



# STATE OF NORTH CAROLINA

**CATAWBA VALLEY COMMUNITY COLLEGE**

**HICKORY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

**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, 2011**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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

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

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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, Catawba Valley Community College

We have completed a financial statement audit of Catawba Valley Community College for the year ended June 30, 2011, 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 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.

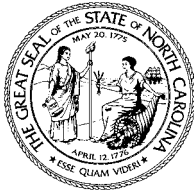
A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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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, 2011, 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 this entity, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of 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, 2011, 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.

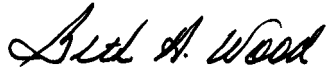
In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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 4, 2012

## **CATAWBA VALLEY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Overview of the Financial Statement Information**

Catawba Valley Community College is pleased to present its financial statements and activities for the fiscal year 2011. 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, 2011 and comparative to June 30, 2010. 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).

### **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 as well as the Statement of Revenues, Expenses, and Changes in Net Assets are shown in classified format. This will show the distinction between current and noncurrent assets and liabilities, and operating and nonoperating revenues and expenses. 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 enrollment increased by 15.78% FTE from 4,621 FTE in 2009-10 to 5,350 FTE in 2010-11.
- The State budget was received in August 2010. There was one reversion totaling \$456,107 or 2% overall, in addition to management flexibility reductions of \$865,545.
- Catawba County government budget for CVCC increased by \$285,068.04, or 8.47%, from the previous year.
- Construction in progress decreased by \$3,750,448.84 as of June 30, 2011. This is a result of the completion of construction and capitalization of the Simulated Hospital, Student Center, and CAD Building Elevator.

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

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- Received a Golden LEAF grant for \$200,000, as well as a Health Information Technology Grant for \$639,370.97 during 2010-11.

**Condensed Statement of Net Assets**

	<b>2011</b>	<b>2010</b>	<b>Difference</b>
<b>Assets</b>			
Current Assets	\$ 8,153,082.59	\$ 7,623,104.41	\$ 529,978.18
Noncurrent Assets			
Capital Assets, Nondepreciable	3,113,666.70	6,864,115.54	(3,750,448.84)
Capital Assets, Depreciable, Net	41,681,905.59	35,589,441.22	6,092,464.37
Other	1,571,413.14	981,564.23	589,848.91
Total Assets	<u>54,520,068.02</u>	<u>51,058,225.40</u>	<u>3,461,842.62</u>
<b>Liabilities</b>			
Current Liabilities	1,849,402.24	1,889,750.65	(40,348.41)
Noncurrent Liabilities	<u>1,992,102.59</u>	<u>1,799,421.65</u>	<u>192,680.94</u>
Total Liabilities	<u>3,841,504.83</u>	<u>3,689,172.30</u>	<u>152,332.53</u>
<b>Net Assets</b>			
Invested in Capital Assets	44,795,572.29	42,453,556.76	2,342,015.53
Restricted	2,835,093.89	2,005,382.70	829,711.19
Unrestricted	<u>3,047,897.01</u>	<u>2,910,113.64</u>	<u>137,783.37</u>
Total Net Assets	<u>\$ 50,678,563.19</u>	<u>\$ 47,369,053.10</u>	<u>\$ 3,309,510.09</u>



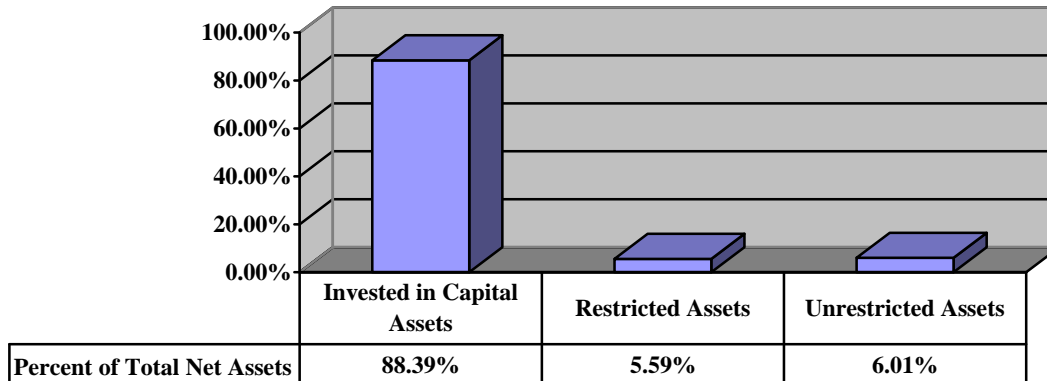
## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

