



STATE OF NORTH CAROLINA

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE

HUDSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE

HUDSON, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, 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, 2008, 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 Responses section of this report. The College's response is included following each finding.

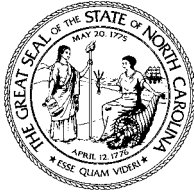
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
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, 2008, which collectively comprise the College's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of 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., 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 opinions, insofar as they relate to the amounts included for that entity, are 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.

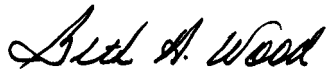
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Caldwell Community College and Technical Institute and its discretely presented component unit as of June 30, 2008, 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)

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2009, 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.



Beth A. Wood, CPA
State Auditor

March 10, 2009

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE 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, 2008, with selected comparative information for the year ended June 30, 2007. 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 4,000 students and 435 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:

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

The following analysis discusses elements from each of these statements, except for the Statement of Cash Flows, as well as an overview of the College's activities. The Notes to the Financial Statements provide additional information required for an understanding of the financial Statements.

Important characteristics of the financial statements include the following:

- The Statement of Net Assets is separated by current and noncurrent assets. This designation is also used in reporting liabilities. The term current is used to designate a time period of one year or less while noncurrent is considered to be a period of greater than one year.
- Revenues and expenses are categorized as either operating or nonoperating.
- Scholarships and fellowships applied to student accounts are discounted from revenue to avoid overstatement of tuition and fees.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statements.

Analysis of Financial Position and Results of Operations

The College's financial position remained strong at June 30, 2008. College assets increased from \$39,276,246.41 in 2007 to \$41,186,968.56 in 2008. The increase was largely attributable to the following:

- Cash and cash equivalents increased as the College collected construction receivables outstanding at the end of 2007. This also led to a reduction in restricted due from primary government. Further the College is maintaining somewhat higher cash balances as a hedge against an uncertain economy.
- Accounts receivable increased due to grants that were awarded at the end of the fiscal year and because Watauga County appropriated \$1,157,195 toward the construction of the Occupational Training Center on the Watauga Campus.

Net assets, which represent the residual interest in the College's assets after liabilities are deducted, totaled \$38,412,815.15.

The College has experienced growth in student enrollment for the past several years. Between 2003 and 2008 enrollment increased by over 16%. In 2008 growth advanced at a 4.7% pace. Budgeted FTE (full-time equivalent students) enrollment increased from 3,716 in FY 2007 to 3,892 in FY 2008. This led to an increase in the revenue the College derives from State Aid based on FTE of \$1,943,835 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. The College had other decreases to State aid of \$599,196.04.

Operating expenses increased as a result of normal salary increases and the addition of new faculty positions. The College's required contribution for medical and retirement also increased from the prior year. Purchases for supplies and materials increased as the result of increased enrollment and the need to furnish new and renovated facilities. Expenses under the services caption increased due to enrollment growth as well as the increased cost of performances at the Civic Center and an expansion of dual enrollment programs. Scholarships and fellowships increased \$568,535.92 with enrollment growth and changes in maximum awards for Federal Pell Grants.

County capital aid increased due to the construction funds appropriated by Watauga County noted above. Capital grants were lower in the current year as construction projects financed by bond funds near completion.

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, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets For the Fiscal Year Ending June 30, 2008

	2008	2007	Increase (Decrease)
Assets			
Current Assets	\$ 3,612,670.22	\$ 2,082,685.48	\$ 1,529,984.74
Capital Assets, Net	34,942,318.40	34,266,229.00	676,089.40
Other Noncurrent Assets	<u>2,631,979.94</u>	<u>2,927,331.93</u>	<u>(295,351.99)</u>
Total Assets	<u>41,186,968.56</u>	<u>39,276,246.41</u>	<u>1,910,722.15</u>
Liabilities			
Current Liabilities	1,063,422.53	769,207.32	294,215.21
Noncurrent Liabilities	<u>1,710,730.88</u>	<u>1,592,990.59</u>	<u>117,740.29</u>
Total Liabilities	<u>2,774,153.41</u>	<u>2,362,197.91</u>	<u>411,955.50</u>
NET ASSETS			
Invested in Capital Assets	34,942,318.40	34,266,229.00	676,089.40
Restricted			
Nonexpendable	260,753.85	256,453.85	4,300.00
Expendable	3,482,359.57	2,479,542.98	1,002,816.59
Unrestricted	<u>(272,616.67)</u>	<u>(88,177.33)</u>	<u>(184,439.34)</u>
Total Net Assets	<u><u>\$ 38,412,815.15</u></u>	<u><u>\$ 36,914,048.50</u></u>	<u><u>\$ 1,498,766.65</u></u>

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, 2008.

