STATE OF
NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2004

STATE OF NORTH CAROLINA
Office of the State Auditor

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Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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, 2004. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 subjected 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 auditing standards generally accepted in the United States of America 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 is:

1. **Objective –** To express an opinion on the accompanying financial statements that relate solely to Montgomery Community College.

   Results - The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with accounting principles generally accepted in the United States of America. These matters are more fully described in the Independent Auditor's Report on the Financial Statements.

2. **Objective –** To 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 and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

   Results - The following significant deficiency in internal control over financial reporting was noted as a result of our audit:

   Finding

   Financial Reporting Process

   This matter is described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters and the Audit Findings and Recommendations section of this report.

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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the accompanying financial statements of Montgomery 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, 2004, which collectively comprise Montgomery Community 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 Montgomery Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for that entity, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Montgomery 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our 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 Montgomery Community College and its component unit, as of June 30, 2004, and the respective changes in its financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* during the year ended June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

June 14, 2005

Overview of Financial Statements and Financial Analysis

Montgomery Community College would like to present the Management's Discussion and Analysis for the year ended June 30, 2004. The analysis will include a comparison between current year and the prior fiscal year's information.

The College's basic financial statements include: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Only two are required to be analyzed herein; therefore, no additional information is presented for the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents assets, liabilities and net assets of the College at a point in time for the fiscal years ended June 30, 2004, and June 30, 2003, respectively.

From the data presented, readers of the Statement of Net Assets are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, this statement provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets provides the institution's equity in property, plant and equipment owned by the institution. The next asset category is restricted net assets, which is divided into nonexpendable and expendable. Nonexpendable restricted net assets include endowment type assets whose use is limited by donors, and, as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net assets are resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The final category is unrestricted net assets, which are available to be spent by the College for any lawful purpose of the institution.

Condensed Statement of Net Assets

	June 30, 2004	June 30, 2003	Variance
Assets			
Current Assets	$ 575,463	$ 615,294	$ (39,831)
Capital Assets, Net	7,124,637	7,003,272	121,365
Other Assets	260,443	214,585	45,858
Total Assets	7,960,543	7,833,151	127,392
Liabilities			
Current Liabilities	615,966	625,881	(9,915)
Noncurrent Long-Term Liabilities	236,962	226,933	10,029
Total Liabilities	852,928	852,814	114
Net Assets:			
Invested in Capital Assets	7,124,636	7,003,271	121,365
Restricted for:			
Nonexpendable:			
Scholarships and Fellowships	3,000	13,000	(10,000)
Expendable:			
Scholarships and Fellowships	51,051	(63,639)	114,690
Other	11,622	(34,671)	46,293
Unrestricted	(82,694)	62,376	(145,070)
Total Net Assets	$ 7,107,615	$ 6,980,337	$ 127,278

The total assets of the institution increased by $127,278 from last year. This was largely due to the increase in capital assets generated from general obligation bond monies.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity reported in the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). The purpose of the statement is to present the revenues received by the College, including operating and nonoperating, and expenses, both operating and nonoperating.

Generally operating revenues are received for providing goods and services to various constituents of the College while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the College for which we receive operating revenue. Nonoperating revenues are revenues received for which goods and services are not provided. State aid is considered nonoperating because it is provided by the Legislature without the Legislature directly receiving goods and services for that revenue.