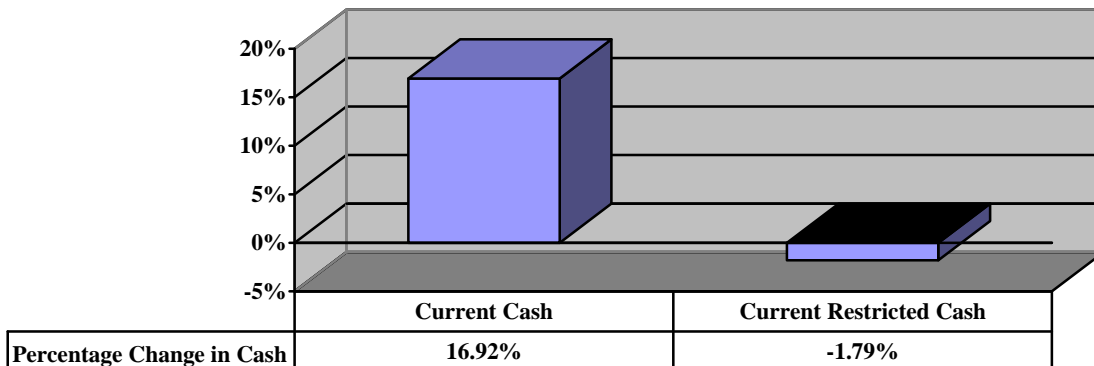
	2011	2010	Difference
<b>Operating Revenue</b>			
Tuition and Fees, Net	\$ 4,857,156.84	\$ 4,942,664.60	\$ (85,507.76)
Sales and Services, Net	3,490,205.99	4,051,423.62	(561,217.63)
Other Operating Revenues	49,435.57	16,653.44	32,782.13
Total Operating Revenue	8,396,798.40	9,010,741.66	(613,943.26)
<b>Operating Expenses</b>			
Salaries and Benefits	28,768,203.21	27,150,818.68	1,617,384.53
Supplies and Materials	7,084,472.74	6,616,275.00	468,197.74
Services	4,703,456.71	4,078,760.44	624,696.27
Scholarships and Fellowships	5,337,571.43	5,223,180.57	114,390.86
Utilities	672,078.33	607,366.84	64,711.49
Depreciation	1,100,588.10	985,159.16	115,428.94
Total Operating Expenses	47,666,370.52	44,661,560.69	3,004,809.83
Net Operating Loss	(39,269,572.12)	(35,650,819.03)	(3,618,753.09)
<b>Nonoperating Revenues (Expenses)</b>			
State Aid	20,754,678.68	18,525,874.66	2,228,804.02
County Appropriations	3,652,068.00	3,366,999.96	285,068.04
Other Nonoperating Revenues, Net	11,757,981.45	11,294,808.89	463,172.56
Total Net Nonoperating Revenues	36,164,728.13	33,187,683.51	2,977,044.62
Loss Before Other Revenues	(3,104,843.99)	(2,463,135.52)	(641,708.47)
Capital Aid and Grants	6,414,354.08	4,747,088.73	1,667,265.35
Increase in Net Assets	3,309,510.09	2,283,953.21	1,025,556.88
Net Assets	47,369,053.10	45,085,099.89	2,283,953.21
Net Assets, Ending	\$ 50,678,563.19	\$ 47,369,053.10	\$ 3,309,510.09

The College's net assets at fiscal year ended June 30, 2011 were \$50,678,563.19, an increase of \$3,309,510.09, or 6.99% over the previous year. Of the total net assets, \$44,795,572.29 or 88.39% was invested in capital assets with unrestricted assets of \$3,047,897.01, or 6.01%, and restricted assets of \$2,835,093.89, or 5.59%. The increase in net assets is primarily due to the construction of the Simulated Hospital, CAD Elevator, and new Student Center.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