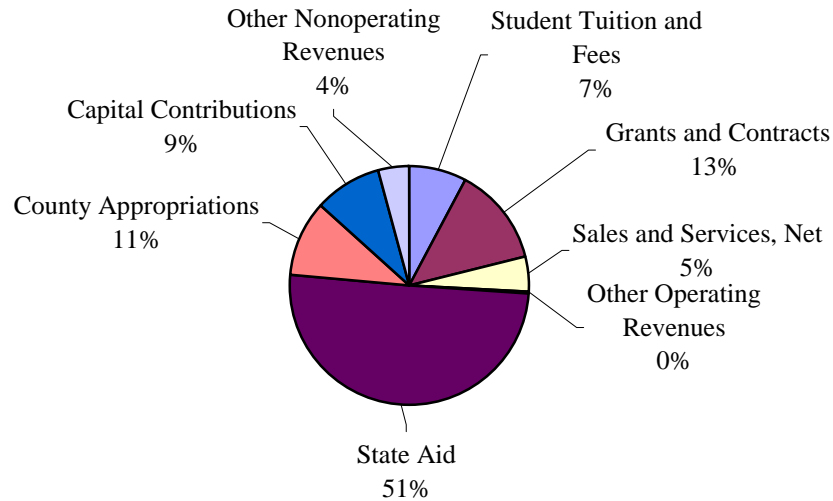
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets For the Fiscal Year Ended June 30, 2008

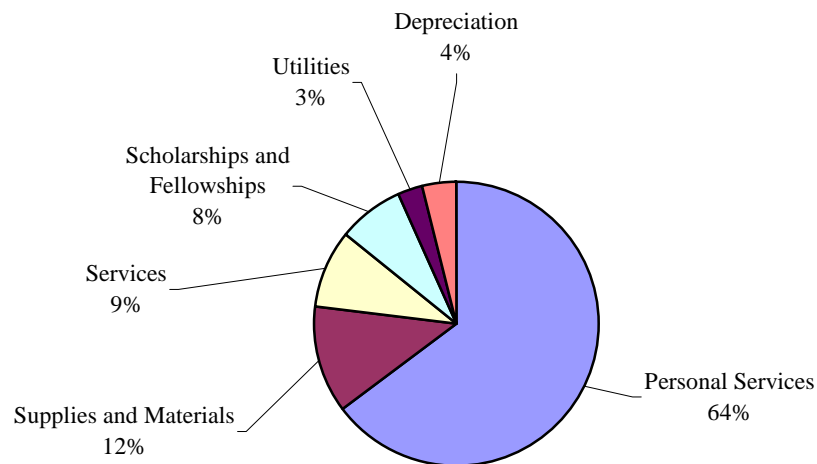
	2008	2007 (As Restated)	Increase (Decrease)
Operating Revenues			
Student Tuition and Fees, net	\$ 2,470,913.59	\$ 2,393,710.07	\$ 77,203.52
Grants and Contracts	4,645,813.46	3,889,201.45	756,612.01
Sales and Services, net	1,672,941.94	1,885,354.25	(212,412.31)
Other Operating Revenues	50,321.40	59,544.26	(9,222.86)
Total Operating Revenues	8,839,990.39	8,227,810.03	612,180.36
Operating Expenses			
Personal Services	21,857,932.88	20,421,702.50	1,436,230.38
Supplies and Materials	4,171,287.62	3,376,836.39	794,451.23
Services	2,994,848.15	2,518,102.11	476,746.04
Scholarships and Fellowships	2,558,351.37	2,020,440.47	537,910.90
Utilities	945,955.23	884,375.19	61,580.04
Depreciation	1,286,635.59	1,253,310.97	33,324.62
Total Operating Expenses	33,815,010.84	30,474,767.63	3,340,243.21
Operating Loss	(24,975,020.45)	(22,246,957.60)	(2,728,062.85)
Nonoperating Revenues			
State Aid	17,446,283.62	16,101,644.66	1,344,638.96
County Appropriations	3,636,810.98	3,134,764.08	502,046.90
Other Nonoperating Revenues	1,406,813.39	1,436,732.12	(29,918.73)
Total Nonoperating Revenues	22,489,907.99	20,673,140.86	1,816,767.13
Loss Before Other Revenues	(2,485,112.46)	(1,573,816.74)	(911,295.72)
Capital Contributions	3,177,908.02	4,441,975.91	(1,264,067.89)
Increase in Net Assets	692,795.56	2,868,159.17	(2,175,363.61)
Net Assets Beginning of Year	37,720,019.59	34,045,889.33	3,674,130.26
Restatement (Note 15)		805,971.09	(805,971.09)
Net Assets End of Year	\$ 38,412,815.15	\$ 37,720,019.59	\$ 692,795.56

