



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE

HUDSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE
HUDSON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2004

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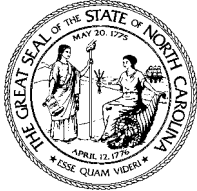
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Leslie W. Merritt, Jr., CPA, CFP
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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, for the year ended June 30, 2004. Our audit 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 audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subjected to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Caldwell Community College and Technical Institute. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

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

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

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

AUDITOR'S TRANSMITTAL (CONCLUDED)

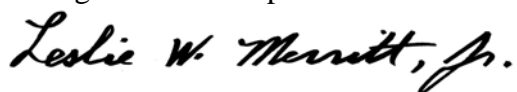
2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws,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

Results - Our tests disclosed no significant deficiencies in internal control over financial reporting and no instances of noncompliance which require disclosure herein under *Government Auditing Standards*. These matters are more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

3. **Objective** – To present significant deficiencies, if any, in internal control over compliance that could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants and present instances of noncompliance with federal laws, regulations, contracts or grants, the effects of which have a material effect in relation to a type of compliance requirement or audit objective identified in *OMB Circular A-133 Compliance Supplement*.

Results - Our tests disclosed no significant deficiencies in internal control over compliance and no instances of noncompliance which require disclosure herein under *OMB Circular A-133*.

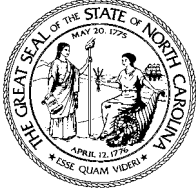
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Caldwell Community College and Technical Institute's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Foundation of Caldwell Community College and Technical Institute, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation of Caldwell Community College and Technical Institute, Inc., were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Caldwell Community College and Technical Institute and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

December 16, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Caldwell Community College and Technical Institute (the College) for the year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003. This management's 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 has been prepared by management 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.

Caldwell Community College and Technical Institute is a public two-year college with approximately 3,400 students and 425 faculty and staff on two campuses serving Caldwell and Watauga counties in western North Carolina. The College offers a broad range of undergraduate, associate, and technical degree programs. The College also offers customized corporate training, market-focused continuing education, and special interest classes.

Overview of the Basic Financial Statements

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 College's financial position remained strong at June 30, 2004, with assets of \$28.6 million and liabilities of \$2.0 million. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, totaled \$26.6 million. Although the net assets of the College decreased by \$382,197 this is not indicative of financial weakness. The decrease is primarily attributable to the effect of depreciation expense. While the College spent over \$1.5 million in State bond funds, the expenditures were largely considered to be renovations, which were expensed rather than capitalized.

Budgeted FTE (full-time equivalent students) enrollment increased from 3,349 in FY 2003 to 3,395 in FY 2004. This increase was smaller than in previous years in part because the College chose to focus primarily on increasing the quality of instruction and services provided to students instead of focusing on enrollment growth. Improvements included the hiring of additional faculty members, renovations to instructional facilities, and purchases of equipment intended to facilitate teaching and learning.

Operating revenues in 2004 were \$505,357 greater than in 2003. The increase was primarily driven by increased bookstore sales and increased funding from federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Total operating expenses increased from \$24,648,741 in 2003 to \$25,907,464 in 2004. The bulk of the increase was due to increased spending for renovations that did not qualify for capitalization.

Condensed Financial Information

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and includes all assets and liabilities of the College. The following table summarizes the College's assets, liabilities and net assets as of June 30, 2004.

Condensed Statement of Net Assets June 30, 2004

| | 2004 | 2003 | Increase (Decrease) |
|----------------------------|----------------------|----------------------|------------------------|
| ASSETS | | | |
| Current Assets | \$ 2,585,915 | \$ 2,180,502 | \$ 405,413 |
| Capital Assets, Net | 25,128,225 | 25,688,422 | (560,197) |
| Other Noncurrent Assets | 894,303 | 690,754 | 203,549 |
| Total Assets | 28,608,443 | 28,559,678 | 48,765 |
| LIABILITIES | | | |
| Current Liabilities | 813,034 | 422,519 | 390,515 |
| Noncurrent Liabilities | 1,156,679 | 1,116,232 | 40,447 |
| Total Liabilities | 1,969,713 | 1,538,751 | 430,962 |
| NET ASSETS | | | |
| Invested in Capital Assets | 25,128,225 | 25,631,832 | (503,607) |
| Restricted | | | |
| Nonexpendable | 382,551 | 368,046 | 14,505 |
| Expendable | 958,181 | 776,805 | 181,376 |
| Unrestricted | 169,773 | 244,244 | (74,471) |
| Total Net Assets | \$ 26,638,730 | \$ 27,020,927 | \$ (382,197) |

