

STATE OF NORTH CAROLINA

CATAWBA VALLEY COMMUNITY COLLEGE

HICKORY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

CATAWBA VALLEY COMMUNITY COLLEGE

HICKORY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Catawba Valley Community College

We have completed a financial statement audit of Catawba Valley Community College for the year ended June 30, 2009, 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.

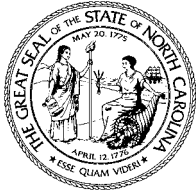
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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
Catawba Valley Community College
Hickory, North Carolina

We have audited the accompanying financial statements of Catawba Valley Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Catawba Valley Community College Foundation, 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 the Foundation, are based on the report of the other auditors.

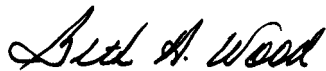
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Catawba Valley Community College Foundation, 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 Catawba Valley Community College and its discretely presented component unit as of June 30, 2009, 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)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.



Beth A. Wood, CPA
State Auditor

March 1, 2010

CATAWBA VALLEY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statement Information

Catawba Valley Community College is pleased to present its financial statements and activities for the fiscal year 2009. Management's Discussion and Analysis of Catawba Valley Community College (CVCC), a component unit of the State of North Carolina, is presented to provide an overview of the College's financial activities for the fiscal year ended June 30, 2009 and comparative to June 30, 2008. We encourage readers to consider this information in conjunction with the College's financial statements and the notes to the financial statements.

The statements presented are in accordance with the standards promulgated by the Governmental Accounting Standard's Board (GASB). Over the past several years, GASB has issued multiple standards that could reflect changes to the college's financial statements.

Basic Financial Statements

The basic financial statements for the College include the following:

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

The Statement of Net Assets is presented in the classified format which reports assets and liabilities as current or noncurrent. The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues and expenses as operating or nonoperating. The direct method is used to present the Statement of Cash Flows. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the statements and schedules.

Financial Information

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

- Total full-time equivalent (FTE) enrollment increased 3.50% for fiscal year 08-09.
- Fiscal year 08-09, the General Assembly did not implement a tuition increase.
- The State budget was received in August 2008. There were three reversions this year of 2%, 1%, and 1%, respectively.
- Catawba County government budget for CVCC increased \$413,473.20, or 12.78% from the previous year.
- Funds for capital projects from the county increased by \$2,312,253.75 in 08-09.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- As of June 2009, the college maintained \$5,248.57 in Construction Bond Funds for Repair and Renovation projects. These funds will be utilized for the college's Institutional Advancement Department renovations and Roofing projects.
- Received Title III grant for \$365,000.00 and a Kate B. Reynolds Grant for \$128,443.00 in 08-09.
- Purchased the former Ryan's Steakhouse in January 2009 for use as the Center for Emerging Manufacturing Solutions. Total cost of the property was \$1,211,324.38.

Condensed Statement of Net Assets

	2009	(As Restated) 2008	Difference
Assets			
Current Assets	\$ 6,844,767.19	\$ 6,290,964.77	\$ 553,802.42
Noncurrent Assets			
Capital Assets, Nondepreciable	3,244,663.84	2,154,331.87	1,090,331.97
Capital Assets, Depreciable, Net	36,250,384.21	36,666,279.62	(415,895.41)
Other	1,399,314.84	1,624,805.59	(225,490.75)
Total Assets	47,739,130.08	46,736,381.85	1,002,748.23
Liabilities			
Current Liabilities	868,203.89	894,037.92	(25,834.03)
Noncurrent Liabilities	1,783,441.47	1,724,507.69	58,933.78
Total Liabilities	2,651,645.36	2,618,545.61	33,099.75
Net Assets			
Invested in Capital Assets	39,495,048.05	38,912,355.18	582,692.87
Restricted	2,909,244.06	3,019,356.05	(110,111.99)
Unrestricted	2,683,192.61	2,277,868.70	405,323.91
Total Net Assets, as Restated	\$ 45,087,484.72	\$ 44,209,579.93	\$ 877,904.79