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)

Capital Assets

The passage of the Higher Education Improvement Bond Referendum by North Carolina voters on November 7, 2000, placed the College 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. As of June 30, 2008 bond funds provided a large portion of the funding for the Occupation Extension building project currently underway at our Watauga Campus. This building will house the Watauga Nursing program along with a number of curriculum and continuing education classrooms. Although the majority of the bond funds have been expended, \$520,290 remains for future projects.

As of June 30, 2008 construction was nearing completion on the Caldwell Early College Classroom/Multipurpose Facility. This 46,000 square foot facility was built through cooperation with Caldwell County and will house the Early College High School during the day while providing classroom space for college classes taught at night. In addition to housing the Early College, this building will provide additional instructional space for the College.

Economic Forecast

Employment conditions in the College's service area remain difficult, affected by the general economic downturn. These conditions have both sharpened the College's focus on training dislocated workers for the jobs available and led management to develop additional revenue streams. To this end 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 2008 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 revenue from the college classes taken by these students.

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 & Technical Institute
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 913,732.73
Restricted Cash and Cash Equivalents	886,959.88
Restricted Short-Term Investments	5,000.00
Receivables, Net (Note 3)	1,390,664.63
Inventories	416,312.98
Total Current Assets	<u>3,612,670.22</u>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	326,965.97
Restricted Due from Primary Government	2,056,313.97
Restricted Investments	248,700.00
Capital Assets - Nondepreciable (Note 4)	7,182,040.01
Capital Assets - Depreciable, Net (Note 4)	<u>27,760,278.39</u>
Total Noncurrent Assets	<u>37,574,298.34</u>

Total Assets	<u>41,186,968.56</u>
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	595,822.59
Funds Held for Others	100,895.23
Unearned Revenue	195,791.10
Long-Term Liabilities - Current Portion (Note 6)	<u>170,913.61</u>
Total Current Liabilities	<u>1,063,422.53</u>

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,710,730.88</u>
Total Liabilities	<u>2,774,153.41</u>

NET ASSETS

Invested in Capital Assets	34,942,318.40
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	145,753.85
Other	115,000.00
Expendable:	
Scholarships and Fellowships	88,651.05
Capital Projects	2,777,562.16
Other	616,146.36
Unrestricted	<u>(272,616.67)</u>
Total Net Assets	<u>\$ 38,412,815.15</u>

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

Caldwell Community College & Technical Institute
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 2,470,913.59
Federal Grants and Contracts	3,593,875.55
State and Local Grants and Contracts	1,051,937.91
Sales and Services, Net (Note 8)	1,672,941.94
Other Operating Revenues	50,321.40

Total Operating Revenues	<u>8,839,990.39</u>
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EXPENSES

Operating Expenses:

Personal Services	21,857,932.88
Supplies and Materials	4,171,287.62
Services	2,994,848.15
Scholarships and Fellowships	2,558,351.37
Utilities	945,955.23
Depreciation	1,286,635.59

Total Operating Expenses	<u>33,815,010.84</u>
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Operating Loss	<u>(24,975,020.45)</u>
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NONOPERATING REVENUES

State Aid	17,446,283.62
County Appropriations	3,636,810.98
Noncapital Grants	1,029,829.39
Noncapital Gifts	319,645.16
Investment Income	44,180.69
Other Nonoperating Revenues	13,158.15

Nonoperating Revenues	<u>22,489,907.99</u>
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Loss Before Other Revenues	(2,485,112.46)
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State Capital Aid	1,314,503.96
County Capital Aid	1,689,891.28
Capital Grants	36,414.50
Capital Gifts	137,098.28

Increase in Net Assets	692,795.56
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NET ASSETS

Net Assets, July 1, 2007 as Restated (Note 15)	<u>37,720,019.59</u>
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Net Assets, June 30, 2008	<u><u>\$ 38,412,815.15</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

