



# **STATE OF NORTH CAROLINA**

**CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE**

**HUDSON, NORTH CAROLINA**

## **FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE**

**HUDSON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement audit of Caldwell Community College and Technical Institute for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each finding.

*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.*

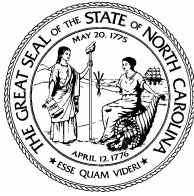
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 28, 2007

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2006, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Caldwell Community College and Technical Institute'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 unit. 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 the 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 provide 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 discretely presented component unit as of June 30, 2006, and the respective changes in financial position and 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)

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In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2007, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



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

June 1, 2007

## **CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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, 2006, with selected comparative information for the year ended June 30, 2005. 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 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 3,500 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, except the Statement of Cash Flows, 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, 2006, with assets of \$36,300,785.46 and liabilities of \$3,128,402.27. Liabilities increased by \$1,008,474.91 due primarily to an increase in accounts and retainage payable on construction projects. Most of the increase was due to the ASU/Broyhill Teaching Center which was completed in July. Net assets, which represent the residual interest in the College's assets after liabilities are deducted, totaled \$33,172,383.19.

The College has experienced growth in student enrollment for the past several years. Enrollment increased 3.8% between FY 2004 and 2005. In 2006, that growth continued at a 1.2% pace. Budgeted FTE (full-time equivalent students) enrollment increased from 3,523 in FY 2005 to 3,564 in FY 2006. The revenue the College derives from State Aid on FTE increased \$902,693.16 from the prior year. Consistent growth in FTE allows the College not only to continue to provide quality instructional services but to plan enhanced offerings and services.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Operating expenses increased as a result of normal salary increases and the addition of new faculty positions. The College's contribution for Medical and Retirement also increased from the prior year.

Operating revenues increased from \$7,308,284.64 in 2005 to \$8,531,273.44 in 2006 in large part due to increased revenue in the Bookstore and at the Civic Center. As noted above, the ASU/Broyhill Teaching Center was largely completed in 2006. Capital contributions decreased in the current year since the revenue for the construction was recognized in the prior year.

### 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, 2006.

#### Condensed Statement of Net Assets June 30, 2006

	2006	2005	(Decrease)
<b>Assets</b>			
Current Assets	\$ 2,854,202.75	\$ 8,027,076.78	\$ (5,172,874.03)
Capital Assets, Net	32,298,763.81	26,841,698.95	5,457,064.86
Other Noncurrent Assets	1,147,818.90	993,025.13	154,793.77
<b>Total Assets</b>	<b>36,300,785.46</b>	<b>35,861,800.86</b>	<b>438,984.60</b>
<b>Liabilities</b>			
Current Liabilities	1,610,615.00	1,096,987.81	513,627.19
Noncurrent Liabilities	1,517,787.27	1,022,939.55	494,847.72
<b>Total Liabilities</b>	<b>3,128,402.27</b>	<b>2,119,927.36</b>	<b>1,008,474.91</b>
<b>Net Assets</b>			
Invested in capital assets	32,298,763.81	26,841,698.95	5,457,064.86
Restricted			
Nonexpendable	256,588.52	206,353.85	50,234.67
Expendable	1,265,513.65	6,442,559.48	(5,177,045.83)
Unrestricted	(648,482.79)	251,261.22	(899,744.01)
<b>Total Net Assets</b>	<b>\$ 33,172,383.19</b>	<b>\$ 33,741,873.50</b>	<b>\$ (569,490.31)</b>

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, 2006.