The Statement of Revenues, Expenses, and Changes in Net Assets presents the results of the College's operations for the report period. The following table summarizes the College's revenues, expenses, and changes in net assets for the year ended June 30, 2004.

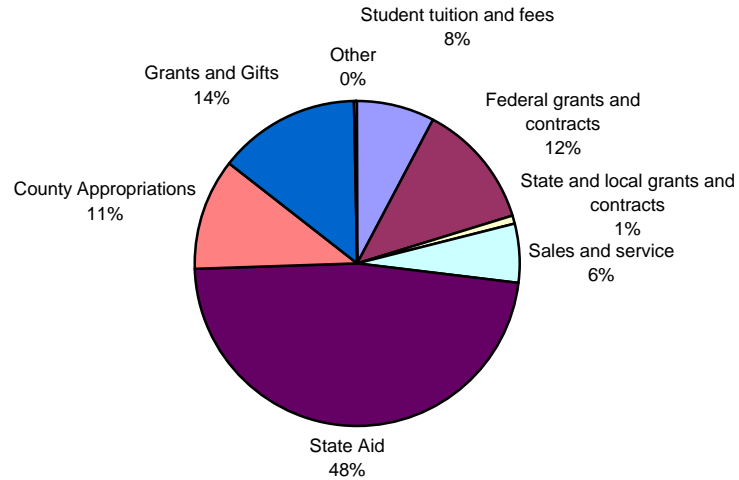
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2004 and 2003**

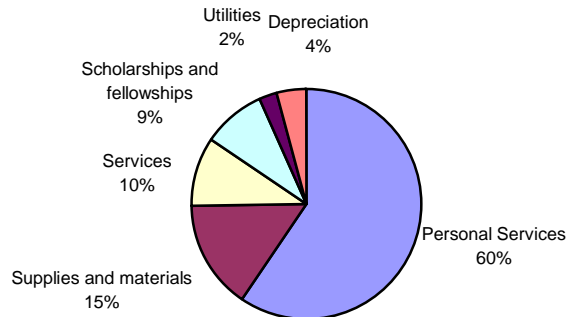
| | 2004 | 2003 | Increase (Decrease) |
|--|----------------------|----------------------|------------------------|
| Operating Revenues: | | | |
| Student Tuition and Fees, Net | \$ 2,001,964 | \$ 2,129,037 | \$ (127,073) |
| Grants and Contracts | 3,410,947 | 3,027,659 | 383,288 |
| Sales and Services, Net | 1,476,940 | 1,220,926 | 256,014 |
| Other Operating Revenues | 37,600 | 44,472 | (6,872) |
| Total Operating Revenues | <u>6,927,451</u> | <u>6,422,094</u> | <u>505,357</u> |
| Operating Expenses | <u>25,907,464</u> | <u>24,648,741</u> | <u>1,258,723</u> |
| Operating Loss | <u>(18,980,013)</u> | <u>(18,226,647)</u> | <u>(753,366)</u> |
| Nonoperating Revenues: | | | |
| State Aid | 11,644,764 | 11,490,747 | 154,017 |
| County Appropriations | 2,536,197 | 2,480,709 | 55,488 |
| Other Nonoperating Revenues | 2,081,866 | 1,950,591 | 131,275 |
| Total Nonoperating Revenues | <u>16,262,827</u> | <u>15,922,047</u> | <u>340,780</u> |
| Loss Before Other Revenues and Expenses | <u>(2,717,186)</u> | <u>(2,304,600)</u> | <u>(412,586)</u> |
| Other Revenues - Capital | <u>2,335,555</u> | <u>1,680,611</u> | <u>654,944</u> |
| Increase (Decrease) in Net Assets | <u>(381,631)</u> | <u>(623,989)</u> | <u>242,358</u> |
| Net Assets Beginning of Year, as Restated | <u>27,020,361</u> | <u>27,644,916</u> | <u>(624,555)</u> |
| Net Assets End of Year | <u>\$ 26,638,730</u> | <u>\$ 27,020,927</u> | <u>\$ (381,631)</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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



