



# STATE OF NORTH CAROLINA

**CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE**

**HUDSON, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2010**

**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, 2010**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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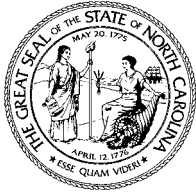
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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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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, 2010, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the 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**

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

We have audited the accompanying basic financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion 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 opinion, insofar as it relates to the amounts included for the component unit, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of The Foundation of Caldwell Community College and Technical Institute, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

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 financial position of Caldwell Community College and Technical Institute as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

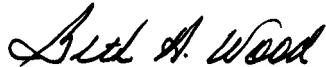
As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2011 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

May 19, 2011

## **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, 2010, with selected comparative information for the year ended June 30, 2009. 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 5,000 students and 500 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.

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

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

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### **Analysis of Financial Position and Results of Operations**

While the financial position of the College remained strong, general economic conditions continue to be a concern. The weak economy affects both state and county funding and requires management to pay particular attention to future funding projections. With this in mind the College continues to limit spending to create a cash reserve to offset potential funding cuts. As a result Cash and Cash Equivalents increased by \$1,909,691.65 while Current Assets increased by \$1,477,379.34.

Other Noncurrent Assets decreased as receivables relating to construction projects were reduced by the completion of those projects. Capital Grants also decreased as revenue from the receipt of state construction bonds ended.

Nondepreciable capital assets decreased by \$3,158,765.36 as the building in Watauga was capitalized from construction-in-progress. In 2009 the College received a donation of a gazebo valued at \$205,796 since the donation was not repeated in 2010 Capital Gifts was less.

Student Tuition and Fees, net increased \$822,115.11 due to an increase in student enrollment coupled with an increase in tuition per credit hour. This increase helped to offset cuts in the State Aid budget.

Scholarship and Fellowship expense and Noncapital Grant revenue both increased due to higher student enrollment and increases in the maximum Pell award.

Both the state and the county reduced capital aid to the College in 2010.

The cost to the College of retirement and medical benefits to employees also increased in 2010.

### **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, 2010.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Net Assets for the Fiscal Years Ending June 30, 2009 and 2010

	2010	2009	Increase (Decrease)
<b>Assets</b>			
Current Assets	\$ 5,846,932.82	\$ 4,369,553.48	\$ 1,477,379.34
Capital Assets, Net	36,263,309.17	37,102,715.81	(839,406.64)
Other Noncurrent Assets	<u>1,217,189.46</u>	<u>1,512,677.87</u>	<u>(295,488.41)</u>
<b>Total Assets</b>	<u>43,327,431.45</u>	<u>42,984,947.16</u>	<u>342,484.29</u>
<b>Liabilities</b>			
Current Liabilities	1,299,936.88	1,429,900.26	(129,963.38)
Noncurrent Liabilities	<u>1,768,464.86</u>	<u>1,652,548.33</u>	<u>115,916.53</u>
<b>Total Liabilities</b>	<u>3,068,401.74</u>	<u>3,082,448.59</u>	<u>(14,046.85)</u>
<b>Net Assets</b>			
Invested in Capital Assets	36,263,309.17	37,102,715.81	(839,406.64)
Restricted			
Nonexpendable	305,753.85	260,753.85	45,000.00
Expendable	1,882,202.99	1,897,527.41	(15,324.42)
Unrestricted	<u>1,807,763.70</u>	<u>641,501.50</u>	<u>1,166,262.20</u>
<b>Total Net Assets</b>	<u>\$ 40,259,029.71</u>	<u>\$ 39,902,498.57</u>	<u>\$ 356,531.14</u>

The Statement of Revenues, Expense 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, 2010.

### Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Fiscal Years Ended June 30, 2009 and 2010

	2010	2009	Increase (Decrease)
<b>Operating Revenues</b>			
Student Tuition and Fees, Net	\$ 3,671,445.22	\$ 2,849,330.11	\$ 822,115.11
Grants and Contracts	145,596.00	397,596.62	(252,000.62)
Sales and Services, Net	1,601,340.53	1,878,856.37	(277,515.84)
Other Operating Revenues	<u>94,078.40</u>	<u>57,153.74</u>	<u>36,924.66</u>
<b>Total Operating Revenues</b>	<u>5,512,460.15</u>	<u>5,182,936.84</u>	<u>329,523.31</u>
<b>Operating Expenses:</b>			
Salaries and Benefits	23,466,137.61	22,997,840.91	468,296.70
Supplies and Materials	4,229,250.02	3,934,600.76	294,649.26
Services	2,391,878.51	2,716,097.53	(324,219.02)
Scholarships and Fellowships	6,742,796.27	4,140,829.42	2,601,966.85
Utilities	1,061,284.05	1,121,446.59	(60,162.54)
Depreciation	<u>1,368,654.40</u>	<u>1,264,786.03</u>	<u>103,868.37</u>
<b>Total Operating Expenses</b>	<u>39,260,000.86</u>	<u>36,175,601.24</u>	<u>3,084,399.62</u>
<b>Operating Loss</b>	<u>(33,747,540.71)</u>	<u>(30,992,664.40)</u>	<u>(2,754,876.31)</u>
<b>Nonoperating Revenues</b>			
State Aid	16,863,428.06	17,747,059.55	(883,631.49)
County Appropriations	3,937,725.00	3,908,628.00	29,097.00
Noncapital Grants	11,988,079.78	7,361,335.30	4,626,744.48
Other Nonoperating Revenues	<u>573,643.81</u>	<u>420,241.64</u>	<u>153,402.17</u>
<b>Total Nonoperating Revenues</b>	<u>33,362,876.65</u>	<u>29,437,264.49</u>	<u>3,925,612.16</u>
<b>Loss Before Other Revenues and Expenses</b>	<u>(384,664.06)</u>	<u>(1,555,399.91)</u>	<u>1,170,735.85</u>
State Capital Aid	568,642.87	1,088,529.14	(519,886.27)
County Capital Aid	100,000.00	1,025,000.01	(925,000.01)
Capital Grants	72,552.33	554,740.41	(482,188.08)
Capital Gifts	<u>205,796.19</u>	<u>205,796.19</u>	<u>(205,796.19)</u>
<b>Capital Contributions</b>	<u>741,195.20</u>	<u>2,874,065.75</u>	<u>(2,132,870.55)</u>
<b>Increase in Net Assets</b>	<u>356,531.14</u>	<u>1,318,665.84</u>	<u>(962,134.70)</u>
<b>Net Assets Beginning of Year</b>	<u>39,902,498.57</u>	<u>38,412,815.15</u>	<u>1,489,683.42</u>
<b>Restatement</b>		<u>171,017.58</u>	<u>(171,017.58)</u>
<b>Net Assets End of Year</b>	<u>\$ 40,259,029.71</u>	<u>\$ 39,902,498.57</u>	<u>\$ 356,531.14</u>

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

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### **Capital Assets and Long-Term Debt Activities**

The College will begin construction of a 12,000 square foot automotive training facility early in the 2011 fiscal year. This will allow the College to continue to offer state of the art training in automotive and auto body programs.

The College has no long-term debt.

### **Economic Forecast**

Management believes the College is well positioned to continue to provide innovative and excellent services and programs into the future. The College has the flexibility to design and implement new programs to meet existing needs. Employment conditions in the College's service area remain difficult, with unemployment rates among the highest in the state. These conditions have helped fueled continued enrollment growth and led the College to offer a variety of training programs designed to provide students with degrees that can be earned in a relatively short time period.

