

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

OFFICE OF THE STATE AUDITOR

**RALPH CAMPBELL, JR.
STATE AUDITOR**

FINANCIAL STATEMENT AUDIT REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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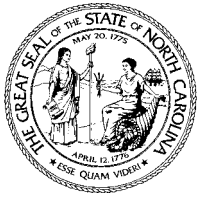
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Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Trustees, Montgomery Community College

This report presents the results of our financial statement audit of Montgomery Community College, a component unit of the State of North Carolina, for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the College are an integral part of the State's reporting entity represented in the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*. In those reports, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the audit results on the State's internal controls and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs.

As part of the audit work necessary for the CAFR and the *Single Audit Report*, the accounts and operations of the College were subject to audit procedures as we considered necessary. In addition, we performed auditing procedures that we considered necessary for us to report on the accompanying financial statements that relate solely to Montgomery Community College. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The purpose of this report is to present the results of our audit on the accompanying financial statements that relate solely to Montgomery Community College. A summary of our reporting objectives and audit results are:

1. Objective - Express an opinion on the accompanying financial statements.

Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with generally accepted accounting principles. These matters are described in the Independent Auditor's Report.

2. Objective - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

AUDITOR'S TRANSMITTAL (CONCLUDED)

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the College's ability to record, process, summarize, and report financial data in the financial statements.

Results - Our tests disclosed no material weaknesses in internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

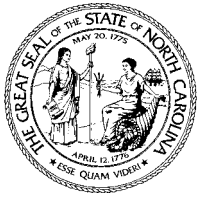
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the accompanying Balance Sheet of Montgomery Community College, a component unit of the State of North Carolina, as of June 30, 2000, and the related Statement of Changes in Fund Equity and Statement of Current Funds Revenues, Expenditures, and Other Changes for the year then ended. 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 conducted our audit in accordance with generally accepted auditing standards 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. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery Community College as of June 30, 2000, and the changes in fund equity and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements, the College changed its accounting for state-required tuition and fees during the year ended June 30, 2000.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2001 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

A handwritten signature in black ink that reads "Ralph Campbell, Jr.".

Ralph Campbell, Jr.
State Auditor

April 20, 2001

Montgomery Community College
Balance Sheet
June 30, 2000

Exhibit A

	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted			Loan	Endowment	Agency	Unexpended	Investment in Plant
	General	Proprietary	Restricted					
ASSET								
Cash and Cash Equivalents	\$ 79,353.88	\$ 95,394.65	\$ (7,082.56)	\$ 9,417.64	\$ 13,000.00	\$ 32,938.93	\$ 27,558.47	\$ 0.00
Investments						972,992.88		
Receivables:								
Accounts Receivable	15,940.70	738.25	27,773.16					
Intergovernmental Receivables							82,509.00	
Due from Primary Government							318,374.92	
Notes Receivable				12,068.25				
Inventories	36,067.38							
Prepaid Items	1,529.53							
Fixed Assets (Note 4)								10,155,523.99
State Treasurer's Securities Lending Collateral	20,278.23	25,655.65	3,567.72	2,005.84	5,020.51	6,946.93		
Total Assets	\$ 153,169.72	\$ 121,788.55	\$ 24,258.32	\$ 23,491.73	\$ 18,020.51	\$ 1,012,878.74	\$ 428,442.39	\$ 10,155,523.99

