



# STATE OF NORTH CAROLINA

**TRI-COUNTY COMMUNITY COLLEGE**

**MURPHY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**

**TRI-COUNTY COMMUNITY COLLEGE**

**MURPHY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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STATE OF NORTH CAROLINA  
Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

We have completed a financial statement and compliance audit of Tri-County Community College for the year ended June 30, 2006, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements and our consideration of the College's administration of federal programs in accordance with applicable laws, regulations, contracts and grants resulted in no audit findings.

*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

May 23, 2007

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Tri-County Community College  
Murphy, North Carolina

We have audited the accompanying basic financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Tri-County Community College Foundation, Inc., which represent 5 percent, 5 percent, and 1 percent, respectively, of the assets, net assets, and revenues of the College. 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 Tri-County Community College Foundation, Inc., 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 Tri-County Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Community College as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2007, 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

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

April 20, 2007

**TRI-COUNTY COMMUNITY COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Purpose**

The information in this section is intended to provide a general overview of the College's financial statements and is based upon the information contained in the financial statements accompanying this discussion and analysis. The user is encouraged to reference the appropriate section of the financial statements for the supporting detailed information.

**Overview of the Financial Statements**

Effective July 1, 2001, the College implemented 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 College's and Universities*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*. The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements.

**Institutional Assets**

The assets of the College are divided between current and noncurrent assets. Current assets include cash, short-term certificates of deposit, receivables, inventories, and pre-paid items. The College's receivables decreased by \$137,775.59 as a result of Pell funds being drawn down and received prior to year end as well as student tuition being collected at a greater amount.

**Current Assets**

<b>Current</b>	<b>2005-2006</b>	<b>2004-2005</b>	<b>Change</b>	<b>% Change</b>
Cash	\$ 1,025,752.27	\$ 924,620.11	\$ 101,132.16	10.94 %
Certificates of Deposit	202,500.00	202,500.00		0.00 %
Receivables	144,740.09	282,515.68	(137,775.59)	(48.77) %
Inventories	92,744.88	56,829.35	35,915.53	63.20 %
Prepaid Items	25,353.90	26,016.71	(662.81)	(2.55) %
<b>Total Current Assets</b>	<b>\$ 1,491,091.14</b>	<b>\$ 1,492,481.85</b>	<b>\$ (1,390.71)</b>	

Noncurrent assets include cash, receivables due from the State for construction projects, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). The most significant change was a reduction in Due from Primary Government

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

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in the amount of \$331,281.77 due to the completion of bond funded capital projects. There was also a \$40,091.15 increase in Noncurrent cash items due to new donations made to foundation endowment funds.

### **Noncurrent Assets**

<b>Noncurrent Assets</b>	<b>2005-2006</b>	<b>2004-2005</b>	<b>Change</b>	<b>% Change</b>
Cash	\$ 40,091.15	\$ 0.00	\$ 40,091.15	100.00 %
Certificates of Deposit	85,000.00	85,000.00		0.00 %
Restricted Due from Primary Government		331,281.77	(331,281.77)	(100.00) %
Capital Assets	<u>6,737,512.17</u>	<u>6,877,265.47</u>	<u>(139,753.30)</u>	(2.03) %
Total Noncurrent Assets	<u>\$ 6,862,603.32</u>	<u>\$ 7,293,547.24</u>	<u>\$ (430,943.92)</u>	

The College's capital assets are stated at their purchase price or, in the case of donations, assigned a fair market value when they are accepted. The College records purchases as a capital asset when the purchased items cost more than \$5,000 at the date of purchase and have a useful life of more than one year. Library books are not included as assets.

The College uses straight-line depreciation to determine the current value of capital assets. In general, infrastructure is depreciated over a 15 to 25 year period, buildings are depreciated over a 15 to 40 year period, and equipment is depreciated in 5 to 15 years, depending on the expected useful life of the infrastructure, equipment, or building.