***Caldwell Community College and Technical Institute***  
***Statement of Net Assets***  
***June 30, 2010***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 3,767,749.95
Restricted Cash and Cash Equivalents	1,076,328.44
Short-Term Investments	5,000.00
Receivables, Net (Note 3)	551,574.27
Inventories	446,280.16
	<hr/>
Total Current Assets	5,846,932.82

Noncurrent Assets:

Restricted Cash and Cash Equivalents	844,177.57
Restricted Due from Primary Government	124,311.89
Restricted Investments	248,700.00
Capital Assets - Nondepreciable (Note 4)	6,691,673.71
Capital Assets - Depreciable, Net (Note 4)	29,571,635.46
	<hr/>
Total Noncurrent Assets	37,480,498.63

Total Assets

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43,327,431.45

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	768,468.22
Unearned Revenue	242,430.71
Funds Held for Others	123,274.55
Long-Term Liabilities - Current Portion (Note 6)	165,763.40
	<hr/>
Total Current Liabilities	1,299,936.88

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	1,768,464.86
	<hr/>

Total Liabilities

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3,068,401.74

**NET ASSETS**

Invested in Capital Assets 36,263,309.17

Restricted for:

Nonexpendable:

Scholarships and Fellowships	190,753.85
Other	115,000.00

Expendable:

Scholarships and Fellowships	253,368.90
Capital Projects	911,996.14
Restricted for Specific Programs	516,657.48
Other	200,180.47

Unrestricted

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1,807,763.70

Total Net Assets

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\$ 40,259,029.71

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

***Caldwell Community College and Technical Institute  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 3,671,445.22
State and Local Grants and Contracts	145,596.00
Sales and Services, Net (Note 8)	1,601,340.53
Other Operating Revenues	94,078.40

Total Operating Revenues	5,512,460.15
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	23,466,137.61
Supplies and Materials	4,229,250.02
Services	2,391,878.51
Scholarships and Fellowships	6,742,796.27
Utilities	1,061,284.05
Depreciation	1,368,654.40

Total Operating Expenses	39,260,000.86
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Operating Loss	(33,747,540.71)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	16,863,428.06
County Appropriations	3,937,725.00
Noncapital Grants - Federal Student Financial Aid	8,982,397.33
Noncapital Grants	3,005,682.45
Noncapital Gifts	512,819.93
Investment Income	38,627.41
Other Nonoperating Revenues	22,196.47

Net Nonoperating Revenues	33,362,876.65
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Income Before Other Revenues, Expenses, Gains, and Losses	(384,664.06)
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State Capital Aid	568,642.87
County Capital Aid	100,000.00
Capital Grants	72,552.33

Increase in Net Assets	356,531.14
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**NET ASSETS**

Net Assets, July 1, 2009	39,902,498.57
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Net Assets, June 30, 2010	\$ 40,259,029.71
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The accompanying notes to the financial statements are an integral part of this statement.

***Caldwell Community College and Technical Institute  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 5,400,926.91
Payments to Employees and Fringe Benefits	(23,071,048.38)
Payments to Vendors and Suppliers	(7,667,767.62)
Payments for Scholarships and Fellowships	(6,499,628.35)
Other Receipts	63,066.69
	<hr/>
Net Cash Used by Operating Activities	(31,774,450.75)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	16,863,428.06
County Appropriations	3,937,725.00
Noncapital Grants - Federal Student Financial Aid	8,982,397.33
Noncapital Grants Received	3,005,682.45
Noncapital Gifts	512,819.93
	<hr/>
Net Cash Provided by Noncapital Financing Activities	33,302,052.77

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

State Capital Aid Received	918,024.00
County Capital Aid	100,000.00
Capital Grants Received	72,552.33
Proceeds from Sale of Capital Assets	64,098.67
Proceeds from Insurance on Capital Assets	10,209.50
Acquisition and Construction of Capital Assets	(821,422.28)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	343,462.22

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	38,627.41
	<hr/>
Net Increase in Cash and Cash Equivalents	1,909,691.65
Cash and Cash Equivalents, July 1, 2009	3,778,564.31
	<hr/>
Cash and Cash Equivalents, June 30, 2010	\$ 5,688,255.96