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

	June 30, 2004	June 30, 2003	Variance
Operating Revenues			
Student Tuition and Fees, Net	$ 235,667	$ 187,125	$ 48,542
Federal Grants and Contracts	1,501,049	1,359,043	142,006
State and Local Grants and Contracts	124,934	335,604	(210,670)
Nongovernmental Grants and Contracts		17,445	(17,445)
Sales and Services	107,263	194,513	(87,250)
Other Operating Revenues		1,884	(1,884)
Total Operating Revenues	1,968,913	2,095,614	(126,701)
Nonoperating Revenues			
State Aid	4,260,833	3,367,838	892,995
County Appropriations	675,825	664,300	11,525
Noncapital Grants	50,000	9,406	40,594
Noncapital Gifts	68,860	94,947	(26,087)
Other Nonoperating Revenues	168,011	99,173	68,838
Total Nonoperating Revenues	5,223,529	4,235,664	987,865
Total Revenues	7,192,442	6,331,278	861,164
Operating Expenses	(7,674,519)	(6,994,259)	(680,260)
State and County Capital Contributions	609,355	318,921	290,434
Increase in Net Assets	127,278	(344,060)	471,338
Net Assets - Beginning of the Year	6,980,337	7,324,397	(344,060)
Net Assets - End of the Year	$ 7,107,615	$ 6,980,337	$ 127,278

Following, you will find highlights to the above SRECNA. Reported student tuition and fees revenues realized an increase of $48,542 largely due to enrollment growth. There was an increase in federal grants totaling $142,006, which is predominately Federal Pell Grants. State and local grants and contracts decreased due to reclassification of State capital aid funds. Nonoperating revenues showed a net increase of $987,865, which can primarily be attributed to the increase in State aid. Operating expenses showed a net increase of $680,260 or approximately 10%.

There was a net increase of $127,278 in net assets for the year, which means that overall the financial position of the College was fairly stable.

Summary of Financial Position

FY 2004's activity was the product of increased enrollment due to higher unemployment. This causes a trickle effect of increased tuition and fees collected, $48,542; increase in federal grants awarded, $142,006; larger State allocation generated from higher FTE; and an increase in net operating expenses, $680,260. There were still cash restrictions but not as severe as in recent years. Overall the College had an increase of $127,278 in net assets and general improvement in financial position.

Economic Outlook

The College is currently under litigation to resolve issues with contractors on previous construction totaling $387,832. It is unknown when this will be resolved.

The State of North Carolina continues to experience down revenues and over realized receipts during this time of a sagging economy resulting in enrollment growth at the community College. The Statewide cash shortage resulted in very strategic cash management. Balancing these issues has heavily weighed on the College. Otherwise we are not aware of any significant effects on the financial position of the College. We are anticipating that the upcoming fiscal year will be much like the last and will make every effort to react so that the College can continue to meet it's goals and objectives.

Montgomery Community College
Statement of Net Assets
June 30, 2004 ***Exhibit A-1***

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	352,680.01
Restricted Cash and Cash Equivalents		13,656.64
Receivables (Note 3)		170,593.98
Inventories		31,655.88
Notes Receivable		6,876.80
Total Current Assets		575,463.31
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,000.00
Restricted Due from Primary Government		257,443.62
Capital Assets - Nondepreciable (Note 4)		516,930.40
Capital Assets - Depreciable, Net (Note 4)		6,607,706.05
Total Noncurrent Assets		7,385,080.07
Total Assets		7,960,543.38
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 5)		509,979.79
Deferred Revenue		14,546.45
Funds Held for Others		32,199.07
Long-Term Liabilities - Current Portion (Note 6)		59,240.58
Total Current Liabilities		615,965.89
Noncurrent Liabilities:		
Long-Term Liabilities (Note 6)		236,962.29
Total Liabilities		852,928.18
NET ASSETS		
Invested in Capital Assets		7,124,636.45
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		3,000.00
Expendable:		
Scholarships and Fellowships		51,051.39
Other		11,621.79
Unrestricted		(82,694.43)
Total Net Assets	$	7,107,615.20

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

Montgomery Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2004 — *Exhibit A-2*