### **Institutional Liabilities**

The College's liabilities are divided between current liabilities payable within 12 months and noncurrent liabilities that extend beyond a year. Long-term liabilities consists of the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies. The current portion of long-term liabilities decreased by almost 53% to \$14,631.62 due to employees exhausting less leave than the prior year based on LIFO calculations. The noncurrent portion of long-term liabilities increased by almost 43% to \$259,327.81 due to the bonus leave awarded which is described in Note 1.K to the financial statements.



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

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**Liabilities**

<b>Current</b>	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
Current	\$ 130,266.08	\$ 170,008.97	\$ (39,742.89)	(23.38) %
Funds Held for Others	27,046.46	23,126.36	3,920.10	16.95 %
Long-Term Current Portion	14,631.62	22,338.25	(7,706.63)	(34.50) %
<b>Noncurrent</b>				
Long-Term Liabilities	<u>259,327.81</u>	<u>147,922.83</u>	<u>111,404.98</u>	75.31 %
Total Liabilities	<u>\$ 431,271.97</u>	<u>\$ 363,396.41</u>	<u>\$ 67,875.56</u>	

**Net Assets**

Net assets are a measure of the value of all the College's assets after liabilities and depreciation are deducted. For the fiscal year 2005-2006 the decrease in net assets of \$500,210.19 is attributable to the fact that accumulated depreciation was greater than the amount of new capital assets booked which affected the Invested in Capital Assets. Restricted decreased due to a significant reduction in funds received for Tri-County's new Machinist's Program because of its second year status.

<b>Net Assets</b>	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
Invested in Capital Assets	\$ 6,737,512.17	\$ 6,877,265.47	\$ (139,753.30)	(2.03) %
Restricted	609,710.39	967,017.72	(357,307.33)	(36.95) %
Unrestricted	<u>575,199.93</u>	<u>578,349.49</u>	<u>(3,149.56)</u>	(0.54) %
Total Net Assets	<u>\$ 7,922,422.49</u>	<u>\$ 8,422,632.68</u>	<u>\$ (500,210.19)</u>	

**Revenues**

The College's revenues are classified as operating and nonoperating revenues.

**Operating Revenues**

Operating revenues include student tuition and fees, federal, State and local grants and contracts, and the revenue received from sales and services, principally comprised of the revenue received from the bookstore and vending. Student tuition, though identified as revenue, is remitted back to the State Treasurer and not netted against the College's State aid identified as nonoperating revenue. Operating revenues decreased by \$514,105.11 due to decreased enrollment, reduced grant receipts, and reduced contributions to specific other operating revenues.

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

	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
Student Tuition and Fees, Net	\$ 452,805.20	\$ 556,438.48	\$ (103,633.28)	(18.62) %
Federal Grants and Contracts	1,179,250.18	1,550,900.36	(371,650.18)	(23.96) %
State and Local Grants	100,881.00	111,461.18	(10,580.18)	(9.49) %
Sales and Service	126,363.60	127,357.56	(993.96)	(0.78) %
Other Operating Revenues	4,268.68	31,516.19	(27,247.51)	(86.46) %
Total Operating Revenue	<u>\$ 1,863,568.66</u>	<u>\$ 2,377,673.77</u>	<u>\$ (514,105.11)</u>	

**Nonoperating Revenue**

Nonoperating revenues comprise the major portion of the College's income and include formula allocations from the North Carolina State Board of Community Colleges for current expense, equipment, and capital improvements as well as funds appropriated from the Cherokee, Clay and Graham Counties Board of Commissioners. Noncapital Grants include funding for items such as program initiation and maintenance. Noncapital gifts include contributions from the Tri-County Community College Foundation, Inc. Significant changes include the following: State aid increased by \$395,543.87 as result of increased enrollment. Noncapital Grants and Gifts can vary from year to year depending on program development, as well as, whether contributions are of a one time or perpetual nature. Investment income grew at almost three times the previous year's rate due to increased earnings on investments.