Montgomery Community College
Balance Sheet
June 30, 2000

Exhibit A
Page 2

	Current Funds			Fiduciary Funds			Plant Funds	
	Unrestricted			Loan	Endowment	Agency	Unexpended	Investment in Plant
	General	Proprietary	Restricted					
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts Payable and Accrued Liabilities:								
Accounts Payable	\$ 47,773.49	\$ 0.00	\$ 3,910.44	\$ 0.00	\$ 0.00	\$ 1,073.78	\$ 336,000.28	\$ 0.00
Accrued Payroll	11,617.11		1,176.08					
Accrued Vacation Leave	246,364.08							
Deferred Revenue			4,750.00					
Obligations Under State Treasurer's								
Securities Lending Agreements	20,278.23	25,655.65	3,567.72	2,005.84	5,020.51	6,946.93		
Funds Held for Others	454.25					1,004,858.03		
Total Liabilities	326,487.16	25,655.65	13,404.24	2,005.84	5,020.51	1,012,878.74	336,000.28	
Fund Equity:								
Net Investment in Plant								10,155,523.99
Fund Balances:								
Restricted:								
Endowment					10,000.00			
Quasi-Endowment					3,000.00			
Other Restricted Funds			10,854.08	5,193.87			92,442.11	
Other Unrestricted Funds	(173,317.44)	96,132.90		16,292.02				
Total Fund Equity (Deficit)	(173,317.44)	96,132.90	10,854.08	21,485.89	13,000.00		92,442.11	10,155,523.99
Total Liabilities and Fund Equity	\$ 153,169.72	\$ 121,788.55	\$ 24,258.32	\$ 23,491.73	\$ 18,020.51	\$ 1,012,878.74	\$ 428,442.39	\$ 10,155,523.99

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

Montgomery Community College
Statement of Changes in Fund Equity
Year Ended June 30, 2000

Exhibit B

	Current Funds			Fiduciary Funds		Plant Funds	
	Unrestricted			Loan	Endowment	Unexpended	Investment in Plant
	General	Proprietary	Restricted				
Revenues and Other Additions:							
Tuition and Fees	\$ 504,421.49	\$ 15,815.39	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
County Appropriations	558,567.08					85,666.92	
Federal Contracts and Grants	82,936.00		546,942.27				
State Contracts and Grants	3,491,390.55		47,474.67			514,027.08	
Nongovernmental Contracts and Grants	520.01		14,557.92				
Gifts				6,975.00			69,347.48
Investment Income	2,893.19	3,984.56	1,557.62	213.84			
Sales and Services	101,683.50						
Expended for Plant Facilities							324,340.13
Other Revenues and Additions	6,965.67	7,538.37	30,156.36	280.50			
Total Revenues and Other Additions	4,749,377.49	27,338.32	640,688.84	7,469.34		599,694.00	393,687.61
Expenditures and Other Deductions:							
Educational and General	4,776,652.15	13,431.27	651,735.78				
Indirect Costs Recovered			3,212.00				
Expended for Plant Facilities						585,514.75	
Disposal of Plant Facilities							5,248.94
Total Expenditures and Other Deductions	4,776,652.15	13,431.27	654,947.78			585,514.75	5,248.94
Transfers:							
Non-Mandatory Transfers In (Out)	5,502.86	(10,545.86)	4,043.00	1,000.00			
Net Increase (Decrease) for the Year	(21,771.80)	3,361.19	(10,215.94)	8,469.34		14,179.25	388,438.67
Fund Equity (Deficit) July 1, 1999	(158,800.24)	92,771.71	21,070.02	13,016.55	13,000.00	78,262.86	9,767,085.32
Prior Period Adjustment (Note 13)	7,254.60						
Fund Equity (Deficit) June 30, 2000	\$ (173,317.44)	\$ 96,132.90	\$ 10,854.08	\$ 21,485.89	\$ 13,000.00	\$ 92,442.11	\$ 10,155,523.99

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

Montgomery Community College
Statement of Current Funds Revenues, Expenditures, and Other Changes
Year Ended June 30, 2000, with comparative totals for 1999