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 8)	$	235,666.58
Federal Grants and Contracts		1,501,048.88
State and Local Grants and Contracts		124,933.25
Sales and Services (Note 8)		107,264.19
Total Operating Revenues		1,968,912.90
EXPENSES		
Operating Expenses:		
Salaries and Benefits		4,375,951.66
Supplies and Materials		1,076,017.28
Services		655,528.12
Scholarships and Fellowships		1,044,398.40
Utilities		178,381.97
Depreciation		344,241.59
Total Operating Expenses		7,674,519.02
Operating Loss		(5,705,606.12)
NONOPERATING REVENUES		
State Aid		4,260,833.69
County Appropriations		675,824.73
Noncapital Gifts		68,859.99
Noncapital Grants		50,000.00
Investment Income, Net		6,090.99
Other Nonoperating Revenues		161,919.96
Net Nonoperating Revenues		5,223,529.36
Loss Before Other Revenues		(482,076.76)
State Capital Aid		592,334.84
County Capital Appropriations		17,020.27
Increase in Net Assets		127,278.35
NET ASSETS		
Net Assets, July 1, 2003		6,980,336.85
Net Assets, June 30, 2004	$	7,107,615.20

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

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	1,969,851.40
Payments to Employees and Fringe Benefits		(4,363,034.89)
Payments to Vendors and Suppliers		(1,845,322.23)
Payments for Scholarships and Fellowships		(1,051,275.20)
Loans Issued to Students		(6,876.80)
Other Receipts		105,839.52
Net Cash Used by Operating Activities		(5,190,818.20)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		4,260,833.69
County Appropriations		675,824.73
Noncapital Grants Received		100,000.00
Noncapital Gifts and Endowments Received		68,859.99
Net Cash Provided by Noncapital Financing Activities		5,105,518.41
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		493,602.40
County Capital Appropriations		17,020.27
Acquisition and Construction of Capital Assets		(465,606.44)
Net Cash Used by Capital and Related Financing Activities		45,016.23
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		6,090.99
Net Decrease in Cash and Cash Equivalents		(34,192.57)
Cash and Cash Equivalents, July 1, 2003		403,529.22
Cash and Cash Equivalents, June 30, 2004	$	369,336.65
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(5,705,606.12)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		344,241.59
Miscellaneous Nonoperating Income		161,919.96
Changes in Assets and Liabilities:		
Receivables, Net		(17,119.53)
Inventories		32,480.88
Notes Receivable, Net		(6,876.80)
Accounts Payable and Accrued Liabilities		32,505.15
Deferred Revenue		(24,986.67)
Funds Held for Others		(19,912.54)
Compensated Absences		12,535.88
Net Cash Used by Operating Activities	$	(5,190,818.20)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	352,680.01
Restricted Cash and Cash Equivalents		13,656.64
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		3,000.00
Total Cash and Cash Equivalents - June 30, 2004	$	369,336.65

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	98,704.58

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

Montgomery Community College Foundation, Inc.
Statement of Financial Position
June 30, 2004 *Exhibit B-1*

ASSETS		
Cash and Cash Equivalents	$	145,756
Investments		919,389
Receivables, Net		68,296
Total Assets		1,133,441
NET ASSETS		
Unrestricted		121,860
Temporarily Restricted		60,285
Permanently Restricted		951,296
Total Net Assets	$	1,133,441

See Note 1 in the Notes to the Financial Statements

Montgomery Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2004

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and Gains:		
Contributions	$	104,651
Income on Long-Term Investments		2,262
Net Unrealized and Realized Gains on Long-Term Investments		(122)
Total Unrestricted Revenues and Gains		106,791
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		107,595
Total Unrestricted Revenues, Gains, and Other Support		214,386
Expenses and Losses:		
Payment to College		99,822
Management and General		10,540
Fundraising		13,992
Total Expenses		124,354
Increase in Unrestricted Net Assets		90,032
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions		60,285
Income on Long-Term Investments		23,961
Net Unrealized and Realized Gains on Long-Term Investments		75,861
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(99,822)
Increase in Temporarily Restricted Net Assets		60,285
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions		83,964
Net Assets Released from Restrictions:		
Satisfaction of Program Restrictions		(7,773)
Increase in Permanently Restricted Net Assets		76,191
Increase in Net Assets		226,508
Net Assets at Beginning of Year		906,933
Net Assets at End of Year	$	1,133,441

See Note 1 in the Notes to the Financial Statements

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, 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 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 component units for which the College's Board of Trustees is financially accountable. The College's component unit is discretely presented in the financial statements. The discretely presented component unit's financial data is reported in separate financial statements because of its use of different GAAP reporting models and to emphasize its legal separateness.