***Caldwell Community College and Technical Institute  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2010***

***Exhibit A-3  
Page 2***

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

Operating Loss	\$ (33,747,540.71)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,368,654.40
Changes in Assets and Liabilities:	
Receivables, Net	89,221.00
Inventories	6,004.36
Accounts Payable and Accrued Liabilities	336,998.43
Unearned Revenue	70,811.14
Funds Held for Others	34,669.23
Compensated Absences	66,731.40
Net Cash Used by Operating Activities	<u>\$ (31,774,450.75)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 3,767,749.95
Restricted Cash and Cash Equivalents	1,076,328.44
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>844,177.57</u>
Total Cash and Cash Equivalents - June 30, 2010	<u>\$ 5,688,255.96</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 7,464.94
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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, 2010***

***Exhibit B-1***

**ASSETS**

Cash and Cash Equivalents	\$	1,078,243
Investments		7,614,097
Receivables, Net		26,374
Pledges Receivable/Promises		15,484
		<hr/>
Total Assets		8,734,198
		<hr/>

**LIABILITIES**

Accounts Payable and Accrued Expenses		53,380
		<hr/>

**NET ASSETS**

Unrestricted		2,473,355
Temporarily Restricted		2,447,573
Permanently Restricted		3,759,890
		<hr/>

Total Net Assets	\$	8,680,818
		<hr/> <hr/>

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 Activities  
For the Fiscal Year Ended June 30, 2010***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and Gains:	
Contributions	\$ 266,255
Income on Long-Term Investments	90,825
Realized Gains on Long-Term Investments	90,751
Other	47,139
	<hr/>
Total Unrestricted Revenues and Gains	494,970
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	1,797,554
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	2,292,524
	<hr/>
Expenses and Losses:	
Payments to College	367,160
Other Expenses	191,473
	<hr/>
Total Expenses	558,633
	<hr/>
Increase in Unrestricted Net Assets	1,733,891
	<hr/>

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	267,716
Income on Long-Term Investments	84,357
Realized Gains on Long-Term Investments	84,290
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(1,797,554)
	<hr/>
Decrease in Temporarily Restricted Net Assets	(1,361,191)
	<hr/>

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	9,588
	<hr/>
Increase in Net Assets	382,288
Net Assets at Beginning of Year	8,298,530
	<hr/>
Net Assets at End of Year	\$ 8,680,818
	<hr/> <hr/>

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



**CALDWELL COMMUNITY COLLEGE AND TECHNICAL INSTITUTE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (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 units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the College's financial statements. The discretely presented component unit's financial data are 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 discretely presented component unit based on the nature and significance of their 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 is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2010, the Foundation distributed \$367,160.00 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, 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, net of estimated uncollectible amounts, 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 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)

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- E. Investments** - This classification consists of certificates of deposit held by the College. Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption and merchandise for resale are valued at the lower of cost or market using the first-in, first-out method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is \$1,000,000 or greater and other intangible assets which are capitalized when the value or cost is \$100,000 or greater. 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 100 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

- 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 consists 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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. When classifying compensated absences into 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. 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.

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.

**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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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funding is transactional based within the departmental management system in place at the College.

- M. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- O. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 2 - DEPOSITS AND INVESTMENTS

**The 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 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 \$3,470.00, deposits in private financial institutions with a carrying value of \$3,690,001.51, and \$1,994,784.45 equity position in the State Treasurer's Short-term Investment Fund as described below. The amount shown on the Statement of Net Assets as short-term and other investments of \$253,700 includes certificates of deposit with private financial institutions. At June 30, 2010, the College's total deposits in private financial institutions, including certificates of deposit, had a carrying value of \$3,943,701.51 and a bank balance of \$3,926,807.59.

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, 2010, 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 (STIF); 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

At June 30, 2010, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$1,994,784.45, 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 1.6 years as of June 30, 2010. 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.osc.nc.gov/> 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.

Except as specified by the donor, endowment funds belonging to the College may be invested pursuant to G.S. 147-69.2. This statute authorizes investments for special funds held by the State Treasurer and includes the following investments: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; certificates of deposit of specified institutions; prime quality commercial paper; specified bills of exchange; asset-backed securities and corporate bonds/ notes with specified ratings; general obligations of other states; and general obligations of North Carolina local governments.