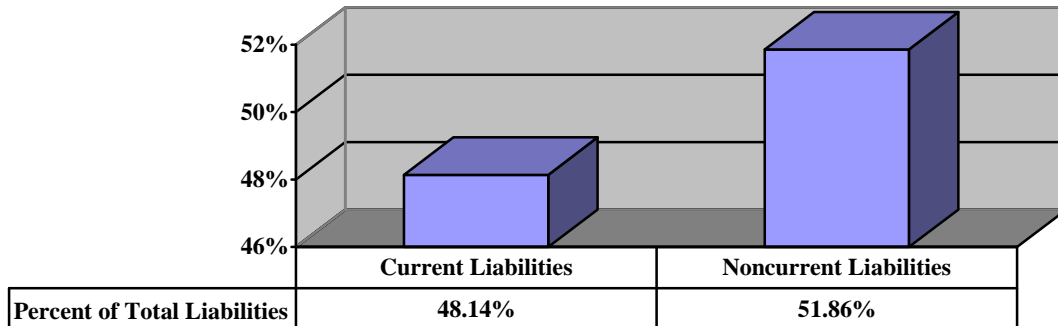


Current cash increased during the fiscal year by 16.92% to \$5,376,610.23 and current restricted cash decreased by 1.79% to \$1,740,604.60. Current cash increased due to an increase of collections for self-supporting classes offered during the summer semester and increased bookstore collections. Current restricted cash decreased due to a reduction in and/or depletion of grant funds, mainly Golden LEAF.

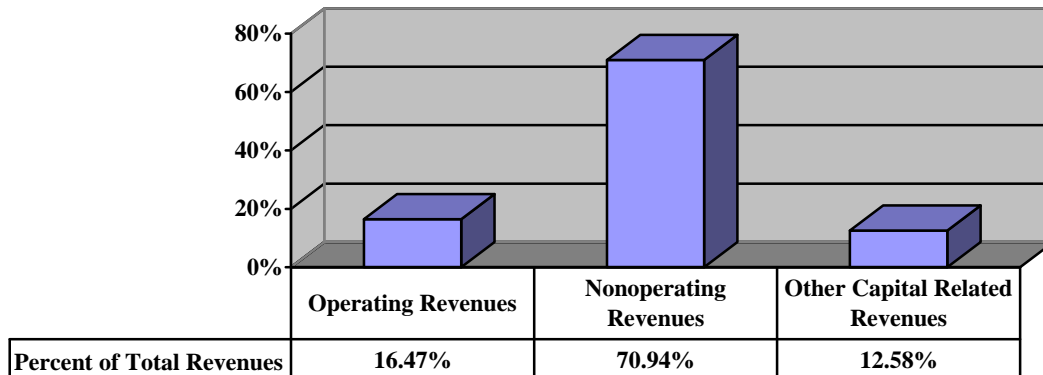


Total liabilities at fiscal year ended June 30, 2011 were \$3,841,504.83, with current liabilities being \$1,849,402.24 or 48.14% and noncurrent liabilities being \$1,992,102.59 or 51.86%. Current liabilities are those that will be paid within one year, while noncurrent liabilities will not become due within one year. Total liabilities increased by \$152,332.53.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