Discretely Presented Component Unit – Montgomery Community College Foundation, Inc., is a legally separate not-for-profit corporation and is reported as a discretely presented component unit based on the nature and significance of its relationship to the College.

The Montgomery Community College Foundation, Inc., is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 18 voting board 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 Montgomery Community College Foundation, Inc., is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from 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, 2004, the Foundation distributed $69,822 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Montgomery Community College Business 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 (BTA) and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

D. **Cash and Cash Equivalents –** This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment portfolio. The short-term investment portfolio maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

E. **Receivables** – Receivables consist of tuition and fees charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments.

F. **Inventories** – Inventories, consisting of expendable supplies, are valued at cost 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 College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

H. **Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.

I. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.

J. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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 December 31st plus the leave earned, less the leave taken between January 1st and June 30th.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

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 – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

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

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

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

L. Scholarship Discounts – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either 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. **County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

NOTE 2 DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with 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 or with the State Treasurer's 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 $368,936.65 and the bank balance was $379,836.07.

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.

Cash on deposit at year end consisted of the following:

	Book Balance	Bank Balance
Cash on Deposit with State Treasurer	$ 127,903.67	$ 148,437.20
Cash on Deposit with Private Financial Institutions	241,032.98	231,398.87
	$ 368,936.65	$ 379,836.07

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 Investment Pool. These moneys are invested in accordance with General Statutes 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 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 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/ 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, 2004, $100,000.00 of the bank balance was covered by federal depository insurance, $131,398.87 was covered by collateral held by an authorized escrow agent in the name of the State Treasurer (pooling method).

NOTE 3 RECEIVABLES

Receivables at June 30, 2004, were as follows:

	Gross Receivables
Current Receivables:	
Students	$ 19,964.68
Accounts	31,537.61
Intergovernmental	110,236.11
Other	8,855.58
Total Current Receivables	$ 170,593.98

NOTE 4 CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2004, is presented as follows:

	Balance July 1, 2003	Adjustments	Increases	Balance June 30, 2004
Capital Assets, Nondepreciable:				
Land	$ 248,364.00	$ 0.00	$ 0.00	$ 248,364.00
A Land Improvements	193,822.24			193,822.24
Art, Literature , and Artifacts		74,744.16		74,744.16
Total Capital Assets, Nondepreciable	442,186.24	74,744.16		516,930.40
Capital Assets, Depreciable:				
Buildings	8,497,394.88		136,000.00	8,633,394.88
Machinery and Equipment	1,037,539.73		329,606.44	1,367,146.17
Art, Literature, and Artifacts	74,744.16	(74,744.16)		
General Infrastructure	127,866.30			127,866.30
Total Capital Assets, Depreciable	9,737,545.07	(74,744.16)	465,606.44	10,128,407.35
Less Accumulated Depreciation:				
Buildings	2,415,288.02		214,218.82	2,629,506.84
Machinery and Equipment	675,298.14		126,314.43	801,612.57
General Infrastructure	85,873.55		3,708.34	89,581.89
Total Accumulated Depreciation	3,176,459.71		344,241.59	3,520,701.30
Total Capital Assets, Depreciable, Net	6,561,085.36	(74,744.16)	121,364.85	6,607,706.05
Capital Assets, Net	$ 7,003,271.60	$ 0.00	$ 121,364.85	$ 7,124,636.45

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2004, were as follows:

	Amount
Accounts Payable	$ 72,882.25
Accrued Payroll	26,970.69
Contract Retainage	329,905.00
Intergovernmental Payables	25,065.45
Other	55,156.40
Total Accounts Payable and Accrued Liabilities	$ 509,979.79