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 summarized the College's cash receipts and payments for the year ended June 30, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Condensed Statement of Cash Flows For the Fiscal Year Ended June 30, 2004

| | <u>Amount</u> |
|--|----------------------------|
| Cash Provided (Used) by: | |
| Operating Activities | \$ (17,387,465) |
| Noncapital Financing Activities | 16,597,440 |
| Capital and Related Financing Activities | 1,544,763 |
| Investing Activities | <u>15,596</u> |
| Net Increase in Cash | 770,334 |
| Cash - Beginning of the Year | <u>823,506</u> |
| Cash - Ending of the Year | <u><u>\$ 1,593,840</u></u> |

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 \$7,031,041 in State funds to the College over a six-year period beginning in fiscal year 2001. The projects financed by these bonds are listed in detail in the Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures.

Long-Term Debt

The College has no long-term debt.

Economic Forecast

Even though growth in the College's State support has been limited by economic factors, 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. The College's 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.

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

Caldwell Community College and Technical Institute**Statement of Net Assets****June 30, 2004****Exhibit A-1****ASSETS**

Current Assets:

| | | |
|--------------------------------------|----|---------------------|
| Cash and Cash Equivalents | \$ | 886,220.10 |
| Restricted Cash and Cash Equivalents | | 569,672.57 |
| Short-Term Investments | | 150,000.00 |
| Restricted Short-Term Investments | | 165,000.00 |
| Receivables, Net (Note 3) | | 543,730.90 |
| Inventories | | 271,291.71 |
| Total Current Assets | | 2,585,915.28 |

Noncurrent Assets:

| | | |
|---|--|----------------------|
| Restricted Cash and Cash Equivalents | | 137,946.60 |
| Restricted Due from Primary Government | | 756,356.10 |
| Capital Assets - Nondepreciable, Net (Note 4) | | 4,362,706.54 |
| Capital Assets - Depreciable, Net (Note 4) | | 20,765,518.24 |
| Total Noncurrent Assets | | 26,022,527.48 |
| Total Assets | | 28,608,442.76 |

LIABILITIES

Current Liabilities:

| | | |
|---|--|-------------------|
| Accounts Payable and Accrued Liabilities (Note 5) | | 520,745.24 |
| Funds Held for Others | | 140,322.72 |
| Long-Term Liabilities - Current Portion (Note 6) | | 151,966.16 |
| Total Current Liabilities | | 813,034.12 |

Noncurrent Liabilities:

| | | |
|-------------------------------------|--|---------------------|
| Long-Term Liabilities (Note 6) | | 1,156,679.18 |
| Total Noncurrent Liabilities | | 1,156,679.18 |
| Total Liabilities | | 1,969,713.30 |

NET ASSETS

| | | |
|------------------------------|-----------|----------------------|
| Invested in Capital Assets | | 25,128,224.78 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and Fellowships | | 277,550.55 |
| Other | | 105,000.00 |
| Expendable: | | |
| Scholarships and Fellowships | | 232,443.80 |
| Capital Projects | | 283,054.09 |
| Other | | 442,683.41 |
| Unrestricted | | 169,772.83 |
| Total Net Assets | \$ | 26,638,729.46 |