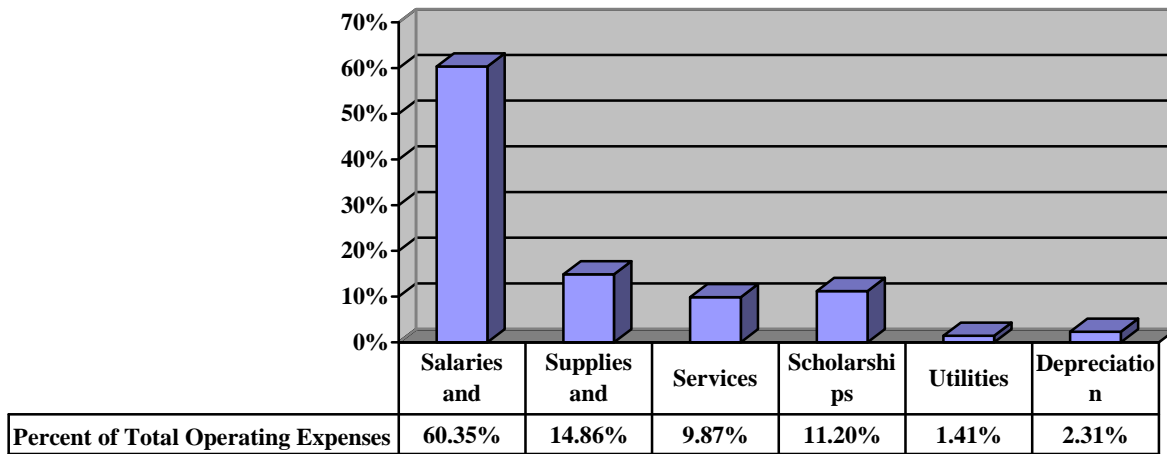


Total revenues at fiscal year ended June 30, 2011 were \$50,975,880.61, with operating revenues of \$8,396,798.40 or 16.47%, nonoperating revenues of \$36,164,728.13 or 70.94%, and other capital contributions of \$6,414,354.08 or 12.58%. The major revenue sources received were from the state and county governments totaling \$24,406,746.68. While state aid increased by \$2,228,804.02 due to increased appropriations from the State, revenue from tuition and fees decreased by \$85,507.76. This increase of 12.03% in state aid was the most significant change in revenue for the fiscal year.

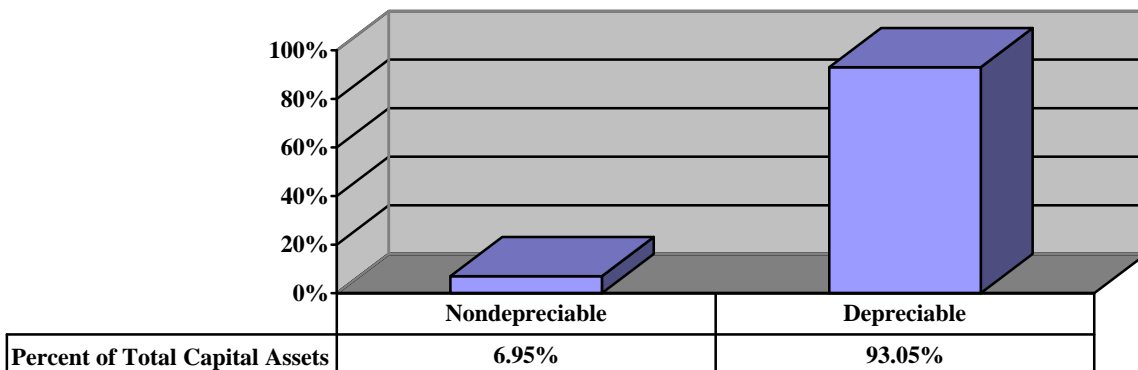


The College's operating expenses increased from \$44,661,560.69 to \$47,666,370.52. The largest expense was in the area of salaries and benefits, totaling \$28,768,203.21. Other areas of expenses are for supplies and materials, services, scholarships and fellowships, and utilities totaling \$17,797,579.21. Expenses for the current fiscal year increased in salaries and benefits by 5.96%, and supplies and materials by 7.08%, due to additional instructional personnel and related supply expenses for increased enrollment. Expenses increased in scholarships and fellowships by 2.19% due to increased awards and increased enrollment; while services increased by 15.32%, due to increased expenses associated with the operation and maintenance of plant.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)



During the year, the College's construction in progress account encompassed five projects: the Simulated Hospital at CVCC, Student Center construction, Freight Elevator addition to the Cuyler A. Dunbar Building, Advising Center construction, and Ryan's Steakhouse renovation. For the fiscal year ending June 30, 2011, capital assets, nondepreciable decreased from \$6,864,115.54 to \$3,113,666.70. This significant change was due to a decrease in construction in progress as new buildings were capitalized. Capital assets, depreciable increased from \$35,589,441.22 to \$41,681,905.59 due to the capitalization of new buildings from construction in progress.