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	2009	As Restated 2008	Difference
Operating Revenue			
Tuition and Fees, Net	\$ 3,801,129.75	\$ 3,730,530.22	\$ 70,599.53
State Grants and Contracts	0.00	26,400.00	(26,400.00)
Sales and Services, Net	3,778,839.19	4,689,907.82	(911,068.63)
Other Operating Revenues	21,962.40	27,485.01	(5,522.61)
Total Operating Revenues	7,601,931.34	8,474,323.05	(872,391.71)
Operating Expenses			
Personal Services	26,003,925.43	25,037,526.14	966,399.29
Supplies and Materials	4,708,855.74	5,248,158.83	(539,303.09)
Services	5,416,224.56	4,063,336.46	1,352,888.10
Scholarships and Fellowships	2,133,770.00	2,796,269.70	(662,499.70)
Utilities	630,532.78	663,689.64	(33,156.86)
Depreciation	979,383.75	925,604.97	53,778.78
Total Operating Expenses	39,872,692.26	38,734,585.74	1,138,106.52
Net Operating Loss	(32,270,760.92)	(30,260,262.69)	(2,010,498.23)
Nonoperating Revenues (Expenses)			
State Aid	19,860,023.04	19,368,833.74	491,189.30
County Appropriations	3,235,000.00	2,821,526.80	413,473.20
Other Nonoperating Revenues, Net	6,182,630.75	5,968,325.25	214,305.50
Total Net Nonoperating Revenues	29,277,653.79	28,158,685.79	1,118,968.00
Loss Before Other Revenues	(2,993,107.13)	(2,101,576.90)	(891,530.23)
Capital Aid, Grants, and Gifts	3,871,011.92	2,387,487.95	1,483,523.97
Increase in Net Assets	877,904.79	285,911.05	591,993.74
Net Assets, Restated (Note 14)	44,209,579.93	43,923,668.88	285,911.05
Net Assets, Ending	\$ 45,087,484.72	\$ 44,209,579.93	\$ 877,904.79

The Colleges' net assets at fiscal year ended June 30, 2009, were \$45,087,484.72, an increase of \$877,904.79, or 1.99% over the previous year. The increase in Net Assets is primarily due to the purchase of the former Ryan's Steakhouse land and building to be used by the Center for Emerging Manufacturing Solutions.

Current cash and current restricted cash increased during the fiscal year by 4.43% and 20.50%, respectively. Current cash increased due to an increase of collections for self-supporting classes offered during the summer semester. Current restricted cash increased due to increased collections by the Hosiery Center, along with the borrowing of funds from unrestricted cash at the end of the current fiscal year to eliminate negative restricted cash

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

balances. The College did not record borrowing of unrestricted cash to cover negative restricted cash balances at June 30, 2008.

Total liabilities at fiscal year ended June 30, 2009, were \$2,651,645.36, with current liabilities being \$868,203.89 and noncurrent liabilities being \$1,783,441.47. Current liabilities are those that will be paid within one year, while noncurrent liabilities will not become due within one year. Total liabilities increased \$33,099.75 from the prior year.

Total revenues at fiscal year ended June 30, 2009, were \$41,012,548.18, with operating revenues of \$7,601,931.34 or 18.54%, nonoperating revenues of \$29,539,604.92 or 72.03%, and capital contributions of \$3,871,011.92 or 9.44%. The major revenue sources received were from the state, county, and federal governments totaling \$31,580,225.32. There were several operating and nonoperating revenue accounts that reflected significant changes. These accounts were federal grants and contracts, state aid, county appropriations, other nonoperating revenues, and capital aid and grants. Federal grants and contracts decreased due to reclassification of Pell Grant, Supplementary Educational Opportunities Grant, and College Work Study funds to other nonoperating revenues as directed by the Office of the State Controller. State Capital Aid decreased due to fewer state funded capital projects. State aid increased due to increase in state formula funding. County appropriations and county capital aid increased due to increased funding from Catawba County.