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Current Portion
Compensated Absences	$ 283,666.99	$ 134,926.00	$ 122,390.12	$ 296,202.87	$ 59,240.58

NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2004:

Fiscal Year	Amount
2005	$ 22,440.00
2006	11,220.00
Total Minimum Lease Payments	$ 33,660.00

Rental expense for all operating leases during the year was $31,352.17.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Net Revenues
Operating Revenues:			
Student Tuition and Fees	$ 764,934.56	$ 529,267.98	$ 235,666.58
Sales and Services:			
Sales and Services of Auxiliary Enterprises:			
Live Projects/Lab Fees	$ 94,081.00	$ 0.00	$ 94,081.00
Vending	8,667.98		8,667.98
Other	4,515.21		4,515.21
Total Sales and Services	$ 107,264.19	$ 0.00	$ 107,264.19

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 2,575,959.71	$ 443,800.48	$ 56,563.03	$ 0.00	$ 0.00	$ 0.00	$ 3,076,323.22
Academic Support	182,475.71	6,232.42	17,732.16				206,440.29
Student Services	290,378.72	30,189.64	25,793.21				346,361.57
Institutional Support	829,225.20	292,315.31	152,006.82				1,273,547.33
Operations and Maintenance of Plant	265,509.62	225,046.96	169,646.23		178,381.97		838,584.78
Student Financial Aid	170,402.16	16,280.88	37,223.39	1,044,398.40			1,268,304.83
Auxiliary Enterprises	62,000.54	62,151.59	196,563.28				320,715.41
Depreciation						344,241.59	344,241.59
Total Operating Expenses	$ 4,375,951.66	$ 1,076,017.28	$ 655,528.12	$ 1,044,398.40	$ 178,381.97	$ 344,241.59	$ 7,674,519.02

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2004, these rates were set at .22% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2004, the College had a total payroll of $3,757,688.21, of which $3,136,589.39 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were $107,271.31 and $188,195.37, respectively. The College made one hundred percent of its annual required contributions for the years ended June 30, 2004, 2003, and 2002, which were $107,271.31, $0.00, and $145,507.91, 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/ and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

A. 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 except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $50,250.00 for the year ended June 30, 2004.

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 $11,720.00 for the year ended June 30, 2004.

NOTE 11 - 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. The College contributed of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2004, the College's total contribution to the Plan was $100,370.86. 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. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. Employer contributions are established in the Appropriations Bill by the General Assembly. The College was not required to contribute to the DIPNC for the fiscal year ended June 30, 2004. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. Except for a reduction in the public officers' and employees' liability insurance from $11,000,000 to $5,000,000, there have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to $500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund, a State-administered public entity risk pool. This fund is financed by premiums and interest and incurs a $10 million self-insured deductible per occurrence. Reinsurance is purchased by the fund to cover catastrophic events in excess of the $10 million deductible. There have been no significant reductions in insurance coverage from the previous year and settled claims State-owned vehicles used for instructional purposes are covered by liability insurance handled by the State Department of Insurance. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence and a $50,000 deductible. 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 (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

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

Term life insurance of $25,000 to $50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions. There were no employer contributions required for the current fiscal year.

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

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Community College General Obligation Bonds – The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College's remaining authorization of $25,426.00 is contingent on future bond sales and CCSO allotment approval. Because of uncertainty and time restrictions the remaining authorization is not recorded as an asset or revenue on the accompanying financial statements.

NOTE 14 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2004, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends

GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the College is not financially accountable should be reported as component units based on the nature and significance of their relationship to the College.

