279,170.76	
Unrestricted	244,244.15	
Total Net Assets	\$ 27,020,926.90	
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Caldwell Community College and Technical Institute</i>		
<i>Statement of Revenues, Expenses, and</i>		
<i>Changes in Net Assets</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit B</i>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	\$	2,129,036.97
Federal Grants and Contracts		2,845,370.13
State and Local Grants and Contracts		182,289.00
Sales and Services, Net (Note 8)		1,220,925.81
Other Operating Revenues		44,472.29
Total Operating Revenues		6,422,094.20
EXPENSES		
Operating Expenses:		
Personal Services		15,102,674.51
Supplies and Materials		3,300,262.41
Services		2,500,191.55
Scholarships and Fellowships		2,007,892.97
Utilities		584,858.08
Depreciation		1,152,861.51
Total Operating Expenses		24,648,741.03
Operating Loss		(18,226,646.83)
NONOPERATING REVENUES		
State Aid		11,490,747.30
County Appropriations		2,480,709.00
Noncapital Grants		1,631,092.70
Noncapital Gifts (Note 8)		264,506.03
Investment Income, Net		46,058.95
Other Nonoperating Revenues		8,932.75
Net Nonoperating Revenues		15,922,046.73
Loss Before Other Revenues, Expenses, Gains, and Losses		(2,304,600.10)
State Capital Aid		647,775.96
County Capital Appropriations		305,140.00
Capital Grants		505,594.93
Capital Gifts (Note 8)		222,100.27
Decrease in Net Assets		(623,988.94)
NET ASSETS		
Net Assets, July 1, 2002		27,644,915.84
Net Assets, June 30, 2003	\$	27,020,926.90
The accompanying notes to the financial statements are an integral part of this statement.		

<i>Caldwell Community College and Technical Institute</i>		
<i>Statement of Cash Flows</i>		
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Exhibit C</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers		\$ 6,026,068.94
Payments to Employees and Fringe Benefits		(14,946,046.18)
Payments to Vendors and Suppliers		(6,356,584.88)
Payments for Scholarships and Fellowships		(2,007,892.97)
Other Receipts		2,518.74
Net Cash Used by Operating Activities		(17,281,936.35)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		11,490,747.30
County Appropriations		2,480,709.00
Noncapital Grants Received		1,245,648.37
Noncapital Gifts and Endowments Received		264,506.03
Net Cash Provided by Noncapital Financing Activities		15,481,610.70
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		1,387,119.74
County Capital Appropriations		305,140.00
Capital Grants Received		505,594.93
Capital Gifts Received		222,100.27
Proceeds from Sale of Capital Assets		5,207.75
Acquisition and Construction of Capital Assets		(1,745,783.01)
Principal Paid on Capital Debt and Leases		(72,152.86)
Net Cash Provided by Capital and Related Financing Activities		607,226.82
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		49,241.55
Net Cash Provided by Investing Activities		49,241.55
Net Decrease in Cash and Cash Equivalents		(1,143,857.28)
Cash and Cash Equivalents, July 1, 2002		1,967,362.94
Cash and Cash Equivalents, June 30, 2003		\$ 823,505.66
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss		\$ (18,226,646.83)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		1,152,861.51
Miscellaneous Nonoperating Income		26,739.91
Changes in Assets and Liabilities:		
Receivables, Net		(396,025.26)
Inventories		12,417.90
Accounts Payable and Accrued Liabilities		(90,860.36)
Funds Held for Others		(24,221.17)
Compensated Absences		263,797.95
Net Cash Used by Operating Activities		\$ (17,281,936.35)

<i>Caldwell Community College and Technical Institute</i>		
<i>Statement of Cash Flows</i>		<i>Exhibit C</i>
<i>For the Fiscal Year Ended June 30, 2003</i>		<i>Page 2</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	\$	518,021.57
Restricted Cash and Cash Equivalents		194,898.54
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		110,585.55
Total Cash and Cash Equivalents - June 30, 2003	\$	823,505.66
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets Acquired through Assumption of a Liability	\$	66,776.63
Increase in Receivables Related to Nonoperating Income		396,679.80
The accompanying notes to the financial statements are an integral part of this statement.		

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

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 nonprofit 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*, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. 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 at book value with no provision for doubtful accounts considered necessary.
- 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 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 more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 25 years for general infrastructure, 10 to 40 years for buildings, and 3 to 15 years for equipment.

- I. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Certain other assets are classified as restricted because their use is limited by external parties or statute.