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

| Caldwell Community College and Technical Institute | | |
|--|----|--------------------|
| Statement of Revenues, Expenses, and | | |
| Changes in Net Assets | | |
| For the Fiscal Year Ended June 30, 2004 | | Exhibit A-2 |
| REVENUES | | |
| Operating Revenues: | | |
| Student Tuition and Fees, Net (Note 8) | \$ | 2,001,963.83 |
| Federal Grants and Contracts | | 3,142,788.48 |
| State and Local Grants and Contracts | | 268,158.00 |
| Sales and Services, Net (Note 8) | | 1,476,940.11 |
| Other Operating Revenues | | 37,600.39 |
| Total Operating Revenues | | 6,927,450.81 |
| EXPENSES | | |
| Operating Expenses: | | |
| Salaries and Benefits | | 15,380,744.69 |
| Supplies and Materials | | 3,957,538.78 |
| Services | | 2,549,505.56 |
| Scholarships and Fellowships | | 2,304,691.00 |
| Utilities | | 626,196.39 |
| Depreciation | | 1,088,787.90 |
| Total Operating Expenses | | 25,907,464.32 |
| Operating Loss | | (18,980,013.51) |
| NONOPERATING REVENUES | | |
| State Aid | | 11,644,763.63 |
| County Appropriations | | 2,536,197.00 |
| Noncapital Grants | | 1,628,945.98 |
| Noncapital Gifts | | 432,157.90 |
| Investment Income, Net | | 15,605.23 |
| Other Nonoperating Revenues | | 5,157.67 |
| Net Nonoperating Revenues | | 16,262,827.41 |
| Loss Before Other Revenues, Expenses, Gains, and Losses | | (2,717,186.10) |
| State Capital Aid | | 455,081.90 |
| County Capital Appropriations | | 335,864.27 |
| Capital Grants | | 1,526,135.99 |
| Capital Gifts | | 18,472.50 |
| Decrease in Net Assets | | (381,631.44) |
| NET ASSETS | | |
| Net Assets, July 1, 2003 as Restated (Note 15) | | 27,020,360.90 |
| Net Assets, June 30, 2004 | \$ | 26,638,729.46 |
| 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, 2004</i> | | <i>Exhibit A-3</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Received from Customers | | \$ 6,940,659.10 |
| Payments to Employees and Fringe Benefits | | (15,223,971.04) |
| Payments to Vendors and Suppliers | | (6,813,831.61) |
| Payments for Scholarships and Fellowships | | (2,304,691.00) |
| Other Receipts | | 14,369.11 |
| Net Cash Used by Operating Activities | | (17,387,465.44) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State Aid Received | | 11,644,763.63 |
| County Appropriations | | 2,536,197.00 |
| Noncapital Grants Received | | 1,984,321.83 |
| Noncapital Gifts and Endowments Received | | 432,157.90 |
| Net Cash Provided by Noncapital Financing Activities | | 16,597,440.36 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| State Capital Aid Received | | 278,894.25 |
| County Capital Appropriations | | 335,864.27 |
| Capital Grants Received | | 1,498,231.76 |
| Capital Gifts Received | | 18,472.50 |
| Proceeds from Sale of Capital Assets | | 3,577.40 |
| Acquisition and Construction of Capital Assets | | (533,687.46) |
| Principal Paid on Capital Debt and Leases | | (56,589.62) |
| Net Cash Provided by Capital and Related Financing Activities | | 1,544,763.10 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Income | | 15,595.59 |
| Net Cash Provided by Investing Activities | | 15,595.59 |
| Net Increase in Cash and Cash Equivalents | | 770,333.61 |
| Cash and Cash Equivalents, July 1, 2003 | | 823,505.66 |
| Cash and Cash Equivalents, June 30, 2004 | | \$ 1,593,839.27 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | |
| Operating Loss | | \$ (18,980,013.51) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation Expense | | 1,088,787.90 |
| Miscellaneous Nonoperating Income | | 3,368.97 |
| Changes in Assets and Liabilities: | | |
| Receivables, Net | | 13,208.29 |
| Inventories | | 2,849.47 |
| Accounts Payable and Accrued Liabilities | | 316,559.65 |
| Funds Held for Others | | 11,000.14 |
| Compensated Absences | | 156,773.65 |
| Net Cash Used by Operating Activities | | \$ (17,387,465.44) |