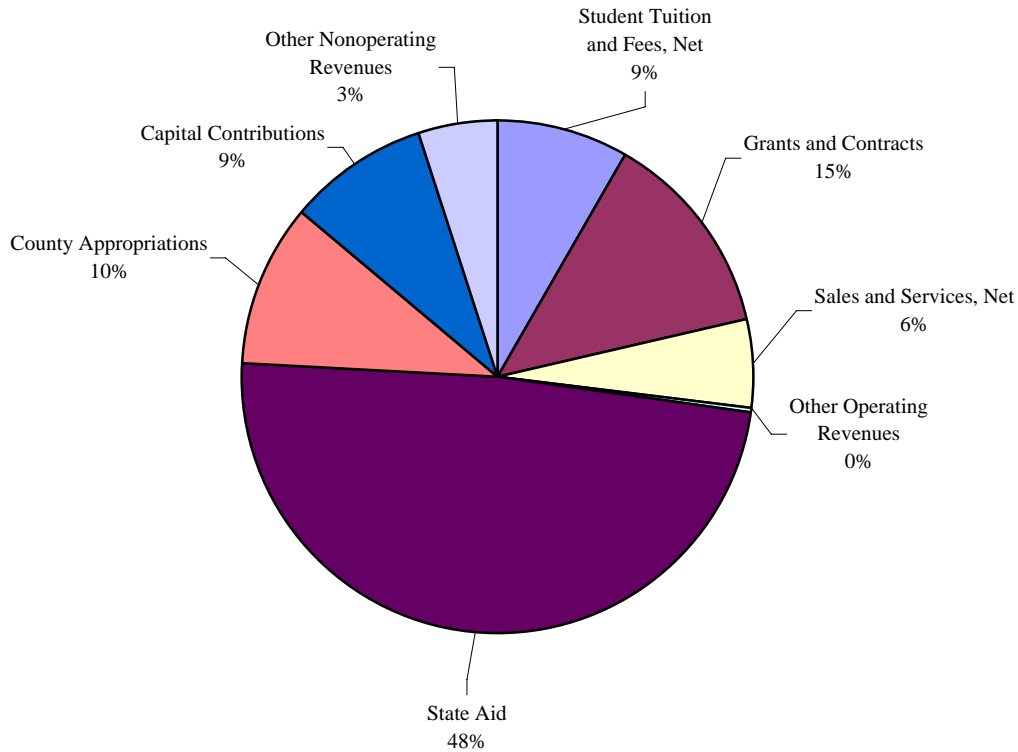
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Year Ended June 30, 2006

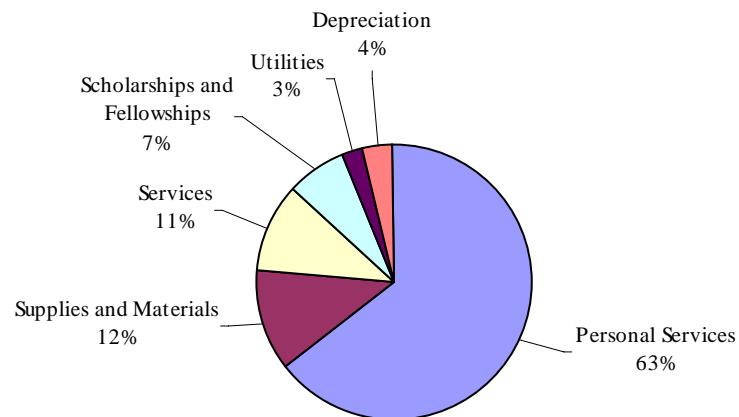
	2006	2005	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 2,439,338.23	\$ 2,528,478.28	\$ (89,140.05)
Grants and Contracts	4,359,015.88	3,329,596.06	1,029,419.82
Sales and Services, Net	1,655,460.04	1,384,037.82	271,422.22
Other Operating Revenues	<u>77,459.29</u>	<u>66,172.48</u>	<u>11,286.81</u>
<b>Total Operating Revenues</b>	<u>8,531,273.44</u>	<u>7,308,284.64</u>	<u>1,222,988.80</u>
<b>Operating Expenses</b>	<u>29,581,006.97</u>	<u>26,902,885.58</u>	<u>2,678,121.39</u>
<b>Operating Loss</b>	<u>(21,049,733.53)</u>	<u>(19,594,600.94)</u>	<u>(1,455,132.59)</u>
<b>Nonoperating Revenues</b>			
State Aid	14,026,451.79	13,123,758.63	902,693.16
County Appropriations	2,950,237.00	2,716,446.00	233,791.00
Other Nonoperating Revenues	<u>943,972.48</u>	<u>1,905,677.33</u>	<u>(961,704.85)</u>
<b>Total Nonoperating Revenues</b>	<u>17,920,661.27</u>	<u>17,745,881.96</u>	<u>174,779.31</u>
<b>Loss Before Other Revenues</b>	(3,129,072.26)	(1,848,718.98)	(1,280,353.28)
<b>Capital Contributions</b>	<u>2,559,581.95</u>	<u>9,000,940.52</u>	<u>(6,441,358.57)</u>
<b>Increase (Decrease) in Net Assets</b>	(569,490.31)	7,152,221.54	(7,721,711.85)
<b>Net Assets Beginning of Year, as Restated</b>	<u>33,741,873.50</u>	<u>26,589,651.96</u>	<u>7,152,221.54</u>
<b>Net Assets End of Year</b>	<u><u>\$ 33,172,383.19</u></u>	<u><u>\$ 33,741,873.50</u></u>	<u><u>\$ (569,490.31)</u></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:



## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **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.

### **Economic Forecast**

To some extent the College's recent growth has been fueled by difficult economic conditions in our service area. High unemployment has led many residents to return to College to enhance their skills or to change careers. Management realizes that this growth may be unsustainable and has taken steps to ensure financial stability regardless of general economic conditions. The College has entered into partnerships with Appalachian State University and the Caldwell County School System.

The partnership with Appalachian allows students to earn a Bachelor's degree on our campus by taking two years of Community College classes and then finishing their degrees with ASU classes offered in the recently completed Broyhill Building, which houses the ASU Center. This collaboration began with an Elementary Education degree and will be expanded in the future.

In 2006, the first students entered the Caldwell Early College High School. This program will allow high school students to earn their high school diploma and an Associate's degree in five years of study. The College will earn FTE from the College classes taken by these students. Construction of the Caldwell Early College High School will begin in 2007. This 46,000 square foot facility will be built on the campus of Caldwell Community College. In addition to housing the Early College, it will provide additional instructional space for the College.

These programs will serve to reduce the portion of the College's funding that is reliant on dislocated workers and provide steady and sustainable revenue streams into the future. By taking steps to diversify the College's student population, management hopes to reduce uncertainties about funding and provide a stable foundation for future growth.

***Caldwell Community College and Technical Institute***  
***Statement of Net Assets***  
***June 30, 2006***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 274,554.21
Restricted Cash and Cash Equivalents	705,022.78
Restricted Short-Term Investments	126,000.00
Receivables, Net (Note 3)	1,427,400.34
Inventories	321,225.42

Total Current Assets	<u>2,854,202.75</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	12,453.85
Restricted Due from Primary Government	892,365.05
Endowment Investments	243,000.00
Capital Assets - Nondepreciable (Note 4)	11,998,176.57
Capital Assets - Depreciable, Net (Note 4)	<u>20,300,587.24</u>

Total Noncurrent Assets	<u>33,446,582.71</u>
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Total Assets	<u>36,300,785.46</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,278,823.35
Funds Held for Others	151,839.01
Long-Term Liabilities - Current Portion (Note 6)	<u>179,952.64</u>

Total Current Liabilities	<u>1,610,615.00</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,517,787.27</u>
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Total Liabilities	<u>3,128,402.27</u>
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**NET ASSETS**

Invested in Capital Assets	32,298,763.81
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Restricted for:

Nonexpendable:

Scholarships and Fellowships	151,588.52
Other	105,000.00

Expendable:

Scholarships and Fellowships	143,642.75
Capital Projects	656,158.87
Other	465,712.03

Unrestricted	<u>(648,482.79)</u>
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Total Net Assets	<u>\$ 33,172,383.19</u>
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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, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,439,338.23
Federal Grants and Contracts	3,601,139.57
State and Local Grants and Contracts	757,876.31
Sales and Services, Net (Note 8)	1,655,460.04
Other Operating Revenues	77,459.29

Total Operating Revenues	<u>8,531,273.44</u>
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**EXPENSES**

Operating Expenses:

Personal Services	18,987,133.04
Supplies and Materials	3,494,566.18
Services	3,190,204.84
Scholarships and Fellowships	2,082,817.98
Utilities	786,713.73
Depreciation	1,039,571.20

Total Operating Expenses	<u>29,581,006.97</u>
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Operating Loss	<u>(21,049,733.53)</u>
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**NONOPERATING REVENUES**