Exhibit C

	Unrestricted			Restricted	Year Ended June 30,	
	General	Proprietary	Total		2000	1999
Revenues:						
Tuition and Fees	\$ 504,421.49	\$ 15,815.39	\$ 520,236.88	\$ 0.00	\$ 520,236.88	\$ 392,879.16
County Appropriations	558,567.08		558,567.08		558,567.08	567,449.20
Federal Contracts and Grants	82,936.00		82,936.00	547,090.94	630,026.94	685,408.91
State Contracts and Grants	3,491,390.55		3,491,390.55	47,474.67	3,538,865.22	3,463,292.51
Nongovernmental Contracts and Grants	520.01		520.01	17,797.18	18,317.19	510.00
Gifts				9,216.63	9,216.63	14,728.66
Investment Income	2,893.19	3,984.56	6,877.75		6,877.75	9,664.06
Sales and Services	101,683.50		101,683.50		101,683.50	116,454.88
Other Sources	6,965.67	7,538.37	14,504.04	30,156.36	44,660.40	4,481.37
Total Revenues	4,749,377.49	27,338.32	4,776,715.81	651,735.78	5,428,451.59	5,254,868.75
Expenditures:						
Educational and General:						
Instruction	2,955,412.96		2,955,412.96	60,742.61	3,016,155.57	2,907,567.04
Academic Support	114,679.24		114,679.24		114,679.24	211,945.50
Student Services	399,155.68	12,831.27	411,986.95	70,371.57	482,358.52	427,537.99
Institutional Support	780,688.15		780,688.15	29,857.75	810,545.90	725,447.79
Plant Maintenance and Operations	499,689.95		499,689.95		499,689.95	502,915.00
Student Financial Aid	27,026.17	600.00	27,626.17	490,763.85	518,390.02	455,055.46
Total Expenditures	4,776,652.15	13,431.27	4,790,083.42	651,735.78	5,441,819.20	5,230,468.78
Transfers and Additions/(Deductions):						
Restricted Receipts Over/(Under) Revenues Earned				(14,258.94)	(14,258.94)	12,772.21
Non-Mandatory Transfers In (Out)	5,502.86	(10,545.86)	(5,043.00)	4,043.00	(1,000.00)	4,000.00
Net Increase (Decrease) in Fund Equity	\$ (21,771.80)	\$ 3,361.19	\$ (18,410.61)	\$ (10,215.94)	\$ (28,626.55)	\$ 41,172.18

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

MONTGOMERY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2000

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 generally accepted accounting principles, 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. Montgomery Community College is a component unit of the North Carolina Community College System which is a part of the primary government 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 for which the College's Board of Trustees is financially accountable. Related foundations and similar non-profit corporations for which the College is not financially accountable are not part of the accompanying financial statements. These entities are not included because they are separately incorporated and there are neither common directors nor other evidence of common control.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with generally accepted accounting principles applicable to governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB statement #15 *Governmental College and University Accounting and Financial Reporting Models*, the College has elected to follow the fund accounting and reporting guidelines set forth by the American Institute of Certified Public Accountants in its Industry Audit Guide, *Audits of Colleges and Universities*.

- C. Fund Structure** - The accompanying financial statements are structured into three categories of funds: Current, Fiduciary, and Plant Funds.

The **Current Funds** are used to account for the revenues and expenditures resulting from operations, with the Unrestricted Funds and Restricted Fund shown separately. The Restricted Fund represents resources that are restricted to use by either an outside donor or grantor. Current funds that are internally designated for specific purposes by the governing board or management having delegated authority are reported

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

as Unrestricted Funds. The Unrestricted Proprietary Fund reflecting the operations of the bookstore, other auxiliary enterprises, internal service funds and student activity funds is shown separately from the Unrestricted General Fund.

The **Fiduciary Funds** are used to account for additions and deductions from fund equity of the Loan Fund and Endowment Fund. In addition, the Fiduciary Funds are used to account for funds of students and organizations held by the College as custodian in the Agency Fund. The transactions of the Agency Fund increase and decrease assets and liabilities but do not effect fund equity. As a result, the Agency Fund is not reflected in the Statement of Changes in Fund Equity.

The **Plant Funds** are used to account for additions and deductions from fund equity of the Unexpended Plant Fund and the Investment in Plant Fund.

- D. Basis of Accounting** - The financial statements of the College have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by public educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when they are earned and become measurable and expenditures are reported in the accounting period when materials or services are received or when incurred, if measurable.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

- E. Cash and Cash Equivalents** - In addition to cash on deposit with private bank accounts and petty cash, this classification includes short-term investments with the State Treasurer's Cash and Investment Pool (a governmental external investment pool).
- F. State Treasurer's Securities Lending Collateral** - While the College does not directly engage in securities lending transactions, it deposits certain funds with the State Treasurer's Cash and Investment Pool which participates in securities lending activities. Based on the State Treasurer's allocation of these transactions, the College recognizes its allocable share of the assets and liabilities related to these transactions on the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accompanying financial statements as “State Treasurer’s Securities Lending Collateral” and “Obligations Under State Treasurer’s Securities Lending Agreements.” The allocable share of the income and costs arising from these transactions is immaterial to the College and, as a result, is reported as part of “Investment Income” on the accompanying financial statements.