| | | |
|--|--|---------------------------|
| <i>Caldwell Community College and Technical Institute</i> | | |
| <i>Statement of Cash Flows</i> | | <i>Exhibit A-3</i> |
| <i>For the Fiscal Year Ended June 30, 2004</i> | | <i>Page 2</i> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS | | |
| Current Assets: | | |
| | Cash and Cash Equivalents | \$ 886,220.10 |
| | Restricted Cash and Cash Equivalents | 569,672.57 |
| Noncurrent Assets: | | |
| | Restricted Cash and Cash Equivalents | 137,946.60 |
| Total Cash and Cash Equivalents - June 30, 2004 | | \$ 1,593,839.27 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| | Increase in Receivables Related to Nonoperating Income | \$ 176,197.29 |
| The accompanying notes to the financial statements are an integral part of this statement. | | |

| | | | |
|--|--|----|---------------------|
| Foundation of Caldwell Community College and Technical Institute, Inc | | | |
| Statement of Financial Position | | | |
| June 30, 2004 | | | Exhibit B-1 |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | | \$ | 527,261.00 |
| Certificates of Deposit | | | 974,776.00 |
| Unconditional promises to give | | | 6,216.00 |
| Conditional promises to give | | | 6,453.00 |
| Accrued interest receivable | | | 6,229.00 |
| Total Current Assets | | | <u>1,520,935.00</u> |
| Noncurrent Assets: | | | |
| Investments | | | 2,071,898.00 |
| Property and Equipment, Net | | | 28.00 |
| Total noncurrent assets | | | <u>2,071,926.00</u> |
| Total Assets | | | <u>3,592,861.00</u> |
| LIABILITIES | | | |
| Current Scholarships Payable | | | 2,195.00 |
| NET ASSETS | | | |
| Unrestricted | | | 513,528.00 |
| Temporarily Restricted | | | 1,099,859.00 |
| Permanently Restricted | | | 1,977,279.00 |
| Total Net Assets | | \$ | <u>3,590,666.00</u> |
| See Note 1 in the Notes to the Financial Statements | | | |

**Foundation of Caldwell Community College
and Technical Institute, Inc.**

Statement of Activities

For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

| | | |
|---|----|------------|
| Support and Revenue: | | |
| Donations | \$ | 172,733.00 |
| Investment Earnings | | 9,772.00 |
| Realized Loss on Investments | | (118.00) |
| Unrealized Loss on Investments | | (1,610.00) |
| Total Support and Revenue | | 180,777.00 |
| Net Assets Released from Restrictions: | | |
| Satisfaction of Program Restrictions | | 420,971.00 |
| Total Support and Revenue and Assets Released form Restrictions | | 601,748.00 |
| Expenses: | | |
| Program Services: | | |
| Scholarships and Special Institutional Requests | | 369,268.00 |
| Designated Scholarships | | 15,700.00 |
| Student Aid | | 1,014.00 |
| Annual Fund Drive | | 1,992.00 |
| Printing | | 1,769.00 |
| Insurance | | 326.00 |
| Professional Fees | | 1,500.00 |
| Postage | | 606.00 |
| Awards and Service Pins | | 500.00 |
| Operating and Other Miscellaneous | | 17,697.00 |
| Depreciation | | 114.00 |
| In-kind Administration | | 60,612.00 |
| Other Expenses | | 1,469.00 |
| Total Expenses | | 472,567.00 |
| Increase in Unrestricted Net Assets | | 129,181.00 |

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

| | | |
|---|--|--------------|
| Donations | | 344,885.00 |
| Investment Earnings | | 84,762.00 |
| Unrealized Gains on Investments | | 206,779.00 |
| In-kind Administration | | 60,612.00 |
| Net Assets Released from Restrictions: | | |
| Satisfaction of Program Restrictions | | (420,971.00) |
| Increase in Temporarily Restricted Net Assets | | 276,067.00 |

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

| | | |
|---------------------------------|----|--------------|
| Donations | | 11,500.00 |
| Increase in Net Assets | | 416,748.00 |
| Net Assets at Beginning of Year | | 3,173,917.00 |
| Net Assets at End of Year | \$ | 3,590,665.00 |

See Note 1 in the Notes to the Financial Statements

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CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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 of the College and component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of a different GAAP reporting model and to emphasize its legal separateness.