### Economic Factors and Next Year's Budgets

At fiscal year ended June 30, 2011, the College had not received its 2011-2012 budget. It is anticipated the Community College System will be provided with significantly reduced funding amounts from the State Legislature. The indicators for fiscal year 2012 project a reversion for the individual colleges early in the upcoming fiscal year, along with a management flexibility reduction. The state economic environment reflects mixed indicators for improvement. The unemployment rate continues to be stagnate.

***Catawba Valley Community College***  
***Statement of Net Assets***  
***June 30, 2011***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 5,376,610.23
Restricted Cash and Cash Equivalents	1,740,604.60
Receivables (Note 3)	682,016.58
Restricted Due from State of North Carolina Component Units	40,000.00
Inventories	313,851.18

Total Current Assets	<u>8,153,082.59</u>
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Noncurrent Assets:

Restricted Cash and Cash Equivalents	1,416,198.14
Restricted Due from Primary Government	155,215.00
Capital Assets - Nondepreciable (Note 4)	3,113,666.70
Capital Assets - Depreciable, Net (Note 4)	<u>41,681,905.59</u>

Total Noncurrent Assets	<u>46,366,985.43</u>
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Total Assets	<u>54,520,068.02</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	1,184,725.01
Unearned Revenue	330,644.88
Funds Held for Others	190,747.88
Long-Term Liabilities - Current Portion (Note 6)	<u>143,284.47</u>

Total Current Liabilities	<u>1,849,402.24</u>
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<u>1,992,102.59</u>
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Total Liabilities	<u>3,841,504.83</u>
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**NET ASSETS**

Invested in Capital Assets	44,795,572.29
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Restricted for:

Expendable:

Scholarships and Fellowships	136,647.80
Capital Projects	1,141,293.18
Restricted for Specific Programs	793,868.94
Other	763,283.97

Unrestricted	<u>3,047,897.01</u>
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Total Net Assets	<u>\$ 50,678,563.19</u>
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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, 2011***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 4,857,156.84
Sales and Services, Net (Note 7)	3,490,205.99
Other Operating Revenues	49,435.57

Total Operating Revenues	8,396,798.40
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**EXPENSES**

Operating Expenses:

Salaries and Benefits	28,768,203.21
Supplies and Materials	7,084,472.74
Services	4,703,456.71
Scholarships and Fellowships	5,337,571.43
Utilities	672,078.33
Depreciation	1,100,588.10

Total Operating Expenses	47,666,370.52
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Operating Loss	(39,269,572.12)
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**NONOPERATING REVENUES (EXPENSES)**

State Aid	20,754,678.68
County Appropriations	3,652,068.00
Noncapital Grants - Federal Student Financial Aid	9,954,786.54
Noncapital Grants	1,776,090.50
Noncapital Gifts	45,615.05
Investment Income, Net	46,709.58
Other Nonoperating Expenses	(65,220.22)

Net Nonoperating Revenues	36,164,728.13
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Loss Before Other Revenues	(3,104,843.99)
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State Capital Aid	2,481,653.85
Capital Grants	3,932,700.23

Increase in Net Assets	3,309,510.09
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**NET ASSETS**

Net Assets, July 1, 2010	47,369,053.10
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Net Assets, June 30, 2011	\$ 50,678,563.19
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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, 2011***

***Exhibit A-3***  
***Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 8,668,695.63
Payments to Employees and Fringe Benefits	(28,512,699.07)
Payments to Vendors and Suppliers	(12,771,118.92)
Payments for Scholarships and Fellowships	(5,337,571.43)
Other Receipts	106,113.60
	<hr/>
Net Cash Used by Operating Activities	(37,846,580.19)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	20,754,678.68
County Appropriations	3,652,068.00
Noncapital Grants - Federal Student Financial Aid	9,954,786.54
Noncapital Grants Received	2,053,529.53
Noncapital Gifts Received	45,615.05
	<hr/>
Net Cash Provided by Noncapital Financing Activities	36,460,677.80

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

State Capital Aid Received	2,490,205.55
Capital Grants Received	3,932,700.23
Acquisition and Construction of Capital Assets	(3,739,137.63)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	2,683,768.15