**Component Unit** - Investments of the College's discretely presented component unit, the Foundation of Caldwell Community College and Technical Institute, 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. Because the Foundation of Caldwell Community College and Technical Institute reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

<b>Investment Type:</b>	<u>Fair Value</u>
Certificates of Deposit	\$ 5,466,287
Stocks and Options	1,808,187
Fixed Income Securities	58,300
Mutual Funds	<u>281,323</u>
Total Investments	<u>\$ 7,614,097</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 509,357.10	\$ 37,609.06	\$ 471,748.04
Accounts	79,421.22		79,421.22
Investment Earnings	405.01		405.01
<b>Total Current Receivables</b>	<b>\$ 589,183.33</b>	<b>\$ 37,609.06</b>	<b>\$ 551,574.27</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	\$ 6,400,471.75	\$ 220,418.53	\$ 0.00	\$ 6,620,890.28
Construction in Progress	3,449,967.32	70,783.43	3,449,967.32	70,783.43
<b>Total Capital Assets, Nondepreciable</b>	<b>9,850,439.07</b>	<b>291,201.96</b>	<b>3,449,967.32</b>	<b>6,691,673.71</b>
Capital Assets, Depreciable:				
Buildings	33,865,830.23	3,432,501.14		37,298,331.37
Machinery and Equipment	5,496,798.89	307,623.68	121,980.45	5,682,442.12
General Infrastructure	1,706,111.84			1,706,111.84
<b>Total Capital Assets, Depreciable</b>	<b>41,068,740.96</b>	<b>3,740,124.82</b>	<b>121,980.45</b>	<b>44,686,885.33</b>
Less Accumulated Depreciation for:				
Buildings	9,177,209.46	865,292.09		10,042,501.55
Machinery and Equipment	4,060,805.75	459,020.95	69,868.75	4,449,957.95
General Infrastructure	578,449.01	44,341.36		622,790.37
<b>Total Accumulated Depreciation</b>	<b>13,816,464.22</b>	<b>1,368,654.40</b>	<b>69,868.75</b>	<b>15,115,249.87</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>27,252,276.74</b>	<b>2,371,470.42</b>	<b>52,111.70</b>	<b>29,571,635.46</b>
<b>Capital Assets, Net</b>	<b>\$ 37,102,715.81</b>	<b>\$ 2,662,672.38</b>	<b>\$ 3,502,079.02</b>	<b>\$ 36,263,309.17</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	\$ 174,481.06
Accrued Payroll	585,006.43
Other	8,980.73
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 768,468.22</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	\$ 1,867,496.86	\$ 1,227,706.99	\$ 1,160,975.59	\$ 1,934,228.26	\$ 165,763.40

### NOTE 7 - LEASE OBLIGATIONS

The College entered into operating leases for equipment. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	\$ 28,263.54
2012	2,304.00
Total Minimum Lease Payments	\$ 30,567.54

Rental expense for all operating leases during the year was \$100,449.41.

### NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 6,012,273.59	\$ 2,320,255.64	\$ (20,572.73)	\$ 3,671,445.22
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 2,546,130.63	\$ 1,447,046.91	\$ (91.09)	\$ 1,098,992.63
Civic Center	322,741.42			322,741.42
Other	179,606.48			179,606.48
<b>Total Sales and Services</b>	\$ 3,048,478.53	\$ 1,447,046.91	\$ (91.09)	\$ 1,601,340.53

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 14,016,076.69	\$ 1,068,356.80	\$ 718,160.54	\$ 1,600.00	\$ 0.00	\$ 0.00	\$ 15,804,194.03
Academic Support	1,741,719.94	116,030.62	89,069.91				1,946,820.47
Student Services	2,392,152.47	74,773.60	176,054.86	122,335.55			2,765,316.48
Institutional Support	3,892,592.93	390,696.37	603,355.42	47,380.27			4,934,024.99
Operations and Maintenance of Plant	1,247,493.87	359,353.79	500,136.74		1,061,284.05		3,168,268.45
Student Financial Aid				6,571,480.45			6,571,480.45
Auxiliary Enterprises	176,101.71	2,220,038.84	305,101.04				2,701,241.59
Depreciation						1,368,654.40	1,368,654.40
<b>Total Operating Expenses</b>	<b>\$ 23,466,137.61</b>	<b>\$ 4,229,250.02</b>	<b>\$ 2,391,878.51</b>	<b>\$ 6,742,796.27</b>	<b>\$ 1,061,284.05</b>	<b>\$ 1,368,654.40</b>	<b>\$ 39,260,000.86</b>

### 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 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$19,281,595.39, of which \$15,521,499.67 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$554,117.54 and \$931,289.98, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were \$554,117.54, \$521,415.69, and \$457,876.44, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> 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 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 \$243,445.00 for the year ended June 30, 2010.