Discretely Presented Component Units – The Foundation of Caldwell Community College and Technical Institute is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Foundation of Caldwell Community College and Technical Institute is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2004, the Foundation distributed \$478,692.97 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the College finance office by calling (828) 726-2222 or by calling the Foundation directly at (828) 726-2260.

- 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.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, fuel oil held for consumption, and merchandise for resale are valued 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. 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 – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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 county capital appropriation do not revert and are available for future use by the College.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 \$1,905,639.27 and the bank balance was \$2,381,699.96.

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 | \$ 4,389.33 | \$ 4,389.35 |
| Cash on Deposit with Private Financial Institutions | 1,901,249.94 | 2,377,310.61 |
| | \$ 1,905,639.27 | \$ 2,381,699.96 |

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.

The financial statements and disclosures for the State Treasurer’s Investment Pool are included in the State of North Carolina’s

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2004, \$300,000.00 of the bank balance was covered by federal depository insurance, \$2,081,699.96 was covered by collateral held by the depository's 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.

Investments of the College's component unit, the Foundation of Caldwell Community College and Technical Institute, Inc., are subject to and restricted by General Statute 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

At June 30, 2004, 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, 2004, were as follows:

| | <u>Gross Receivables</u> | <u>Less Allowance for Doubtful Accounts</u> | <u>Net Receivables</u> |
|----------------------------------|------------------------------|---|----------------------------|
| Current Receivables: | | | |
| Students | \$ 354,084.69 | \$ 35,105.61 | \$ 318,979.08 |
| Accounts | 39,205.35 | | 39,205.35 |
| Intergovernmental | 185,360.62 | | 185,360.62 |
| Investment Earnings | 185.85 | | 185.85 |
| | <u>578,836.51</u> | <u>35,105.61</u> | <u>543,730.90</u> |
| Total Current Receivables | <u>\$ 578,836.51</u> | <u>\$ 35,105.61</u> | <u>\$ 543,730.90</u> |

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

| | <u>Balance July 1, 2003</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2004</u> |
|---|---------------------------------|------------------------|--------------------|----------------------------------|
| Capital Assets, Nondepreciable: | | | | |
| Land | \$ 4,077,255.82 | \$ 285,450.72 | \$ 0.00 | \$ 4,362,706.54 |
| Total Capital Assets, Nondepreciable | <u>4,077,255.82</u> | <u>285,450.72</u> | | <u>4,362,706.54</u> |
| Capital Assets, Depreciable: | | | | |
| Buildings | 26,122,726.07 | | | 26,122,726.07 |
| Machinery and Equipment | 4,288,176.32 | 245,494.66 | 93,319.79 | 4,440,351.19 |
| General Infrastructure | 652,251.33 | | | 652,251.33 |
| | <u>31,063,153.72</u> | <u>245,494.66</u> | <u>93,319.79</u> | <u>31,215,328.59</u> |
| Total Capital Assets, Depreciable | | | | |
| Less Accumulated Depreciation: | | | | |
| Buildings | 6,372,145.30 | 664,202.21 | | 7,036,347.51 |
| Machinery and Equipment | 2,718,588.19 | 384,695.05 | 91,531.09 | 3,011,752.15 |
| General Infrastructure | 361,820.05 | 39,890.64 | | 401,710.69 |
| | <u>9,452,553.54</u> | <u>1,088,787.90</u> | <u>91,531.09</u> | <u>10,449,810.35</u> |
| Total Accumulated Depreciation | | | | |
| Total Capital Assets, Depreciable, Net | <u>21,610,600.18</u> | <u>(843,293.24)</u> | <u>1,788.70</u> | <u>20,765,518.24</u> |
| Capital Assets, Net | <u>\$ 25,687,856.00</u> | <u>\$ (557,842.52)</u> | <u>\$ 1,788.70</u> | <u>\$ 25,128,224.78</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

| | Amount |
|---|----------------------|
| Accounts Payable | \$ 456,710.69 |
| Contract Retainage | 64,034.55 |
| Total Accounts Payable and Accrued Liabilities | \$ 520,745.24 |