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer’s securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

The College’s allocable portion of securities lent at year-end for cash collateral amounted to \$63,474.88 and is not subject to categorization of custodial credit risk. Securities received as collateral are not recorded in either the Treasurer’s or the College’s financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At year-end, the weighted average maturity of unmatched investments was less than one month.

At year-end, the State Treasurer has no credit risk exposure to borrowers and incurred no losses during the year related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- G. Receivables and Allowance for Doubtful Accounts** - Accounts and notes receivables are shown at book value with no provision for doubtful accounts considered necessary.
- H. Inventories** - Inventories held by the College are priced at last invoice cost. The inventories for the Unrestricted General Fund consist of expendable supplies, postage and fuel oil held for consumption.
- I. Fixed Assets and Depreciation** – Fixed Assets are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. The College capitalizes fixed assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Depreciation is not recorded.

To the extent that current funds are used to finance plant assets, the amounts provided are accounted for as expenditures, in the case of normal replacement of furniture and movable equipment, and transfers of a non-mandatory nature for all other cases.

Public domain (“infrastructure”) fixed assets consisting of roads, parking lots, and sidewalks are capitalized as other structures and improvements.

- J. Vacation and Sick Leave** - The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1st or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30th equals the leave carried forward at the previous June 30th plus the leave earned, less the leave taken between July 1st and June 30th, not to exceed 240 hours.

The College has the policy of recording the cost of sick leave when taken and paid rather than when the leave is earned. The policy provides for unlimited accumulation of sick leave, but the employee cannot be compensated for any unused sick leave upon termination of employment.

- K. Revenue Recognition** - Current funds revenues, as reflected on Exhibit C, include (1) all unrestricted gifts, grants, and other resources earned during the reporting period and (2) restricted resources to the extent that such funds were expended. Current funds revenues do not include restricted current funds received but not expended or resources that are restricted by external persons or agencies to funds other than current funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Tuition remission and waivers are recorded as “Tuition and Fees” revenue and as “Student Financial Aid” expenditures on the accompanying financial statements.

- L. Endowment Investment Return** – Endowments are classified as either “true” or “quasi”. True endowments are funds that the donor has specified, as a condition of the gift, that the principal be maintained indefinitely. Quasi-endowments are funds on which there is no such restriction placed by the donor. For classification purposes, the income and appreciation added to principal is classified as quasi-endowment, unless the donor has stipulated otherwise.
- M. County Appropriations** - County Appropriations are provided to the College primarily to fund its plant operation and maintenance function (county current fund) and to fund construction projects, motor vehicles and maintenance equipment (county plant fund). Unexpended county current funds and county plant funds do not revert and are available for future use by the College.

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with G.S. § 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina or with the State Treasurer’s Cash and Investment Pool. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. At year-end, cash on hand was \$400.00. The carrying amount of cash on deposit was \$250,181.01 and the bank balance was \$295,276.03.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Cash on deposit at year-end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	\$ 175,318.32	\$ 108,620.99
Cash on Deposit with Private Financial Institutions	74,862.69	186,655.04
	\$ 250,181.01	\$ 295,276.03

The cash on deposit with the State Treasurer is pooled with state agencies and similar institutions in short-term investments with the State Treasurer's Cash and Investment Pool. These moneys are invested in accordance with G.S. § 147-69.1(c) and 147-69.2, and as required by law are "readily convertible into cash." All investments of the fund are held either by the Department of State Treasurer or its agent in the State's name. The fund's uninvested cash is either covered by federal depository insurance or, pursuant to 20 NCAC 7, is collateralized under either the dedicated or pooling method.