- J. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 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.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonus awarded by the College to all full-time permanent employees as of September 30, 2002. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

O. 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$3,200.00. The carrying amount of cash on deposit was \$1,135,305.66 and the bank balance was \$1,956,186.58.

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	\$ 4,236.19	\$ 4,236.21
Cash on Deposit with Private Financial Institutions	1,131,069.47	1,951,950.37
	\$ 1,135,305.66	\$ 1,956,186.58

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 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements and disclosures for the State Treasurer's 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, 2003, \$300,000.00 of the bank balance was covered by federal depository insurance and \$1,656,186.58 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 nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2003, the College held certificates of deposit in the amount of \$315,000.00 which is 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2003 were as follows:

	Amount
Current Receivables:	
Students	\$ 181,482.23
Accounts	4,921.36
Intergovernmental	691,860.56
Investment Earnings	176.21
Total Current Receivables	\$ 878,440.36

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2003, is presented as follows:

	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
Capital Assets, Nondepreciable:				
Land	\$ 2,682,859.55	\$ 1,394,962.27	\$ 0.00	\$ 4,077,821.82
Total Capital Assets, Nondepreciable	2,682,859.55	1,394,962.27		4,077,821.82
Capital Assets, Depreciable:				
Buildings	26,061,017.56	61,708.51		26,122,726.07
Machinery and Equipment	4,015,350.10	349,529.86	76,703.64	4,288,176.32
General Infrastructure	645,892.33	6,359.00		652,251.33
Total Capital Assets, Depreciable	30,722,259.99	417,597.37	76,703.64	31,063,153.72
Less Accumulated Depreciation:				
Buildings	5,709,343.78	662,801.52		6,372,145.30
Machinery and Equipment	2,322,454.23	449,822.69	53,688.73	2,718,588.19
General Infrastructure	321,582.75	40,237.30		361,820.05
Total Accumulated Depreciation	8,353,380.76	1,152,861.51	53,688.73	9,452,553.54
Total Capital Assets, Depreciable, Net	22,368,879.23	(735,264.14)	23,014.91	21,610,600.18
Capital Assets, Net	\$ 25,051,738.78	\$ 659,698.13	\$ 23,014.91	\$ 25,688,422.00

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2003 were as follows:

	Amount
Accounts Payable	\$ 133,192.08
Contract Retainage	66,776.63
Intergovernmental Payables	998.15
Total Accounts Payable and Accrued Liabilities	\$ 200,966.86

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Current Portion
Capital Leases Payable	\$ 128,742.48	\$ 0.00	\$ 72,152.86	\$ 56,589.62	\$ 56,589.62
Compensated Absences	888,073.74	1,019,859.42	756,061.47	1,151,871.69	35,640.23
Total Long-Term Liabilities	\$ 1,016,816.22	\$ 1,019,859.42	\$ 828,214.33	\$ 1,208,461.31	\$ 92,229.85

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, 2003:

Fiscal Year	Amount
2004	\$ 57,853.62
Amount Representing Interest (8.2% Rate of Interest)	1,264.00
Present Value of Future Lease Payments	\$ 56,589.62

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Machinery and equipment acquired under capital lease amounted to \$427,976.87 at June 30, 2003.

B. Operating Lease Obligations - Rental expense for all operating leases during the year was \$61,613.52.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	\$ 3,027,351.97	\$ 898,315.00	\$ 2,129,036.97
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Bookstore	\$ 1,302,030.11	\$ 386,828.06	\$ 915,202.05
Civic Center	243,143.75		243,143.75
Other	45,445.26		45,445.26
Sales and Services of Education and Related Activities	17,134.75		17,134.75
Total Sales and Services	\$ 1,607,753.87	\$ 386,828.06	\$ 1,220,925.81
Nonoperating - Noncapital Gifts	\$ 264,506.03	\$ 0.00	\$ 264,506.03
Capital Gifts	\$ 222,100.27	\$ 0.00	\$ 222,100.27

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	\$ 8,561,846.82	\$ 757,984.01	\$ 537,126.10	\$ 12,085.83	\$ 0.00	\$ 0.00	\$ 9,869,042.76
Academic Support	1,193,425.30	140,946.48	76,694.25				1,411,066.03
Student Services	1,562,182.23	71,252.77	106,289.75	100,674.09			1,840,398.84
Institutional Support	2,907,735.38	480,299.41	787,495.22	20,374.90			4,195,904.91
Operations and Maintenance of Plant	736,886.77	703,560.01	594,456.64		584,858.08		2,619,761.50
Student Financial Aid			13,067.58	1,874,758.15			1,887,825.73
Auxiliary Enterprises	140,598.01	1,146,219.73	385,062.01				1,671,879.75
Depreciation						1,152,861.51	1,152,861.51
Total Operating Expenses	\$ 15,102,674.51	\$ 3,300,262.41	\$ 2,500,191.55	\$ 2,007,892.97	\$ 584,858.08	\$ 1,152,861.51	\$ 24,648,741.03

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2003, the General Assembly required no contribution by employers and 6% of covered payroll for members.