NOTE 6 - LONG-TERM LIABILITIES

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

| | Balance July 1, 2003 | Additions | Reductions | Balance June 30, 2004 | Current Portion |
|------------------------------------|-------------------------|------------------------|----------------------|--------------------------|----------------------|
| Capital Leases Payable | \$ 56,589.62 | \$ 0.00 | \$ 56,589.62 | \$ 0.00 | \$ 0.00 |
| Compensated Absences | 1,151,871.69 | 1,098,392.96 | 941,619.31 | 1,308,645.34 | 151,966.16 |
| Total Long-Term Liabilities | \$ 1,208,461.31 | \$ 1,098,392.96 | \$ 998,208.93 | \$ 1,308,645.34 | \$ 151,966.16 |

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$65,116.39.

NOTE 8 - REVENUES

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

| | Gross Revenues | Less Scholarship Discounts | Less Allowance for Uncollectibles | Net Revenues |
|---|------------------------|----------------------------------|---|------------------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | \$ 2,933,169.40 | \$ 906,394.35 | \$ 24,811.22 | \$ 2,001,963.83 |
| Sales and Services: | | | | |
| Sales and Services of Auxiliary Enterprises: | | | | |
| Bookstore | \$ 1,528,905.27 | \$ 460,456.31 | \$ 4,441.10 | \$ 1,064,007.86 |
| Civic Center | 269,851.73 | | | 269,851.73 |
| Other | 76,118.40 | | 5,853.29 | 70,265.11 |
| Sales and Services of Education and Related Activities | 72,815.41 | | | 72,815.41 |
| Total Sales and Services | \$ 1,947,690.81 | \$ 460,456.31 | \$ 10,294.39 | \$ 1,476,940.11 |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 | \$ 8,888,180.60 | \$ 693,571.52 | \$ 435,705.02 | \$ 18,486.48 | \$ 0.00 | \$ 0.00 | \$ 10,035,943.62 |
| Academic Support | 1,129,273.07 | 137,391.92 | 79,747.00 | | | | 1,346,411.99 |
| Student Services | 1,576,881.90 | 47,049.66 | 165,840.78 | 103,697.46 | | | 1,893,469.80 |
| Institutional Support | 2,926,076.59 | 366,178.03 | 795,454.06 | 29,937.35 | | | 4,117,646.03 |
| Operations and Maintenance of Plant | 727,237.02 | 1,510,486.44 | 679,801.03 | | 626,196.39 | | 3,543,720.88 |
| Student Financial Aid | | | | 2,152,569.71 | | | 2,152,569.71 |
| Auxiliary Enterprises | 133,095.51 | 1,202,861.21 | 392,957.67 | | | | 1,728,914.39 |
| Depreciation | | | | | | 1,088,787.90 | 1,088,787.90 |
| Total Operating Expenses | <u>\$ 15,380,744.69</u> | <u>\$ 3,957,538.78</u> | <u>\$ 2,549,505.56</u> | <u>\$ 2,304,691.00</u> | <u>\$ 626,196.39</u> | <u>\$ 1,088,787.90</u> | <u>\$ 25,907,464.32</u> |

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, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of \$13,005,519.46, of which \$10,671,792.36 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$640,307.54 and \$23,477.94, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were \$23,477.94, \$0.00, and \$201,123.59, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Deferred Compensation and 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 \$198,189.00 for the year ended June 30, 2004.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$63,922.86 for the year ended June 30, 2004.