State Aid	14,026,451.79
County Appropriations	2,950,237.00
Noncapital Grants	556,812.20
Noncapital Gifts	322,094.89
Investment Income, Net	61,296.75
Other Nonoperating Revenues	3,768.64

Net Nonoperating Revenues	<u>17,920,661.27</u>
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Loss Before Other Revenues	(3,129,072.26)
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State Capital Aid	2,189,135.65
County Capital Appropriations	353,275.30
Capital Grants	17,171.00

Decrease in Net Assets	(569,490.31)
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**NET ASSETS**

Net Assets, July 1, 2005	<u>33,741,873.50</u>
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Net Assets, June 30, 2006	<u><u>\$ 33,172,383.19</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

***Caldwell Community College and Technical Institute***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 8,913,844.33
Payments to Employees and Fringe Benefits	(18,678,648.09)
Payments to Vendors and Suppliers	(6,966,565.15)
Payments for Scholarships and Fellowships	(2,097,208.81)
Other Payments	(15,510.34)
	<hr/>
Net Cash Used by Operating Activities	(18,844,088.06)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	14,026,451.79
County Appropriations	2,950,237.00
Noncapital Grants Received	641,054.03
Noncapital Gifts and Endowments Received	322,094.89
	<hr/>
Cash Provided by Noncapital Financing Activities	17,939,837.71

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	1,882,874.65
County Capital Appropriations	353,275.30
Capital Grants Received	4,102,889.09
Proceeds from Sale of Capital Assets	18,632.52
Proceeds from Insurance on Capital Assets	1,000.00
Acquisition and Construction of Capital Assets	(6,341,906.04)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	16,765.52

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<hr/> 60,979.12
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Net Decrease in Cash and Cash Equivalents	(826,505.71)
Cash and Cash Equivalents, July 1, 2005	<hr/> 1,818,536.55
Cash and Cash Equivalents, June 30, 2006	<hr/> <hr/> \$ 992,030.84

**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (21,049,733.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation Expense	1,039,571.20
Changes in Assets and Liabilities:	
Receivables, Net	368,180.06
Inventories	(38,294.90)
Accounts Payable and Accrued Liabilities	546,102.02
Dut to State of North Carolina Component Units	(2,887.52)
Funds Held for Others	(15,510.34)
Compensated Absences	308,484.95
	<hr/>
Net Cash Used by Operating Activities	<hr/> <hr/> \$ (18,844,088.06)

***Caldwell Community College and Technical Institute***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3***

***Page 2***

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$	274,554.21
Restricted Cash and Cash Equivalents		705,022.78

Noncurrent Assets:

Restricted Cash and Cash Equivalents		<u>12,453.85</u>
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Total Cash and Cash Equivalents - June 30, 2006	\$	<u><u>992,030.84</u></u>
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**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$	170,593.90
Increase in Receivables Related to Nonoperating Income		306,578.63

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

***The Foundation of Caldwell Community College  
and Technical Institute, Inc.  
Statement of Financial Position  
June 30, 2006***

***Exhibit B-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$	465,982
Short-Term Investments:		
Certificates of Deposit		1,286,273
Unconditional Promises to Give		9,679
Conditional Promises to Give		37,003
Accrued Interest Receivable		16,794

Total Current Assets		<u>1,815,731</u>
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Noncurrent Assets:

Long-Term Investments:		
Mutual Funds, Stocks, and Bonds		<u>2,705,774</u>

Total Noncurrent Assets		<u>2,705,774</u>
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Total Assets		4,521,505
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**NET ASSETS**

Unrestricted		621,298
Temporarily Restricted		3,210,464
Permanently Restricted		<u>689,743</u>

Total Net Assets	\$	<u><u>4,521,505</u></u>
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See Note 1 in the Notes to the Financial Statements



***The Foundation of Caldwell Community College  
and Technical Institute, Inc.  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Support and Revenue:

Donations	\$ 227,874
Investment Earnings	11,267
In-Kind Administration	75,703

Total Support and Revenue	314,844
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Net Assets Released from Restrictions:

Satisfaction of Program Restrictions	197,099
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Total Support and Revenue and Assets Released from Restrictions	511,943
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Expenses:

Program Services:

Scholarships and Special Institutional Requests	470,049
Annual Fund Drive	2,124
Printing	1,703
Insurance	326
Professional Fees	1,945
Postage	431
Awards and Service Pins	3,298
Operating and Other Miscellaneous	11,000
In-Kind Administration	75,703
Other Expenses	692

Total Expenses	567,271
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Transfers	109,264
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Decrease in Unrestricted Net Assets	53,936
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**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Donations	138,113
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Net Assets Released from Restrictions:

Satisfaction of Program Restrictions	(54,878)
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Total Support and Revenue	83,235
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Transfers	3,127,229
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Increase in Temporarily Restricted Net Assets	3,210,464
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***The Foundation of Caldwell Community College  
and Technical Institute, Inc.  
Statement of Activities  
For the Fiscal Year Ended June 30, 2006***

***Exhibit B-2  
Page 2***

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Donations	304,557
Investment Earnings	142,221
Realized Gain on Investments	84,909
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(142,221)
Total Support and Revenue	389,467
Transfers	(3,236,493)
Increase in Permanently Restricted Net Assets	(2,847,028)
Increase in Net Assets	417,372
Net Assets at Beginning of Year	4,104,133
Net Assets at End of Year	<u>\$ 4,521,505</u>

See Note 1 in the Notes to the Financial Statements

**CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** – The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. 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 the component unit 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 different GAAP reporting models and to emphasize its legal separateness.

**Discretely Presented Component Unit** – The Foundation of Caldwell Community College and Technical Institute, Inc., 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, Inc., is a 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)

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The Foundation of Caldwell Community College and Technical Institute, Inc., 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 Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2006, the Foundation distributed \$562,891.35 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 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.
- D. Cash and Cash Equivalents** – This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. 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 charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- 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 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 1 or for which an employee can be paid upon

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

**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.

**M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

### NOTE 2 - DEPOSITS AND INVESTMENTS

**College** – All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$3,300.00, and deposits in private financial institutions with a carrying value of \$984,057.93 and a bank balance of \$1,442,502.95. Cash and cash equivalents also include \$4,672.91 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund as stated below. The amount shown on the Statement of Net Assets as Restricted Short-Term Investments of \$126,000.00 and Endowment Investments of \$243,000.00 includes certificates of deposit with private financial institutions which have a bank balance totaling \$369,000.00.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3, obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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At June 30, 2006, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,672.91 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.18 years as of June 30, 2006. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) 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.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

**Component Unit** – Investments of the College's component unit, The Foundation of Caldwell Community College and Technical Institute, are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments:

Certificates of Deposit	\$ 1,286,273
Forlines Endowment	110,591
Broyhill Dream Scholarship Mutual Funds	55,267
TD Dream Fund	12,784
Broyhill Dream Endowment	104,533
Compass Fund	103,565
Broyhill Dream Fund Source	114,656
Blackwelder Fund:	
Stocks and Bonds	2,161,296
Lackey Endowment Fund:	
Mutual Funds	43,082
Total Investments	<u>\$ 3,992,047</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 368,545.64	\$ 57,645.70	\$ 310,899.94
Accounts	39,214.73		39,214.73
Intergovernmental	1,076,487.46		1,076,487.46
Investment Earnings	798.21		798.21
<b>Total Current Receivables</b>	<u>\$ 1,485,046.04</u>	<u>\$ 57,645.70</u>	<u>\$ 1,427,400.34</u>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 4,610,105.34	\$ 319,953.50	\$ 0.00	\$ 4,930,058.84
Construction in Progress	2,339,034.30	5,140,450.51	411,367.08	7,068,117.73
<b>Total Capital Assets, Nondepreciable</b>	<u>6,949,139.64</u>	<u>5,460,404.01</u>	<u>411,367.08</u>	<u>11,998,176.57</u>
Capital Assets, Depreciable:				
Buildings	26,122,726.07	336,585.93		26,459,312.00
Machinery and Equipment	4,516,955.83	502,836.38	113,180.91	4,906,611.30
General Infrastructure	652,251.33	624,040.70		1,276,292.03
<b>Total Capital Assets, Depreciable</b>	<u>31,291,933.23</u>	<u>1,463,463.01</u>	<u>113,180.91</u>	<u>32,642,215.33</u>
Less Accumulated Depreciation:				
Buildings	7,700,407.95	664,060.44		8,364,468.39
Machinery and Equipment	3,262,036.82	345,771.34	97,323.93	3,510,484.23
General Infrastructure	436,929.15	29,746.32		466,675.47
<b>Total Accumulated Depreciation</b>	<u>11,399,373.92</u>	<u>1,039,578.10</u>	<u>97,323.93</u>	<u>12,341,628.09</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>19,892,559.31</u>	<u>423,884.91</u>	<u>15,856.98</u>	<u>20,300,587.24</u>
<b>Capital Assets, Net</b>	<u>\$ 26,841,698.95</u>	<u>\$ 5,884,288.92</u>	<u>\$ 427,224.06</u>	<u>\$ 32,298,763.81</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 765,206.82
Accrued Payroll	186,478.00
Contract Retainage	315,152.28
Other	11,986.25
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,278,823.35</b>

### NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 1,389,254.96	\$ 1,159,955.70	\$ 851,470.75	\$ 1,697,739.91	\$ 179,952.64

### NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$88,724.83.

### 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
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 3,376,720.48	\$ 927,581.05	\$ 9,801.20	\$ 2,439,338.23
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,769,056.16	\$ 569,576.98	\$ 2,997.85	\$ 1,196,481.33
Civic Center	298,107.25			298,107.25
Other	97,840.40			97,840.40
Sales and Services of Education and Related Activities	63,031.06			63,031.06
<b>Total Sales and Services</b>	<b>\$ 2,228,034.87</b>	<b>\$ 569,576.98</b>	<b>\$ 2,997.85</b>	<b>\$ 1,655,460.04</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 11,080,728.58	\$ 936,210.83	\$ 629,878.16	\$ 3,000.00	\$ 0.00	\$ 0.00	\$ 12,649,817.57
Academic Support	1,253,829.38	145,147.42	155,223.80				1,554,200.60
Student Services	2,059,893.87	51,840.82	150,332.07	93,502.04			2,355,568.80
Institutional Support	3,383,175.17	335,009.02	745,227.29	18,839.55			4,482,251.03
Operations and Maintenance of Plant	1,033,264.51	631,387.97	953,377.62		786,713.73		3,404,743.83
Student Financial Aid			4,304.18	1,967,476.39			1,971,780.57
Auxiliary Enterprises	176,241.53	1,394,970.12	551,861.72				2,123,073.37
Depreciation						1,039,571.20	1,039,571.20
Total Operating Expenses	<u>\$ 18,987,133.04</u>	<u>\$ 3,494,566.18</u>	<u>\$ 3,190,204.84</u>	<u>\$ 2,082,817.98</u>	<u>\$ 786,713.73</u>	<u>\$ 1,039,571.20</u>	<u>\$ 29,581,006.97</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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$15,963,157.23, of which \$13,132,464.81 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$787,947.89 and \$307,299.68, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$307,299.68, \$252,811.06, and \$23,477.94, 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)

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*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. The voluntary contributions by employees amounted to \$241,173.01 for the year ended June 30, 2006.

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 \$61,829.16 for the year ended June 30, 2006.

### 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 3.8% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College's total contribution to the Plan was \$499,033.66. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 year ended June 30, 2006, the College's total contribution to the DIPNC was \$68,288.82. 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, and can include 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 \$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 for other College-owned vehicles is covered by contracts with private insurance companies.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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. The employer contribution rate was .16% for the current fiscal year.

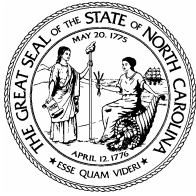
Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$7,339.40 at June 30, 2006.

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STATE OF NORTH CAROLINA  
Office of the 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**

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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, 2006, which collectively comprise the College's basic financial statements and have issued our report thereon dated June 1, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

**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)**

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**Finding**

1. Use of Fiduciary Funds – Deficit Cash in Capital Projects
2. Lack of Internal Controls over Payroll
3. Segregation of Duties over Receipting

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of the reportable conditions to be material weaknesses.