For the year ended June 30, 2003, the College had a total payroll of \$12,674,513.49, of which \$10,032,238.56 was covered under the Teachers' and State Employees' Retirement System. Total employee contributions for pension benefits for the year were \$601,934.31. No employer contributions were required. The College made one hundred percent of its annual required contributions for the years ended June 30, 2003, 2002, and 2001, which were \$0.00, \$201,123.59, and \$491,891.90, respectively.

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

- B. 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 \$209,211.00 for the year ended June 30, 2003.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$39,117.88 for the year ended June 30, 2003.

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, 2003, the College's total contribution to the Plan was \$235,757.61. 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, 2003, the College's total contribution to the DIPNC was \$52,167.64. 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*.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 is covered by contracts with private insurance companies.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$122,799.78 at June 30, 2003.
- 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 were authorized for issuance 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 of \$5,513,163.00 is

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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 nonprofit 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 \$280,288.00 for the year ended June 30, 2003.

***Caldwell Community College and Technical Institute
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2003***

Schedule I

Capital Improvement Projects	Projected Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Expected Completion Date
<i>Projects Approved by the State Board</i>							
Northeast Site Project	Sep 2004	\$ 600,000.00	\$ 419,780.56	\$ 1,019,780.56	\$ 422,386.46	41.42%	May 2006
Watauga Site Preparation	Jan 2001	888,000.00		888,000.00	868,102.22	97.76%	Jul 2003
Distance Learning - Renovations	Jan 2001	535,000.00	10,000.00	545,000.00	435,145.70	79.84%	Mar 2003
Civic Center - Renovations	Mar 2002	1,291,000.00		1,291,000.00	47,496.00	3.68%	May 2006
<i>Projects Pending Approval by the State Board</i>							
Renovations B & D Buildings	Jan 2004	1,000,000.00		1,000,000.00			Apr 2004
Transportation Center - Site Work and New Construction	Sep 2004	934,831.00		934,831.00			Feb 2005
Renovations - Existing Facilities	Jun 2004	247,800.00		247,800.00			Apr 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	\$ 1,773,130.38		
<p>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.</p>							

REVIEW FINDING AND RECOMMENDATION

Current Year Finding and Recommendation Also Reported in Prior Audit – The following finding and recommendation was identified during the current review and prior audit and represents a significant deficiency in internal control.

INTERNAL CONTROLS OVER BANK RECONCILIATIONS

The College did not properly complete reconciliations of their special funds bank account during the 2002–2003 fiscal year. These bank reconciliations contained unexplained variances with the College’s general ledger balance ranging from \$173.36 to (\$26,449.09). The College did review bank statement transactions to determine that there were no unauthorized transactions. Interest earnings and charges in this account were not consistently posted to the general ledger in a timely manner. Interest earnings from the local funds and State Treasurer’s Investment Fund accounts were not consistently posted timely during the fiscal year.

Recommendation: For adequate internal controls over cash, we recommend that the College properly reconcile bank statements and post reconciling items each month, as bank reconciliations are prepared. Any variances with the general ledger cash balances should be investigated and reconciled in a timely manner.

College’s Response: The college agrees that bank reconciliations should be prepared in a timely and accurate manner. While the college cleared checks and verified deposits and charges as bank statements were received we were not able to fully reconcile variances in the month they occurred.

The college remains committed to preparing bank reconciliations and posting charges and interest in a timely manner. Postings are currently up-to-date and our ability to resolve variances has improved. Continued efforts to improve variance resolution include the implementation in July of an improved version of the Colleague Accounts Receivable/Cash Receipts module and consultations with other Phase One colleges.

DISTRIBUTION OF REVIEW 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.

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Mr. David Holman

Mr. Larry W. Taylor

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President, Caldwell Community College and Technical Institute
Vice President, Finance and Administration
Caldwell Community College and Technical Institute
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Caldwell Community College and Technical Institute

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Director, Fiscal Research Division

May 11, 2004

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