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 \$55,873.00 for the year ended June 30, 2010.

### 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 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)

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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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$698,467.49, \$636,251.38, and \$615,110.09, 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.osc.nc.gov/> 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.

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$80,711.80, \$80,695.29, and \$77,946.79, 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.

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. All employees are covered by a contract with a private insurance company with coverage of \$100,000 per occurrence and a \$1,000 deductible.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

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.

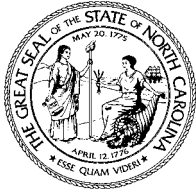
Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### **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 \$884,935 at June 30, 2010.

### **NOTE 14 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2010, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires reporting certain intangible assets as capital assets.



**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**

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

We have audited the financial statements of Caldwell Community College and Technical Institute, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2010, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 19, 2011. 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a

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

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deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

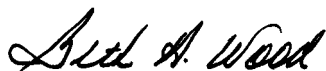
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency.

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 response to the finding identified in our audit is 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 College 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

May 19, 2011



## **AUDIT FINDINGS AND RESPONSES**

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

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control. This finding was also reported in the 2008 fiscal year.

#### DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Caldwell Community College and Technical Institute contained significant misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. The significant misstatements noted during our audit included:

- a. Various noncapital revenues were not properly classified in the financial statements. As a result, the College reported approximately \$1.5 million of nonoperating revenues as operating revenues.
- b. The College reported salaries owed but not paid as of year-end as if the salary had been paid. As a result, the accrued payroll liability and cash were understated by approximately \$585,000.
- c. Restricted net asset accounts were overstated and unrestricted net assets was understated by approximately \$115,000, and adjustments of over \$631,000 were made to reclassify net assets across the various restricted net asset categories.
- d. In the capital asset note, the College improperly disclosed a \$3.4 million decrease in construction-in-progress as a decrease in land.
- e. The College did not disclose \$885,000 of outstanding commitments on construction contracts in the notes to the financial statements.
- f. The College understated the bank balance disclosed in the deposit note by over \$411,000.

In addition, the College did not ensure that journal entries were reviewed and approved by someone other than the preparer. We inspected several journal entries prepared both at year-end and throughout the year and noted that there was no indication that they had been reviewed and approved by an independent party. This increases the risk of error or fraud occurring without detection.

Deficiencies in financial reporting and a lack of controls over journal entries were also reported as findings in our audit report for the year ended June 30, 2008, which is our most recent prior audit.

*Recommendation:* The College should place greater emphasis on the year-end financial reporting process and strengthen internal controls to ensure the completeness and accuracy of

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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the financial statements. The College should also ensure that journal entries and related supporting documentation are reviewed by someone other than the preparer.

*Response:* The College recognizes the importance of the year-end financial reporting process and appropriately emphasizes that process. To reduce the possibility of undetected errors in the financial statements, the College's year-end procedures have been revised to allow for more thorough review and greater segregation of duties. Changes to the year-end procedures include:

- Employees assigned year-end activities will be responsible for analyzing and preparing the accrual journal entry, preparing appropriate back-up documentation, preparing the related section of the CAFR worksheet, tying results to the financial statements and preparing any associated note disclosure.
- The CAFR spreadsheet, exhibits and footnotes will be shared on the network so that employees may prepare their assigned sections. Track changes will be used to maintain a record of changes until the documents are final.

The College has revised its journal entry policy so that all entries must be reviewed by one person in addition to the preparer.

## **ORDERING INFORMATION**

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