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

*Leslie W. Merritt, Jr.*

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

June 1, 2007

## AUDIT FINDINGS AND RECOMMENDATIONS

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### **Matters Related to Financial Reporting**

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number 2 was also reported in the prior year.

#### 1. USE OF FIDUCIARY FUNDS – DEFICIT CASH IN CAPITAL PROJECTS

The College converted a \$354,000.00 certificate of deposit to cash to provide funds to purchase property. The College incurred an early withdrawal penalty resulting in a \$2,819.85 loss on the investment. There were \$234,000.00 of endowment funds included in the certificate. Endowment funds are fiduciary monies that are restricted by the donor to be held in perpetuity. This transaction was noted when the auditor examined the certification of bank accounts and investments for June 30, 2006, and auditee personnel stated that this certificate of deposit has been cashed in July 2006. Examination of the institutional funds bank statement for June 2006 revealed a balance that would have been insufficient to pay for the property without the funds from the certificate.

The College did not request timely reimbursement for capital projects which created deficit cash balances of \$547,864.66. Lack of timely reimbursement also created a cash flow problem.

*Recommendation:* We recommend that the College develop cash management controls to ensure that funds are available to meet the cash flow needs of the College. The endowment fund should be replenished. We recommend the College develop controls to ensure that reimbursement requests for capital projects are filed timely.

*College's Response:* The College will hold restricted funds in perpetuity and the endowment fund has been replenished. Procedures involving the filing of reimbursements for construction projects have been strengthened and projects are reviewed more often and in greater detail to determine the need for reimbursement. The reimbursements for all established constructions projects are up-to-date.

#### 2. LACK OF INTERNAL CONTROLS OVER PAYROLL

The College requires Curriculum and Continuing Education instructors to sign contracts. The contracts are signed by the employee and approved by the Supervisor and President or his designee. One Continuing Education instructor, with a total of three contracts, did not sign one of the contracts and the contract had not been approved by the appropriate Supervisor or the President/Designee. One contract could not be located and another was reprinted on the date a copy was requested. Personnel Data Entry Sheets, with no authorizing signatures or approval, are received from the departments for part-time staff

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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new hires. We noted several areas/departments of the College do not complete part-time staff contracts which is required per the College's Policies and Procedures Manual and no other form of authorization was on file. We noted that terminated employees were not terminated in the Payroll system, but were suspended by the Payroll Accountant in order to prevent payment after their termination date.

*Recommendation:* The College should strengthen internal controls over the payroll process by implementing a review and approval process prior to payment to ensure that all employees are paid correctly and that required contracts are properly signed and approved. In addition, the College should implement procedures for employees to be terminated and/or pay suspended by someone other than the Payroll Accountant.

*College's Response:* The College will implement a procedure whereby the Personnel Data Sheet currently received from departments when a part-time employee is hired is signed by the employee's supervisor. The signature will indicate that the supervisor has authorized the hiring of the part-time employee.

Existing College policy is that all contracts produced will be signed by the employee and an authorized College official. The instance of non-compliance noted by the auditors has been identified and corrected.

The termination process in the system will be properly completed by Human Resources for all terminated employees.

### 3. SEGREGATION OF DUTIES OVER RECEIPTING

During our testwork, we noted instances of the Accounts Receivable Technician receipting third party billings she had billed. The Accounts Receivable Technician also prepares the daily deposit. In addition, we noted that the College does not account for beginning and ending receipt numbers on the daily cash analysis.

*Recommendation:* We recommend that the College take the necessary steps to ensure that there is a segregation of duties between the accounts receivable function and the receipting function. The preparation of the daily deposit should be segregated from the receipting function. Procedures should be developed to ensure that beginning and ending receipt numbers are accounted for on the daily cash analysis.

*College's Response:* Current College procedures prohibit receipting by the Accounts Receivable (A/R) Technician. The A/R Technician has been counseled on the importance of abiding by this prohibition and her ability to receipt in the system has been eliminated. The A/R Accountant is monitoring the receipting process to ensure that only authorized persons are receipting. The College will record beginning and ending receipt numbers.

## **ORDERING INFORMATION**

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