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	46,709.58
	<hr/>
Net Increase in Cash and Cash Equivalents	1,344,575.34
Cash and Cash Equivalents, July 1, 2010	7,188,837.63
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 8,533,412.97

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

Operating Loss	\$ (39,269,572.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	1,100,588.10
Miscellaneous Nonoperating Income	3,372.40
Changes in Assets and Liabilities:	
Receivables	184,407.71
Inventories	(245,650.19)
Accounts Payable and Accrued Liabilities	62,267.03
Unearned Revenue	161,429.91
Funds Held for Others	28,800.81
Compensated Absences	127,776.16
	<hr/>
Net Cash Used by Operating Activities	\$ (37,846,580.19)

***Catawba Valley Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2011***

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

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:

Cash and Cash Equivalents	\$ 5,376,610.23
Restricted Cash and Cash Equivalents	1,740,604.60

Noncurrent Assets:

Restricted Cash and Cash Equivalents	<u>1,416,198.14</u>
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Total Cash and Cash Equivalents - June 30, 2011	<u><u>\$ 8,533,412.97</u></u>
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**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 203,566.22
Capital Asset Write-Offs	68,592.62

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, 2011***

***Exhibit B-1***

**CURRENT ASSETS**

Cash and Cash Equivalents	\$	477,019
Investments		78,918
Other Receivables		2,126
Prepaid Expenses		2,235
		<hr/>
Total Current Assets		560,298
		<hr/>

**ENDOWMENT ASSETS**

Cash		230,867
Investments		1,073,651
		<hr/>
Total Endowment Assets		1,304,518
		<hr/>

**REAL ESTATE**

Investment in Land, at Fair Value		627,625
		<hr/>
Total Assets	\$	2,492,441
		<hr/> <hr/>

**NET ASSETS**

Unrestricted	\$	633,772
Temporarily Restricted		554,151
Permanently Restricted		1,304,518
		<hr/>
Total Net Assets	\$	2,492,441
		<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, 2011***

***Exhibit B-2***

**CHANGES IN UNRESTRICTED NET ASSETS**

Revenues and (Losses):	
Contributions	\$ 1,084
Interest	2,010
Dividends	7,521
Investment Fees	(99)
Unrealized Loss on Investments	(66,590)
Total Unrestricted Losses	(56,074)
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	293,970
Total Unrestricted Revenues, Gains, and Other Support	237,896
Expenses:	
Scholarships and Grants	304,950
Administration	20,853
Total Expenses	325,803
Decrease in Unrestricted Net Assets	(87,907)

**CHANGES IN TEMPORARILY RESTRICTED NET ASSETS**

Contributions	361,433
Interest	366
Dividends	38,416
Unrealized Gain on Investments	4,839
Investments Fees	(11,119)
Net Assets Released from Restrictions	(293,970)
Increase in Temporarily Restricted Net Assets	99,965

**CHANGES IN PERMANENTLY RESTRICTED NET ASSETS**

Contributions	58,317
Write Off of Uncollectible Endowment Pledge Receivable	(35,000)
Realized Gain on Sale of Investments	16,945
Unrealized Gain on Investments	89,186
Increase in Permanently Restricted Net Assets	129,448
Increase in Net Assets	141,506
Net Assets at Beginning of Year	2,350,935
Net Assets at End of Year	\$ 2,492,441

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

**CATAWBA VALLEY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

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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. 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 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** - Catawba Valley Community College Foundation, Inc. (Foundation) is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature of significance of its relationship to the College.

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2011, the Foundation distributed \$99,365.18 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, 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 undeposited receipts, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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. 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. 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 100 years for buildings, and 2 to 30 years for equipment.
- H. 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.
- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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county capital appropriation do not revert and are available for future use as approved by the county commissioners.

### 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 \$3,550.00, and deposits in private financial institutions with a carrying value of \$2,164,598.09 and a bank balance of \$4,322,629.50.