The financial statements and disclosures for the State Treasurer's Cash and Investment Pool 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.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Of the cash on deposit with private financial institutions at June 30, 2000, \$100,000.00 of the bank balance was covered by federal depository insurance and \$86,655.04 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

- B. Investments** – All investments are owned by Montgomery Community College Foundation and held in the agency funds of the college. All investments are valued in the financial statements at fair value based on publicly available trading values. The fair value of these investments held by the fiscal agent at June 30, 2000 was as follows:

	Cost	Fair Value	Carrying Value
WB Charitable Fund	\$ 490,557.55	\$ 565,540.79	\$ 565,540.79
WB Charitable Fixed Income Fund	382,641.21	379,165.93	379,165.93
WB Prime Cash Management Fund	28,286.16	28,286.16	28,286.16
Total Investments	\$ 901,484.92	\$ 972,992.88	\$ 972,992.88

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - INTER-FUND RECEIVABLES AND PAYABLES

Inter-fund borrowings of a temporary nature have occurred where one bank account is maintained for more than one fund. Because the fund making the temporary loan has not been determined by the College, these inter-fund borrowings are not reported as an asset of the fund making the advance or as a liability of the fund receiving the advance.

NOTE 4 - CHANGES IN FIXED ASSETS

A summary of changes in the fixed assets is presented as follows:

	Balance July 1, 1999	Additions	Deletions	Balance June 30, 2000
Land	\$ 248,364.00	\$ 0.00	\$ 0.00	\$ 248,364.00
Buildings	8,126,635.32	165,116.59		8,291,751.91
Other Structures and Improvements	282,405.60	29,767.94		312,173.54
Furniture, Machinery and Equipment	627,204.02	122,633.70	1,975.00	747,862.72
Artwork, Artifacts and Literature	482,476.38	76,169.38	3,273.94	555,371.82
	<u>\$ 9,767,085.32</u>	<u>\$ 393,687.61</u>	<u>\$ 5,248.94</u>	<u>\$ 10,155,523.99</u>

NOTE 5 - OPERATING LEASES

Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2000:

Fiscal Year	Amount
2001	\$ 27,195.72
2002	7,932.08
Total Minimum Lease Payments	<u><u>\$ 35,127.80</u></u>

Rental expenses for all operating leases during the year were \$31,261.28.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

A. Commitments – The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$12,587.20 at June 30, 2000.

B. Pending Litigation and Other Contingencies - During the 1998-1999 fiscal year, three of the prime contractors for the Business and Industry Technology Resources building separately filed Request for Equitable

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Adjustments totaling \$937,410.10 with Montgomery Community College. The College has filed for damages of \$627,816.51 against the primary contractor for the project. At June 30, 2000, none of the claims had been resolved.

As of January 9, 2001, a settlement had been reached with two of the prime contractors. Outstanding claims totaling \$239,984.00 were settled for \$125,000.

The College is subject to other litigation and claims in the ordinary course of its operations. Since it is not possible to predict the ultimate outcome of such matters, no provision for any liability has been made in the financial statements. College management is of the opinion that the liability, if any, for any matter which it is currently a party of, will not have a material adverse effect on the financial position of the College.

NOTE 7 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and the 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.

Tort claims of up to \$150,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$11,000,000 public officers' and employees' liability insurance via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a state administered public entity risk pool. This fund is financed by premiums and interest and reinsures losses greater than \$10,000,000 per occurrence. The excess insurer provides property coverage up to \$30,000,000 per location annually. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Other college-owned vehicles are covered by liability insurance contracts with private insurance companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the State Department of Insurance with coverage of \$5,000,000 per occurrence and a \$10,000 deductible. As of January 6, 2000, the deductible increased to \$50,000. Losses from employee dishonesty for employees paid from County and Institutional Funds are covered by private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan, a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third party contractor. Health care coverage is optionally available through contractual agreements with several HMO plans.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the board entirely from County or Institutional Funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. The death benefit program is administered by the State Treasurer's Office and funded via employer contributions.

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 8 - DEFICIT FUND BALANCE

The deficit fund balance in the Current Unrestricted General Fund is attributable to the College adjusting its cash basis records to the accrual basis of accounting as required by generally accepted accounting principles (GAAP). In accordance with GAAP, receivables were not recognized for liabilities associated with future period appropriations or certifications.