Caldwell Community College & Technical Institute
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 9,459,515.73
Payments to Employees and Fringe Benefits	(21,765,825.65)
Payments to Vendors and Suppliers	(8,147,973.28)
Payments for Scholarships and Fellowships	(2,558,351.37)
Other Payments	(65,645.19)

Net Cash Used by Operating Activities	(23,078,279.76)
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	17,446,283.62
County Appropriations	3,636,810.98
Noncapital Grants Received	1,011,478.01
Noncapital Gifts	319,645.16

Cash Provided by Noncapital Financing Activities	22,414,217.77
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,936,821.92
County Capital Aid	696,063.01
Capital Grants Received	36,414.50
Capital Gifts Received	125,968.28
Proceeds from Sale of Capital Assets	5,164.99
Proceeds from Insurance on Capital Assets	7,993.16
Acquisition and Construction of Capital Assets	(992,024.31)

Net Cash Provided by Capital and Related Financing Activities	1,816,401.55
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CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	44,180.69
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Net Increase in Cash and Cash Equivalents	1,196,520.25
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Cash and Cash Equivalents, July 1, 2007	931,138.33
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Cash and Cash Equivalents, June 30, 2008	\$ 2,127,658.58
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RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (24,975,020.45)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,286,635.59
Changes in Assets and Liabilities:	
Receivables, Net	423,734.24
Inventories	(71,985.05)
Accounts Payable and Accrued Liabilities	36,102.77
Unearned Revenue	195,791.10
Funds Held for Others	(65,645.19)
Compensated Absences	92,107.23

Net Cash Used by Operating Activities	\$ (23,078,279.76)
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Caldwell Community College & Technical Institute
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008

Exhibit A-3

Page 2

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:

Cash and Cash Equivalents	\$	913,732.73
Restricted Cash and Cash Equivalents		886,959.88

Noncurrent Assets:

Restricted Cash and Cash Equivalents		326,965.97
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Total Cash and Cash Equivalents - June 30, 2008	\$	2,127,658.58
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NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$	187,112.70
Assets Acquired through a Gift		11,130.00
Increase in Receivables Related to Nonoperating Income		1,012,179.65
Capital Asset Write-Offs		14,806.71

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, 2008

Exhibit B-1

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,438	\$ 312,843	\$ 156,071	\$ 470,352
Short-Term Investments:				
Certificates of Deposit	4,612	1,148,726	500,360	1,653,698
Unconditional Promises to Give		10,327		10,327
Conditional Promises to Give		35,137		35,137
Accrued Interest Receivable	77	19,178	8,353	27,608
Total Current Assets	6,127	1,526,211	664,784	2,197,122
Noncurrent Assets:				
Long-Term Investments:				
Mutual Funds, Stocks, and Bonds	8,309	2,069,640	901,491	2,979,440
Total Assets	14,436	3,595,851	1,566,275	5,176,562
NET ASSETS				
Unrestricted	14,436			14,436
Temporarily Restricted		3,595,851		3,595,851
Permanently Restricted			1,566,275	1,566,275
Total Net Assets	\$ 14,436	\$ 3,595,851	\$ 1,566,275	\$ 5,176,562

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, 2008

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Donations	\$ 209,231	\$ 23,795	\$ 397,256	\$ 630,282
Investment Earnings	24,296	115,365	50,250	189,911
Realized/Unrealized Loss on Investments	(887)	(220,818)	(96,184)	(317,889)
In-Kind Administration	77,965			77,965
Total Support and Revenue	310,605	(81,658)	351,322	580,269
Expenses:				
Program Services:				
Scholarships and Special Institutional Requests	343,230			343,230
Annual Fund Drive	2,615			2,615
Printing	3,290			3,290
Insurance	326			326
Professional Fees	2,145			2,145
Postage	864			864
Awards and Service Pins	650			650
Operating and Other Miscellaneous	46,061			46,061
In-Kind Administration	77,965			77,965
Other Expenses	1,577			1,577
Total Expenses	478,723			478,723
Increase (Decrease) in Net Assets	(168,118)	(81,658)	351,322	101,546
Net Assets at Beginning of Year	707,859	3,431,757	935,400	5,075,016
Reclassification of Net Assets	(525,305)	245,752	279,553	
Net Assets at End of Year	\$ 14,436	\$ 3,595,851	\$ 1,566,275	\$ 5,176,562