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, 2011, 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; specified bills of exchange; certain savings certificates; 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of custodian.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$6,365,264.88 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 1.9 years as of June 30, 2011. 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 "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 investments at fair value as of June 30, 2011:

Investment Type	
Equity Investment	\$ 1,152,569.00
Real Estate Investment Fund	627,625.00
Total Investments	<u>\$ 1,780,194.00</u>

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

<b>Current Receivables:</b>	
Students	\$ 145,836.83
Student Sponsors	323,502.94
Accounts	36,634.25
Intergovernmental	124,663.09
Other	51,379.47
Total Current Receivables	<u>\$ 682,016.58</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land	\$ 2,947,228.80	\$ 0.00	\$ 0.00	\$ 2,947,228.80
Construction in Progress	3,916,886.74	1,825,472.52	5,575,921.36	166,437.90
<b>Total Capital Assets, Nondepreciable</b>	<b>6,864,115.54</b>	<b>1,825,472.52</b>	<b>5,575,921.36</b>	<b>3,113,666.70</b>
Capital Assets, Depreciable:				
Buildings	36,899,442.00	5,575,921.36		42,475,363.36
Machinery and Equipment	6,594,937.65	1,685,723.73	108,967.10	8,171,694.28
General Infrastructure	1,299,036.17			1,299,036.17
<b>Total Capital Assets, Depreciable</b>	<b>44,793,415.82</b>	<b>7,261,645.09</b>	<b>108,967.10</b>	<b>51,946,093.81</b>
Less Accumulated Depreciation/Amortization for:				
Buildings	7,150,969.12	715,065.22		7,866,034.34
Machinery and Equipment	1,442,063.72	364,438.84	40,374.48	1,766,128.08
General Infrastructure	610,941.76	21,084.04		632,025.80
<b>Total Accumulated Depreciation</b>	<b>9,203,974.60</b>	<b>1,100,588.10</b>	<b>40,374.48</b>	<b>10,264,188.22</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>35,589,441.22</b>	<b>6,161,056.99</b>	<b>68,592.62</b>	<b>41,681,905.59</b>
<b>Capital Assets, Net</b>	<b>\$ 42,453,556.76</b>	<b>\$ 7,986,529.51</b>	<b>\$ 5,644,513.98</b>	<b>\$ 44,795,572.29</b>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	\$ 91,804.30
Accrued Payroll	889,354.49
Contract Retainage	203,566.22
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 1,184,725.01</b>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	\$ 2,007,610.90	\$ 1,022,969.52	\$ 895,193.36	\$ 2,135,387.06	\$ 143,284.47

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Net Revenues
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	\$ 7,976,914.72	\$ 0.00	\$ 3,119,757.88	\$ 4,857,156.84
<b>Sales and Services:</b>				
Sales and Services of Auxiliary Enterprises:				
Bookstore	\$ 3,519,077.82	\$ 32,878.41	\$ 1,720,153.06	\$ 1,766,046.35
Other	563,693.07	29,289.30		534,403.77
Sales and Services of Education and Related Activities	813,057.13			813,057.13
Independent Operations	376,698.74			376,698.74
<b>Total Sales and Services</b>	<u>\$ 5,272,526.76</u>	<u>\$ 62,167.71</u>	<u>\$ 1,720,153.06</u>	<u>\$ 3,490,205.99</u>

### NOTE 8 - 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	\$ 17,785,550.64	\$ 2,432,192.11	\$ 1,228,558.28	\$ 0.00	\$ 0.00	\$ 0.00	\$ 21,446,301.03
Academic Support	3,373,481.45	181,976.97	108,665.03				3,664,123.45
Student Services	2,160,334.02	79,044.18	566,845.97				2,806,224.17
Institutional Support	4,389,217.01	143,376.51	938,483.85				5,471,077.37
Operations and Maintenance of Plant	825,665.86	1,451,752.89	1,760,045.03		672,078.33		4,709,542.11
Student Financial Aid			27,858.98	5,337,571.43			5,365,430.41
Auxiliary Enterprises	233,954.23	2,796,130.08	72,999.57				3,103,083.88
Depreciation						1,100,588.10	1,100,588.10
<b>Total Operating Expenses</b>	<u>\$ 28,768,203.21</u>	<u>\$ 7,084,472.74</u>	<u>\$ 4,703,456.71</u>	<u>\$ 5,337,571.43</u>	<u>\$ 672,078.33</u>	<u>\$ 1,100,588.10</u>	<u>\$ 47,666,370.52</u>

### NOTE 9 - 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$23,298,832.66, of which \$18,479,913.66 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$911,059.74 and \$1,108,794.82, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were \$911,059.74, \$639,044.18, and \$582,745.50, 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.osc.nc.gov/> and clicking on "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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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College. The voluntary contributions by employees amounted to \$19,868.00 for the year ended June 30, 2011.