	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
State Aid	\$ 5,344,933.06	\$ 4,949,389.19	\$ 395,543.87	7.99 %
County Appropriations	538,900.00	472,000.00	66,900.00	14.17 %
Noncapital Grants	282,948.33	484,566.69	(201,618.36)	(41.61) %
Noncapital Gifts	100,006.73	45,253.22	54,753.51	120.99 %
Investment Income	36,254.55	9,944.32	26,310.23	264.58 %
Other Nonoperating Revenues	49.71	3,562.98	(3,513.27)	(98.60) %
Total Nonoperating Revenue	<u>\$ 6,303,092.38</u>	<u>\$ 5,964,716.40</u>	<u>\$ 338,375.98</u>	

**Operating Expenses**

The operating expenses of the College are comprised principally of the direct cost of personnel and their fringe benefits identified as "personal services". Depreciation expense and accumulated depreciation were identified, consistent with the requirements of GASB Statements No. 34/35. The most significant change resulted in an increase of salaries by \$604,788.62. This increase is due to the hiring of new instructional personnel and staff members, as well as, State supplied salary increases.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
Salaries and Benefits	\$ 5,907,889.96	\$ 5,303,101.34	\$ 604,788.62	11.40 %
Supplies and Materials	834,180.34	547,050.10	287,130.24	52.49 %
Sales and Service	785,922.60	813,287.52	(27,364.92)	(3.36) %
Scholarships and Fellowships	862,510.70	970,827.97	(108,317.27)	(11.16) %
Utilities	242,495.88	218,078.56	24,417.32	11.20 %
Depreciation	397,945.46	285,401.11	112,544.35	39.43 %
Total Expenses	<u>\$ 9,030,944.94</u>	<u>\$ 8,137,746.60</u>	<u>\$ 893,198.34</u>	

### Capital Contributions

Capital contributions are received from appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. The Board also provides construction funds as part of the North Carolina 2000 Higher Education Bond Referendum and previous legislative action providing funds for renovations and repairs. Cherokee, Clay and Graham Counties provide capital contributions for maintenance equipment and small construction items. Capital gifts are provided through annual contributions of the Tri-County Community College Foundation, Inc. for the Fire Training Center. These contributions remained stable when compared with the prior year. State capital aid decreased by \$583,583.00 as a result of capital projects being completed and funding being phased out. Capital Grants decreased by \$239,891.91 due to completion of the Tele-Center construction project.

	<u>2005-2006</u>	<u>2004-2005</u>	<u>Change</u>	<u>% Change</u>
State Capital Aid	\$ 221,513.07	\$ 805,096.07	\$ (583,583.00)	(72.49) %
County Capital Appropriations	44,190.00	64,230.00	(20,040.00)	(31.20) %
Capital Gifts	7,442.12	6,406.00	1,036.12	16.17 %
Capital Grants	90,928.52	330,820.43	(239,891.91)	(72.51) %
Total Capital Contribution	<u>\$ 364,073.71</u>	<u>\$ 1,206,552.50</u>	<u>\$ (602,586.88)</u>	

Total revenues, including capital contributions, decreased from \$9,548,942.67 to \$8,530,734.50 for a total reduction of \$1,018,207.92.

### Significant Capital Asset Activity

Significant Capital Asset Activity occurred as a result of the completion of the College's bond funded renovations project to the McSwain and Enloe campus buildings. Construction in progress decreased due to two renovation projects that were completed in the current year for \$187,865.00. Construction in progress was reduced \$1,347,778.43 and this amount was included as an increase to buildings and infrastructure.

**Significant Effects on Financial Position**

Tri-County Community College continues to experience decreases in enrollment that directly affects funding for subsequent years and which negatively impacts the College's financial position. The diminished enrollment has resulted from a number of factors. Employment in the College's service area is full and at an all time high. Lower unemployment, quite often, results in lower enrollment. Additionally, the growth that the College had experienced in recent years resulted from industry closures in the area whereby large numbers of individuals were in need of furthering their education or receiving skills enhancement retraining. That growth spurt has ended and the College now finds itself in a "leveling" state. It is anticipated that growth in the overall service area population, new program offerings and planned facilities expansion will help mitigate the "leveling" state currently being experienced and will result in an infusion of new students.