See Note 1 in the Notes to the Financial Statements

CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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 (GAAP), 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 its 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2008, the Foundation distributed \$361,785.17 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 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 and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 40 years for buildings, and 3 to 15 years for equipment.
- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities consist of 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 termination of employment. Also, any accumulated vacation leave in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 discounts in the accompanying Statement of Revenues, Expenses, and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 with any bank or savings and loan association whose principal office is located

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$3,445.00, and deposits in private financial institutions with a carrying value of \$2,119,069.40 and a bank balance of \$2,760,148.42. Cash and cash equivalents also include \$5,144.18 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 \$5,000.00 and other investments of \$248,700.00 includes certificates of deposit with private financial institutions which have a bank balance of \$253,700.00

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, 2008, 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)

At June 30, 2008, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$5,144.18 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 2.9 years as of June 30, 2008. 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	\$	1,653,697
Forlines Endowment		103,802
Broyhill Dream Scholarship Mutual Funds		72,138
TD Dream Fund		13,356
Broyhill Dream Endowment		123,018
Compass Fund		110,934
Broyhill Dream Fund Source		133,269
Blackwelder Fund:		
Stock and Bonds		2,383,662
Lackey Endowment Fund:		
Mutual Funds		39,261
		<hr/>
Total Investments	\$	<u>4,633,137</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 375,264.97	\$ 42,216.92	\$ 333,048.05
Accounts	45,323.75		45,323.75
Intergovernmental	1,012,179.65		1,012,179.65
Investment Earnings	113.18		113.18
Total Current Receivables	\$ 1,432,881.55	\$ 42,216.92	\$ 1,390,664.63

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	\$ 6,396,950.46	\$ 18,655.00	\$ 14,806.71	\$ 6,400,798.75
Construction in Progress	60,030.00	721,211.26		781,241.26
Total Capital Assets, Nondepreciable	6,456,980.46	739,866.26	14,806.71	7,182,040.01
Capital Assets, Depreciable:				
Buildings	33,687,695.18	156,468.05		33,844,163.23
Machinery and Equipment	5,169,284.92	221,098.65	86,092.20	5,304,291.37
General Infrastructure	1,428,261.14	54,127.65		1,482,388.79
Total Capital Assets, Depreciable	40,285,241.24	431,694.35	86,092.20	40,630,843.39
Less Accumulated Depreciation:				
Buildings	7,576,046.34	815,594.56		8,391,640.90
Machinery and Equipment	3,612,757.97	424,240.56	86,092.20	3,950,906.33
General Infrastructure	481,217.30	46,800.47		528,017.77
Total Accumulated Depreciation	11,670,021.61	1,286,635.59	86,092.20	12,870,565.00
Total Capital Assets, Depreciable, Net	28,615,219.63	(854,941.24)	0.00	27,760,278.39
Capital Assets, Net	\$ 35,072,200.09	\$ (115,074.98)	\$ 14,806.71	\$ 34,942,318.40

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	\$ 338,615.70
Accrued Payroll	225,792.40
Contract Retainage	30,131.00
Intergovernmental Payables	181.67
Other	1,101.82
Total Accounts Payable and Accrued Liabilities	\$ 595,822.59

NOTE -6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	\$ 1,789,537.26	\$ 1,143,616.29	\$ 1,051,509.06	\$ 1,881,644.49	\$ 170,913.61

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$93,791.25.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	<u>\$ 3,598,682.98</u>	<u>\$ 1,123,719.59</u>	<u>\$ 4,049.80</u>	<u>\$ 2,470,913.59</u>
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 1,986,886.46	\$ 710,557.04	\$ 7,234.71	\$ 1,269,094.71
Civic Center	333,882.78			333,882.78
Other	11,923.30			11,923.30
Sales and Services of Education and Related Activities	<u>58,041.15</u>			<u>58,041.15</u>
Total Sales and Services	<u>\$ 2,390,733.69</u>	<u>\$ 710,557.04</u>	<u>\$ 7,234.71</u>	<u>\$ 1,672,941.94</u>