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 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was \$341,497.36. The College assumes no liability for retiree health care

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. 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. Except for a reduction in the public officers' and employees' liability insurance from \$11,000,000 to \$5,000,000, 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 \$5,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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. There were no employer contributions required for the current fiscal year.

Additional details on the State-administered risk management programs are disclosed in the State's Comprehensive Annual Financial Report, issued by the Office of the State Controller.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. **Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$245,996.92 at June 30, 2004.
- B. **Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$4,317,341.00 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 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2003, net assets as previously reported was restated as follows:

| | <u>Amount</u> |
|--|--------------------------------|
| July 1, 2003 Net Assets as Previously Reported | \$ 27,020,926.90 |
| Land Overstated | <u>(566.00)</u> |
| July 1, 2003 Net Assets as Restated | <u><u>\$ 27,020,360.90</u></u> |

***Caldwell Community College and Technical Institute
Schedule of General Obligation Bond Project Authorizations,
Budgets, and Expenditures
For Project-to-Date as of June 30, 2004***

Schedule 1

| Capital Improvement Projects | Original Projected Start Date | Revised/ Actual Start Date | General Obligation Bonds Authorized | Other Sources | Total Project Budget | Amount Expended | Percent Completed | Original Expected Completion Date | Revised/ Actual Completion Date |
|---|--|---|--|--------------------------|-------------------------------------|----------------------------|------------------------------|--|--|
| <i>Projects Approved by the State Board</i> | | | | | | | | | |
| Northeast Site Project | Sep 2004 | | \$ 662,755.00 | \$ 433,722.06 | \$ 1,096,477.06 | \$ 472,880.34 | 43.13% | Nov 2006 | May 2006 |
| Watauga Site Preparation | Jan 2001 | | 1,321,355.00 | | 1,321,355.00 | 1,096,624.06 | 82.99% | Jun 2003 | Feb 2005 |
| Distance Learning - Renovations | Jan 2001 | | 472,245.00 | 10,000.00 | 482,245.00 | 480,314.70 | 99.60% | Mar 2003 | May 2003 |
| Civic Center - Renovations | Mar 2002 | | 1,291,000.00 | 55,054.00 | 1,346,054.00 | 1,309,910.54 | 97.31% | Sep 2004 | |
| <i>Projects Pending Approval by the State Board</i> | | | | | | | | | |
| Renovations B & D Buildings | Mar 2003 | Dec 2004 | 1,000,000.00 | | 1,000,000.00 | | | May 2005 | Apr 2006 |
| Transportation Center - Site Work and New Construction | Sep 2004 | Dec 2004 | 934,831.00 | | 934,831.00 | | | May 2006 | |
| Renovations - Existing Facilities | Jun 2004 | Sep 2004 | 247,800.00 | | 247,800.00 | | | Feb 2005 | Sep 2005 |
| New Construction and Renovations | Feb 2003 | Sep 2004 | 1,101,355.00 | | 1,101,355.00 | | | Jun 2005 | Mar 2006 |
| Total All Projects | | | \$ 7,031,341.00 | \$ 498,776.06 | \$ 7,530,117.06 | \$ 3,359,729.64 | | | |
| <p>Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600,000,000 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> | | | | | | | | | |



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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

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

We have audited the financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise the Caldwell Community College and Technical Institute's basic financial statements, and have issued our report thereon dated December 16, 2004. We did not audit the financial statements of the Foundation of Caldwell Community College and Technical Institute, Inc., which represents 100% of the College's discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation of Caldwell Community College and Technical Institute, Inc., is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to the discretely presented component unit.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

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

might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the College, in a separate letter dated February 22, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we have reported to management of the College, in a separate letter dated February 22, 2005.

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.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

December 16, 2004

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.

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| 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. Kenneth A. Boham | President, Caldwell Community College and Technical Institute |
| Mr. David Holman | Vice President, Finance and Administration Caldwell Community College and Technical Institute |
| Mr. Larry W. Taylor | Chairman, Board of Trustees Caldwell Community College and Technical Institute |

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| Mr. James D. Johnson | Director, Fiscal Research Division |
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April 5, 2005

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