***Tri-County Community College***  
***Statement of Net Assets***  
***June 30, 2006***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 704,035.77
Restricted Cash and Cash Equivalents	321,716.50
Short-Term Investments	182,500.00
Restricted Short-Term Investments	20,000.00
Receivables, Net (Note 4)	94,740.09
Due from State of North Carolina Component Units	50,000.00
Inventories	92,744.88
Prepaid Items	25,353.90
	<hr/>
Total Current Assets	1,491,091.14
	<hr/>

Noncurrent Assets:

Restricted Cash and Cash Equivalents	40,091.15
Endowment Investments	85,000.00
Capital Assets - Nondepreciable (Note 5)	364,807.78
Capital Assets - Depreciable, Net (Note 5)	6,372,704.39
	<hr/>
Total Noncurrent Assets	6,862,603.32
	<hr/>
Total Assets	8,353,694.46
	<hr/>

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 6)	101,224.41
Unearned Revenue	29,041.67
Funds Held for Others	27,046.46
Long-Term Liabilities - Current Portion (Note 7)	14,631.62
	<hr/>
Total Current Liabilities	171,944.16
	<hr/>

Noncurrent Liabilities:

Long-Term Liabilities (Note 7)	259,327.81
	<hr/>
Total Noncurrent Liabilities	259,327.81
	<hr/>
Total Liabilities	431,271.97
	<hr/>

**NET ASSETS**

Invested in Capital Assets	6,737,512.17
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	122,328.65
Loans	2,762.50
Expendable:	
Scholarships and Fellowships	41,472.74
Capital Projects	102,821.56
Other	340,324.94
Unrestricted	575,199.93
	<hr/>
Total Net Assets	\$ 7,922,422.49
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The accompanying notes to the financial statements are an integral part of this statement.

***Tri-County Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2006***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	\$ 452,805.20
Federal Grants and Contracts	1,179,250.18
State and Local Grants and Contracts	100,881.00
Sales and Services	126,363.60
Other Operating Revenues	4,268.68
	<hr/>
Total Operating Revenues	1,863,568.66
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	5,907,889.96
Supplies and Materials	834,180.34
Services	785,922.60
Scholarships and Fellowships	862,510.70
Utilities	242,495.88
Depreciation	397,945.46
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Total Operating Expenses	9,030,944.94
	<hr/>
Operating Loss	(7,167,376.28)
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**NONOPERATING REVENUES**

State Aid	5,344,933.06
County Appropriations	538,900.00
Noncapital Grants	282,948.33
Noncapital Gifts	100,006.73
Investment Income, Net	36,254.55
Other Nonoperating Revenues	49.71
	<hr/>
Net Nonoperating Revenues	6,303,092.38
	<hr/>
Income Before Other Revenues	(864,283.90)
	<hr/>
State Capital Aid	221,513.07
County Capital Appropriations	44,190.00
Capital Grants	90,928.52
Capital Gifts	7,442.12
	<hr/>
Decrease in Net Assets	(500,210.19)
	<hr/>

**NET ASSETS**

Net Assets, July 1, 2005	8,422,632.68
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Net Assets, June 30, 2006	\$ 7,922,422.49
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The accompanying notes to the financial statements are an integral part of this statement.

***Tri-County Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2006***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 2,004,677.10
Payments to Employees and Fringe Benefits	(5,771,926.66)
Payments to Vendors and Suppliers	(1,945,766.87)
Payments for Scholarships and Fellowships	(862,510.70)
Other Receipts	5,673.26
	<hr/>
Net Cash Used by Operating Activities	(6,569,853.87)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	5,344,933.06
County Appropriations	538,900.00
Noncapital Grants Received	291,423.87
Noncapital Gifts and Endowments Received	100,006.73
	<hr/>
Cash Provided by Noncapital Financing Activities	6,275,263.66

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

State Capital Aid Received	552,794.84
County Capital Appropriations	44,190.00
Capital Grants Received	90,928.52
Capital Gifts Received	7,442.12
Acquisition and Construction of Capital Assets	(295,657.48)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	399,698.00

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	36,115.52
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Cash Provided by Investing Activities	36,115.52