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	\$ 13,140,367.95	\$ 1,385,455.36	\$ 830,396.90	\$ 2,000.00	\$ 0.00	\$ 0.00	\$ 15,358,220.21
Academic Support	1,467,056.87	176,415.70	160,902.78				1,804,375.35
Student Services	2,231,570.97	49,150.09	157,451.42	86,022.17			2,524,194.65
Institutional Support	3,745,694.98	304,736.89	833,355.34	5,535.63			4,889,322.84
Operations and Maintenance of Plant	1,091,488.65	640,889.37	682,268.55		945,955.23		3,360,601.80
Student Financial Aid				2,464,793.57			2,464,793.57
Auxiliary Enterprises	181,753.46	1,614,640.21	330,473.16				2,126,866.83
Depreciation						1,286,635.59	1,286,635.59
Total Operating Expenses	<u>\$ 21,857,932.88</u>	<u>\$ 4,171,287.62</u>	<u>\$ 2,994,848.15</u>	<u>\$ 2,558,351.37</u>	<u>\$ 945,955.23</u>	<u>\$ 1,286,635.59</u>	<u>\$ 33,815,010.84</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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$17,996,191.56, of which \$14,989,766.60 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$457,876.44 and \$899,386.12, respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were \$457,876.44, \$367,728.14, and \$307,299.68, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> 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 \$230,926.00 for the year ended June 30, 2008.

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 \$55,284.00 for the year ended June 30, 2008.

NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides 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. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$615,110.09, \$525,325.92, and \$499,033.60, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. 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.

- B. Disability Income** - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$77,946.79, \$71,886.70, and \$68,288.82, respectively. 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 \$1,000,000 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$75,000 deductible and a 10% participation in each loss above the 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.

The College purchased Non-owned Aircraft liability insurance with coverage of \$5,000,000 for bodily injury and property damage including passengers per occurrence and physical damage coverage of \$143,200 with a \$1,000 deductible per occurrence.

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 \$4,210,293.69 at June 30, 2008.

NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB Statement No. 50, *Pension Disclosures*.

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with *modifications to reflect differences between pension benefits and OPEB*.

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

	<u>Amount</u>
July 1, 2007 Net Assets as Previously Reported	\$ 36,914,048.50
Error in Establishing Useful Lives of Capital Assets	<u>805,971.09</u>
July 1, 2007 Net Assets as Restated	<u><u>\$ 37,720,019.59</u></u>

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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, 2008, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 10, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement 50, *Pension Disclosures*, during the year ended June 30, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

**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 (CONTINUED)**

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider the deficiencies described in findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

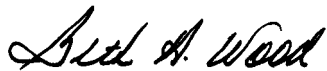
Compliance and Other Matters

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*.

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

**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)**

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.



Beth A. Wood, CPA
State Auditor

March 10, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements contained several misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit included:

- Restricted cash and cash equivalents were understated by \$244,428 and unrestricted cash and cash equivalents were overstated by the same amount. The College did not record the effect of borrowing unrestricted cash to cover deficit balances in restricted funds.
- The College understated buildings by \$156,468 as a result of not capitalizing the final payment on a building.
- The College failed to record unearned revenue in the amount of \$195,791. A portion of the revenue collected for the summer session that began in May 2008 and ended in July 2008 should have been reported as unearned for the fiscal year ended June 30, 2008.
- The College did not properly record State bond proceeds, which resulted in an understatement of State Capital Aid and an overstatement of Capital Grants, by \$357,671.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy of the financial statements.

Response: The College will record unearned revenue and change the financial statement captions for the items noted by the auditors. The College will more thoroughly review construction accounts for transactions that should be capitalized.

The College has implemented a procedure whereby bank reconciliations and associated journal entries are reviewed by the Vice President, Finance and Administration monthly.

2. LACK OF INTERNAL CONTROLS OVER BANK RECONCILIATIONS AND JOURNAL ENTRIES

The College did not implement effective internal control over the bank reconciliation process or journal entries posted to the accounting records. As a result, there was an

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

increased risk of error or fraud occurring without detection. Specifically, we noted the following internal control deficiencies:

- The College did not properly segregate duties for the preparation of bank reconciliations and journal entries, and there was no subsequent review and approval by management.
- The College recorded seven journal entries totaling \$3,074,777 that had no supporting documentation.

Recommendation: The College should establish a process that includes segregation of duties in the preparation of bank reconciliations and journal entries or provide for review of and approval by another level of management. In addition, management should ensure that bank reconciliations are completed and interest recorded in a timely manner. Management should ensure that journal entries are readily available and that there is adequate supporting documentation for each entry.

Response: The College has implemented a procedure whereby bank reconciliations and associated journal entries are reviewed by the Vice President, Finance and Administration monthly.

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Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

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