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 \$255,388.00 for the year ended June 30, 2011.

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 \$36,574.00 for the year ended June 30, 2011.

### NOTE 10 - 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were \$905,515.77, \$805,523.06, and \$711,063.05, 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 "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, 2011, 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, 2010, and 2009, were .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$95,973.17, \$93,082.12, and \$90,183.61, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 11 - 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.

Risk of tort claims of up to \$1,000,000 is 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. 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 deductible.

## **NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)**

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College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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.

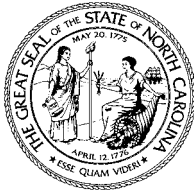
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 12 - 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 \$194,062.88 and on other purchases were \$401,341.56 at June 30, 2011.





**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  
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, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 4, 2012. 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 Catawba Valley Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Catawba Valley Community College, Foundation, Inc. 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 opinions 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 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.

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

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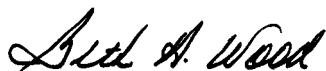
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 deficiencies described in the findings in the Audit Findings and Responses section of this report to be significant deficiencies.

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 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 4, 2012

## AUDIT FINDINGS AND RESPONSES

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

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters. Significant aspects of finding number1 were also reported in the prior year.

#### 1. INAPPROPRIATE INFORMATION SYSTEM ACCESS ASSIGNED

The College has assigned accounting system access rights that are inconsistent with proper segregation of duties. Proper segregation of duties involves assigning responsibilities such that duties of one employee automatically provide a cross-check on the work of other employees. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

We examined access rights for four of the 13 business office employees and found that every employee tested had access to screens and forms in Datatel that exceeded the requirements for their jobs. Three of these employees had the ability to initiate transactions and process them to completion. We also noted that the College does not periodically review access rights to the network to determine whether access is appropriate.

*Recommendation:* The College should ensure that each employee is assigned the minimum access rights needed to perform his or her job and assigned duties are appropriately segregated. Further, the College should periodically review access rights to ensure that the rights do not need to be adjusted.

*College Response:* The College will take appropriate steps to ensure that each employee has the minimum access rights that are necessary to enable them to perform their daily duties. We will also review access rights to the network on a periodic basis.

#### 2. FINANCIAL STATEMENTS CONTAINED ERRORS

The financial statements and related notes prepared by the College contained misstatements and misclassifications that were corrected as a result of our audit, which indicates that the College's internal control over financial reporting was not effective. Without our corrections, the financial statements could have been misleading to readers. Misstatements noted in our audit include the following:

- a. The College misclassified noncapital grants for federal student financial aid and noncapital grants for other purposes in the statement of cash flows. The misclassification amount was approximately \$1,776,000. We also noted other less significant misclassifications in the statement of cash flows.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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- b. The College did not properly disclose the amount of cash and cash equivalents in the notes to the financial statements. The amount disclosed in the notes was understated by \$830,400.
- c. The College overstated the noncurrent portion of compensated absence liabilities by approximately \$420,000 and overstated the current portion by \$2,200. The errors were the result of using an inaccurate spreadsheet to calculate the liabilities.
- d. The College understated the amount of outstanding commitments on construction contracts by approximately \$75,000 in the notes to the financial statements.
- e. The College misclassified the amount receivable from Golden LEAF, resulting in accounts receivable being overstated by \$40,000 and restricted due from North Carolina component units being understated by the same amount.

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

*College Response:* The College has implemented new processes for reviewing year-end financial reporting to ensure the accuracy of the College's financial statements. The Chief Business Administrator and the Vice President of Business Affairs will assist in the review of the financial statements.

## **ORDERING INFORMATION**

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