Montgomery Community College
Schedule of General Obligation Bond Project Authorizations, Budgets, and Expenditures
For Project-to-Date as of June 30, 2004

Schedule 1

Capital Improvement Projects	Original Projected Start Date	Revised/ Actual Start Date	General Obligation Bonds Authorized	Other Sources	Total Project Budget	Amount Expended	Percent Completed	Original Expected Completion Date	Revised/ Actual Completion Date
Projects Approved by the State Board									
Repair & Renovations - 2000 State Bond	Jun 2001	Oct 2001	$ 502,004.00	$ 0.00	$ 502,004.00	$ 370,344.00	73.77%	Jan 2006	May 2006

Note: The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of $600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The projects listed on this schedule are those funded or to be funded by bond proceeds from the general obligation bonds authorized by Senate Bill 912.

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

Board of Trustees
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, and its discretely presented component unit, as of and for the year ended June 30, 2004, which collectively comprise Montgomery Community College's basic financial statements, and have issued our report thereon dated June 14, 2005. We did not audit the financial statements of Montgomery Community College Foundation, Inc., which represents 100% of the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the College, is based on the report of the other auditors.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* during the year ended June 30, 2004.

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. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not extend to the component unit.

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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report.

Finding

Financial Reporting Process

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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.

Leslie W. Merritt, Jr.

Leslie Merritt, Jr., CPA, CFP
State Auditor

June 14, 2005

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and describe conditions that represent a significant deficiency in internal control. This finding was also reported in the prior year.

FINANCIAL REPORTING PROCESS

The auditing process begins with agreeing the agency's submitted transaction file to the agency's submitted financial statements. As a result of the auditing process, the auditor found various types of misclassifications which affected cash, capital assets, revenues and net assets. The gross volume of the required reclassification entries was significant. However, the majority of these entries represent offsetting shifts between categories of assets, liabilities, or net assets. The net effect of the reclassifications on net assets is $2,613.58. The differences exist because management is not adhering to the North Carolina Community College System's Accounting Procedures Manual, Section 3 – Chart of Accounts when coding transactions.

Consistency in the coding of transactions is imperative to the financial reporting process. Without proper coding, excessive amounts of time are spent by the auditee and auditor, determining the nature of transactions within accounts, resolving out-of-balance situations, and obtaining supporting documentation for transactions.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States of America and the policies of the Office of the State Controller. Management is also responsible for establishing and maintaining internal controls over financial reporting to detect and correct material error and misstatements in a timely manner by employees performing their normal assigned duties.

Recommendation: We recommend that management implement a plan to review the general ledger and subsidiary files to assure that transactions are properly coded. Guidance for coding should be obtained from the North Carolina Community College System's Accounting Procedures Manual. We also recommend that the appropriate level of management review the year-end financial statements and notes to the financial statements to ensure that they are accurately presented prior to submission to the Office of the State Controller.

College's Response: Montgomery Community College's first step was to develop a Corrective Action Plan, which outlined our plans to identify all problems, understand all information provided by the auditors in terms of errors, and outline corrective action steps. The plan further addressed appropriate review of Fiscal Year 04-05 data in order to avoid such errors. A consultant from Jefferson Wells was hired to assist in accomplishing these goals. The Accountant and Dean of Administrative Services then reviewed and corrected

Chart of Accounts errors. The Chart of Accounts was forwarded to the North Carolina Community College System (NCCCS) Office accounting division, another community college, and was reviewed by the Jefferson Wells consultant for accuracy. In addition, the consultant has reviewed all adjusting entries from the auditor to help the College minimize the need for such entries in FY 04-05. The consultant is also helping us to implement a process for reviewing the financial statements prior to their finalization, to ensure that potential errors and misclassifications or reclassifications are identified and appropriately corrected or adjusted.

There has been extensive management review of the year-end financial statements and notes to the financial statements to ensure that they are accurately presented prior to submission to the Office of the State Controller.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 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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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System
Dr. Mary P. Kirk	President, Montgomery Community College
Mrs. Daffie Matthews	Dean of Administrative Services Montgomery Community College
Mrs. Gelynda T. Capel	Chairman, Board of Trustees Montgomery Community College

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August 30, 2005

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