The Colleges' operating expenses increased from \$38,734,585.74 to \$39,872,692.26. The largest expense was in the area of personal services, totaling \$26,003,925.43. Other areas of expenses are for supplies and materials, services, scholarships and fellowships, and utilities totaling \$13,868,766.83. Expenses for the current fiscal year increased in personal services by 3.86%, due to additional instructional personnel and the legislative salary increase; and services by 33.30%, due to increased operation and maintenance of plant expenses. Expenses decreased in scholarships and fellowships by 23.69%, as well as supplies and materials by 10.28%, due to spending restrictions.

During the year, the college's construction in progress account encompassed one project, the Simulated Hospital at CVCC. There were several significant changes in noncurrent assets due to the capitalization of several construction projects, such as Paving and the Linda Philips Fountain, as well as the purchase of the former Ryan's Steakhouse land and building.

For the year ended June 30, 2009, Capital Assets, Nondepreciable increased from \$2,154,331.87 to \$3,244,663.84. This significant change was due to the purchase of the former Ryan's Steakhouse land and building to be used to relocate the Center for Emerging Manufacturing Solutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Factors and Next Year's Budgets

The Community College System faced overall an overall decrease in funding coupled with a dramatic increase in enrollment during fiscal year 2009. The indicators for fiscal year 2010 project reversion for the individual colleges along with reduction in management flexibility. The state's economic environment reflects mixed indicators for improvement. The rise of unemployment rates appear to be slowing but remain at a historical high, while state revenue collections continue to decline.

Catawba Valley Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,087,981.47
Restricted Cash and Cash Equivalents	1,802,114.99
Receivables (Note 3)	725,610.62
Inventories	229,060.11

Total Current Assets	6,844,767.19
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	439,894.31
Restricted Due from Primary Government	959,420.53
Capital Assets - Nondepreciable (Note 4)	3,244,663.84
Capital Assets - Depreciable, Net (Note 4)	36,250,384.21

Total Noncurrent Assets	40,894,362.89
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Total Assets	47,739,130.08
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	445,760.60
Unearned Revenue	162,909.28
Funds Held for Others	136,173.34
Long-Term Liabilities - Current Portion (Note 6)	123,360.67

Total Current Liabilities	868,203.89
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,783,441.47
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Total Liabilities	2,651,645.36
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NET ASSETS

Invested in Capital Assets	39,495,048.05
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Restricted for:

Expendable:

Scholarships and Fellowships	143,629.07
Capital Projects	1,175,517.47
Restricted for Specific Programs	1,590,097.52

Unrestricted	2,683,192.61
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Total Net Assets	\$ 45,087,484.72
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The accompanying notes to the financial statements are an integral part of this statement.

***Catawba Valley Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009***

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 3,801,129.75
Sales and Services, Net (Note 8)	3,778,839.19
Other Operating Revenues	21,962.40
	<hr/>
Total Operating Revenues	7,601,931.34
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	26,003,925.43
Supplies and Materials	4,708,855.74
Services	5,416,224.56
Scholarships and Fellowships	2,133,770.00
Utilities	630,532.78
Depreciation	979,383.75
	<hr/>
Total Operating Expenses	39,872,692.26
	<hr/>
Operating Loss	(32,270,760.92)
	<hr/>

NONOPERATING REVENUES (EXPENSES)

State Aid	19,860,023.04
County Appropriations	3,235,000.00
Noncapital Grants - Federal Student Financial Aid	4,634,942.70
Noncapital Grants	1,612,679.17
Noncapital Gifts	39,278.43
Investment Income	157,681.58
Other Nonoperating Expenses	(261,951.13)
	<hr/>
Net Nonoperating Revenues	29,277,653.79
	<hr/>
Loss Before Other Revenues	(2,993,107.13)
	<hr/>
State Capital Aid	665,337.72
County Capital Aid	3,184,921.86
Capital Grants	8,272.34
Capital Gifts	12,480.00
	<hr/>
Increase in Net Assets	877,904.79
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NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 14)	44,209,579.93
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Net Assets, June 30, 2009	\$ 45,087,484.72
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The accompanying notes to the financial statements are an integral part of this statement.