As required by G.S. 115D-31 and 115D-32, the State Board of Community Colleges and the associated local tax-levying authority(s) are responsible for supporting the financial needs of the College. This support is authorized on a cash basis through an annual appropriation or certification process for a specified fiscal year period. While GAAP prohibits the College from recording receivables from future period authorizations, the College will continue to receive, as provided by law, sufficient support for its financial needs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (System) is a multiple-employer cost sharing defined benefit pension plan administered by the North Carolina State Treasurer.

After five years of creditable service, employees qualify for a vested deferred benefit. Employees who retire on or after age 65 and complete 5 years of membership service (age 55 and 5 years of creditable service for law enforcement officers), reach age 60 with 25 years of membership service, or complete 30 years of creditable service receive a retirement allowance of 1.80% of an average final compensation (based on the 4 consecutive years that produce the highest average) multiplied by the number of years of creditable service. Employees may retire with reduced benefits if they reach age 50 with 20 years of creditable service or reach age 60 with 5 years of creditable service (age 50 with 15 years creditable service for law enforcement officers).

The funding policy for the Teachers' and State Employees' Retirement System provides for periodic employer and member contributions at actuarially determined rates that expressed as percentages of annual covered payroll are sufficient to accumulate assets needed to pay benefits when due. The system is funded by member contributions of 6% of compensation and by employer contributions of 8.15% of covered payroll for the year ended June 30, 2000. Benefit and contribution provisions are established by North Carolina General Statute 135-5 and 135-8 and may be amended only by the North Carolina General Assembly.

For the year ended June 30, 2000, the College had a total payroll of \$3,283,391.92 of which \$2,935,703.90 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$176,142.26 and \$239,259.83, respectively. The College made one hundred percent of its annual required contributions to the retirement plans for the years ended June 30, 2000, 1999, and 1998, which were \$239,259.83, \$231,552.77, and \$206,250.35, 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.state.nc.us/OSC> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. No costs are incurred by the College. The voluntary contributions by employees amounted to \$30,289.00 for the year ended June 30, 2000.

IRC Section 403(b) and 403(b)(7) Plans - All 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 non-profit 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 \$14,700.00 for the year ended June 30, 2000.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees -

The College participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina, and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. For the fiscal year ended June 30, 2000, contributions to the plan were not required. 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*.

B. Long-Term Disability - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. The Plan provides disability income to eligible participants. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

method. The College contributes .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the fiscal year ended June 30, 2000, the College's total contribution to the DIPNC was \$15,265.66. 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 11 - MONTGOMERY COMMUNITY COLLEGE FOUNDATION

The Montgomery Community College Foundation is a separately incorporated non-profit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$16,859.73 for the year ended June 30, 2000.

NOTE 12 - ACCOUNTING CHANGE

Accounting for State Required Tuition and Fees – During the fiscal year 2000, the College changed its method of accounting for state required tuition and fees to report them as an offset to state funded revenues. Prior to this change, the College accounted for state required tuition and fees as “Due to the State” and recorded funds received from the state as state funded revenues. As a result of this accounting change, state required tuition and fees received during the year are reported as a reduction to state funded revenues and as an increase to tuition and fee revenues. At year-end, student receivables related to state required tuition and fees is reported as tuition and fee revenues. The effect of this change on beginning fund equity represents the July 1, 1999, student receivables for state required tuition and fees and is identified in the prior period adjustment note to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 13 - PRIOR PERIOD ADJUSTMENT

As of July 1, 1999, fund equity of the various funds as previously reported were restated as follows:

<u>Fund Group</u>	<u>To Restate Fund Equity as a Result of the Accounting Change for State Required Tuition and Fees</u>
Unrestricted General Fund	\$ 7,254.60



Ralph Campbell, Jr.
State Auditor

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

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the financial statements of Montgomery Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2000, and have issued our report thereon dated April 20, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

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

Ralph Campbell, Jr.

Ralph Campbell, Jr.
State Auditor

April 20, 2001

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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August 7, 2001

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