Catawba Valley Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 7,450,037.22
Payments to Employees and Fringe Benefits	(25,955,409.86)
Payments to Vendors and Suppliers	(10,777,585.57)
Payments for Scholarships and Fellowships	(2,133,770.00)
Other Receipts	34,321.77
	<hr/>
Net Cash Used by Operating Activities	(31,382,406.44)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	19,860,023.04
County Appropriations	3,235,000.00
Noncapital Grants - Federal Student Financial Aid	4,634,942.70
Noncapital Grants Received	1,600,094.81
Noncapital Gifts	39,278.43
	<hr/>
Cash Provided by Noncapital Financing Activities	29,369,338.98

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	1,037,832.84
County Capital Aid	3,184,921.86
Capital Grants Received	8,272.34
Capital Gifts Received	12,480.00
Proceeds from Sale of Capital Assets	106,434.44
Acquisition and Construction of Capital Assets	(1,868,147.94)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	2,481,793.54

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<hr/> 158,310.67
Net Increase in Cash and Cash Equivalents	627,036.75
Cash and Cash Equivalents, July 1, 2008	<hr/> 5,702,954.02
Cash and Cash Equivalents, June 30, 2009	<hr/> <hr/> \$ 6,329,990.77

Catawba Valley Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (32,270,760.92)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	979,383.75
Miscellaneous Nonoperating Income	45,910.80
Changes in Assets and Liabilities:	
Receivables	(87,606.37)
Inventories	25,791.60
Accounts Payable and Accrued Liabilities	(42,683.32)
Unearned Revenue	(79,571.09)
Funds Held for Others	3,694.31
Compensated Absences	43,434.80
	<u>43,434.80</u>
Net Cash Used by Operating Activities	<u>\$ (31,382,406.44)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 4,087,981.47
Restricted Cash and Cash Equivalents	1,802,114.99
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>439,894.31</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 6,329,990.77</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	\$ 133,086.02
Increase in Receivables Related to Nonoperating Income	12,584.36

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

Catawba Valley Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009

Exhibit B-1

CURRENT ASSETS

Cash and Cash Equivalents	\$ 318,426
Investments	66,602
Promises to Give	81,397
Prepaid Expenses	2,096
	<hr/>
Total Current Assets	468,521
	<hr/>

ENDOWMENT ASSETS

Cash	114,856
Promises to Give	36,750
Investments	880,369
	<hr/>
Total Endowment Assets	1,031,975
	<hr/>

REAL ESTATE

Investment in Land, at Fair Value	692,625
	<hr/>
Total Assets	\$ 2,193,121
	<hr/> <hr/>

NET ASSETS

Unrestricted	\$ 836,455
Temporarily Restricted	324,691
Permanently Restricted	1,031,975
	<hr/>
Total Net Assets	\$ 2,193,121
	<hr/> <hr/>

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

Catawba Valley Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains (Losses):	
Contributions	\$ 81,227
Interest	5,266
Dividends	10,415
Investment Fees	(398)
Unrealized Loss on Investments	<u>(18,367)</u>
Total Unrestricted Revenues and Gains	<u>78,143</u>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	<u>52,019</u>
Total Unrestricted Revenues, Gains, and Other Support	<u>130,162</u>
Expenses:	
Scholarships and Grants	61,383
Administration	<u>52,116</u>
Total Expenses	<u>113,499</u>
Increase in Unrestricted Net Assets	<u>16,663</u>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	60,175
Interest	92
Dividends	38,668
Realized Loss on Sale of Investments	(6,640)
Investment fees	(9,069)
Unrealized Loss on Investments	(16,775)
Net Assets Released from Restrictions	<u>(52,019)</u>
Increase in Temporarily Restricted Net Assets	<u>14,432</u>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	64,668
Realized Loss on Sale of Investments	(64,824)
Unrealized Loss on Investments	<u>(58,457)</u>
Decrease in Permanently Restricted Net Assets	<u>(58,613)</u>

Decrease in Net Assets	(27,518)
Net Assets at Beginning of Year	<u>2,220,639</u>
Net Assets at End of Year	<u>\$ 2,193,121</u>

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

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CATAWBA VALLEY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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. Catawba Valley Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's 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 – Catawba Valley Community College Foundation, 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 Catawba Valley Community Foundation, 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 15 members. 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 Catawba Valley Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

revenue recognition criteria and presentation features are different from the 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, 2009, the Foundation distributed \$73,069.87 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Catawba Valley Community College Foundation's Office.

- 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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 at book value with no provision for doubtful accounts considered necessary.
- F. Inventories** - Inventories, consisting of expendable supplies, merchandise for resale, and fuel oil held for consumption are valued at the lower of cost or market using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated 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 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

- H. 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.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave.

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 June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** - The College 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.

- N. Internal Sales Activities** - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as the College bookstore. In addition, the College has other miscellaneous sales and service units that operated either on a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use as approved by the county commissioners.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - DEPOSITS AND INVESTMENTS

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 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 \$3,450.00, and deposits in private financial institutions with a carrying value of \$1,908,934.85 and a bank balance of \$2,274,212.09.

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, 2009, 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, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$4,417,605.92 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 1.8 years as of June 30, 2009. 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Investments of the College's component unit, the Foundation are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. The following table sets forth the Foundation's assets at fair value as of June 30, 2009:

Money Market Funds	\$	114,054.00
Corporate Stocks		237,055.00
Mutual Funds		709,916.00
Land		692,625.00
Total Assets at Fair Value	\$	1,753,650.00

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

		Net Receivables
Current Receivables:		
Students	\$	432,063.64
Accounts		22,867.55
Intergovernmental		176,698.18
Other		93,981.25
Total Current Receivables	\$	725,610.62

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital Assets, Nondepreciable:				
Land	\$ 2,081,131.87	\$ 866,096.93	\$ 0.00	\$ 2,947,228.80
Construction in Progress	73,200.00	224,235.04		297,435.04
Total Capital Assets, Nondepreciable	2,154,331.87	1,090,331.97		3,244,663.84
Capital Assets, Depreciable:				
Buildings	36,590,675.42	308,766.58		36,899,442.00
Machinery and Equipment	6,702,020.74	330,338.93	571,562.66	6,460,797.01
General Infrastructure	967,100.66	246,935.51		1,214,036.17
Total Capital Assets, Depreciable	44,259,796.82	886,041.02	571,562.66	44,574,275.18
Less Accumulated Depreciation/Amortization for:				
Buildings	5,843,591.38	652,172.34		6,495,763.72
Machinery and Equipment	1,080,612.76	313,274.75	157,266.29	1,236,621.22
General Infrastructure	577,569.37	13,936.66		591,506.03
Total Accumulated Depreciation	7,501,773.51	979,383.75	157,266.29	8,323,890.97
Total Capital Assets, Depreciable, Net	36,758,023.31	(93,342.73)	414,296.37	36,250,384.21
Capital Assets, Net	\$ 38,912,355.18	\$ 996,989.24	\$ 414,296.37	\$ 39,495,048.05

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	\$ 106,442.82
Accrued Payroll	206,231.16
Contract Retainage	126,969.97
Contracts Payable Retainage	6,116.65
Total Accounts Payable and Accrued Liabilities	\$ 445,760.60

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	\$ 1,863,367.34	\$ 891,025.95	\$ 847,591.15	\$ 1,906,802.14	\$ 123,360.67

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

Rental expense for all operating leases during the year was \$15,179.11.

NOTE 8 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 5,238,728.77	\$ 0.00	\$ 1,437,599.02	\$ 3,801,129.75
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 3,014,438.43	\$ 29,476.17	\$ 1,146,416.08	\$ 1,838,546.18
Child Development Center	428,350.87			428,350.87
Rent	667,301.13			667,301.13
Other	41,652.44			41,652.44
Sales and Services of Education and Related Activities	802,988.57			802,988.57
Total Sales and Services	\$ 4,954,731.44	\$ 29,476.17	\$ 1,146,416.08	\$ 3,778,839.19

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 15,701,158.08	\$ 896,627.09	\$ 929,821.47	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,527,606.64
Academic Support	3,070,417.89	120,461.94	309,671.69				3,500,551.52
Student Services	1,512,937.60	61,770.68	227,188.16				1,801,896.44
Institutional Support	4,728,645.27	501,623.44	1,001,306.95				6,231,575.66
Operations and Maintenance of Plant	768,401.15	813,431.50	2,868,288.14		630,532.78		5,080,653.57
Student Financial Aid		2,839.00	26,125.21	2,133,770.00			2,162,734.21
Auxiliary Enterprises	222,365.44	2,312,102.09	53,822.94				2,588,290.47
Depreciation						979,383.75	979,383.75
Total Operating Expenses	\$ 26,003,925.43	\$ 4,708,855.74	\$ 5,416,224.56	\$ 2,133,770.00	\$ 630,532.78	\$ 979,383.75	\$ 39,872,692.26

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

System is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$21,574,082.81, of which \$17,343,001.22 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$582,745.50 and \$1,040,580.11, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were \$582,745.50, \$512,015.37, and \$432,479.95, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Proceed directly to OSC's index page," then "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 457 Plan** - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$32,468.00 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$285,000.00 for the year ended June 30, 2009.

The voluntary contributions by employees for the Roth 401(k) Plan amounted to \$7,760.00 for the year ended June 30, 2009.

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 \$48,324.00 for the year ended June 30, 2009.

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 North Carolina General Statute 135-7 and Chapter 135, Article 3A, of the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

General Statutes and may be amended only by the North Carolina General 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 of the 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were \$711,063.05, \$688,254.34, and \$617,828.50, 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 "Proceed directly to OSC's index page," then "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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were \$90,183.61, \$87,283.38, and \$84,544.95, 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, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$1,000,000 are retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are \$1,000,000 per claim and \$10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from county or institutional funds. This coverage is with a private insurance company with coverage of \$5,000 per employee with a \$250.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan 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 \$2,413,464.13 and on other purchases were \$227,668.43 at June 30, 2009.

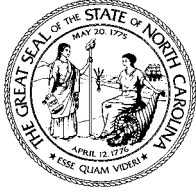
NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 14 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 44,117,836.24
Correct Error in Machinery & Equipment	<u>91,743.69</u>
July 1, 2008 Net Assets as Restated	<u><u>\$ 44,209,579.93</u></u>

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Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Catawba Valley Community College
Hickory, North Carolina

We have audited the financial statements of Catawba Valley Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated March 1, 2010. 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 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.

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

**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)**

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.

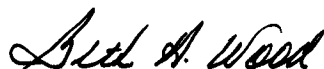
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose 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.

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 General Assembly, and the State Controller, 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 1, 2010

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The College did not maintain adequate internal control over access to its computer systems and data. As a result, there is an increased risk of error or fraud occurring without detection.

Employees were assigned access rights to the accounting system that did not support appropriate segregation of duties. These employees had the ability to initiate transactions and process them to completion. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis. Specifically, we noted the following segregation of duties deficiencies:

- We identified 10 employees with unlimited access to all applications and all forms within those applications, which is more access than is required to perform their jobs. Six of these operators were business office employees.
- All business office employees have unlimited access to the Purchasing and Student modules.

We also observed an employee in the financial aid office using another employee's access, which circumvents access controls and approval functions. Finally, the College did not appropriately terminate access rights for all separated employees. We identified eight former employees whose access to the accounting system was not terminated timely after their separation date.

Recommendation: The College should take appropriate steps to strengthen internal control over access to the computer systems and data and address the deficiencies described above.

Response: The College concurs with the recommendation and will implement effective controls over access to the computer system. We will also educate our staff regarding the appropriate use of username and password protection and terminate access rights for all separated employees.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

2. LACK OF INTERNAL CONTROLS OVER JOURNAL ENTRIES

The College did not have effective internal controls over journal entries entered into the accounting records. As a result, there is an increased risk of error or fraud occurring without detection.

We examined a sample of 15 journal entries and noted that nine were not reviewed or approved by another member of management. The College did not have a formal policy or procedure requiring review and approval of journal entries and supporting documentation.

Recommendation: College personnel should enhance internal controls to ensure that there is proper management oversight of journal entries entered into the accounting records.

Response: The College concurs with the recommendation and has implemented procedures that provide proper management oversight regarding the review and approval of journal entries.

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