Net Increase in Cash and Cash Equivalents	141,223.31
Cash and Cash Equivalents, July 1, 2005	924,620.11
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Cash and Cash Equivalents, June 30, 2006	\$ 1,065,843.42

**Tri-County Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2006**

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

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

Operating Loss	\$ (7,167,376.28)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	397,945.46
Miscellaneous Nonoperating Income	1,753.16
Changes in Assets and Liabilities:	
Receivables, Net	129,439.08
Inventories	(35,915.53)
Prepaid Items	662.81
Accounts Payable and Accrued Liabilities	(15,650.38)
Unearned Revenue	11,669.36
Funds Held for Others	3,920.10
Compensated Absences	103,698.35
	<u>103,698.35</u>
Net Cash Used by Operating Activities	<u>\$ (6,569,853.87)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 704,035.77
Restricted Cash and Cash Equivalents	321,716.50
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>40,091.15</u>
Total Cash and Cash Equivalents - June 30, 2006	<u>\$ 1,065,843.42</u>

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

Increase in Receivables Related to Nonoperating Income	\$ 139.03
Capital Asset Write-Offs	1,703.45

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



**TRI-COUNTY COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, 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. Tri-County 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 blended in the financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it was part of the College.

**Blended Component Unit** – Although legally separate, Tri-County Community College Foundation, Inc. (Foundation) is reported as if it were part of the College. The Foundation is governed by a 17-member board consisting of 9 ex officio directors and 8 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Tri-County Community College Board of Trustees and the Foundation's sole purpose is to benefit Tri-County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the Tri-County Community College Business Office, 4600 East US 64, Murphy, NC 28906, or by calling 828-837-6810.

- 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).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College’s activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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 undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Investments** – This classification includes certificates of deposit reported at cost.
- F. Receivables** – Receivables consist of tuition and fees charged to students. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, as well as investment earnings due to the College. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** – Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- H. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 25 years for general infrastructure, 15 to 40 years for buildings, and 5 to 25 years for equipment.

- I. **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.
- J. **Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities consists of compensated absences that will not be paid within the next fiscal year.
- K. **Compensated Absences** – The College’s policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of July 1, 2005. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

- L. **Net Assets** – The College’s net assets are classified as follows:

**Invested in Capital Assets** – This represents the College’s total investment in capital assets.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

- M. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as 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.
- N. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- O. **County Appropriations** – County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

### 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 *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$300.00, and deposits in private financial institutions with a carrying value of \$1,353,043.42, including certificates of deposit, and a bank balance of \$1,372,371.59.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2006, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

- B. **Investments** – The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Board of Trustees manage investments to ensure they can be converted into cash when needed.

Generally, funds belonging to the College may be invested in the form of investments pursuant to G.S. 159-30(c), as follows: a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3 (STIF), obligations of or fully guaranteed by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; prime quality commercial paper bearing specified ratings and banker's acceptances; The North Carolina Capital Management Trust, an SEC registered mutual fund; repurchase agreements; and evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of or fully guaranteed by the United States government, which are held by a specified bank or trust company or any state in the capacity.

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

Investments of the College's component unit, the Tri-County Community College Foundation, Inc., are subject to and restricted by G.S. 36B "Uniform Management of Institutional Funds Act" (UMIFA) and any requirements placed on them by contract or donor agreements.

At June 30 2006, the College held certificates of deposit in the amount of \$287,500.00. Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a formal

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

policy for custodial credit risk. The College's investments were exposed to custodial credit risk as follows:

Investment Type	Held by Counterparty's Trust Dept or Agent not in College's Name
Certificates of Deposit	\$ 187,533.85

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2006, is as follows:

Cash on Hand	\$ 300.00
Carrying Amount of Deposits with Private Financial Institutions	1,353,043.42
Total Deposits and Investments	\$ 1,353,343.42
Current:	
Cash and Cash Equivalents	\$ 704,035.77
Restricted Cash and Cash Equivalents	321,716.50
Short-Term Investments	182,500.00
Restricted Short-Term Investments	20,000.00
Noncurrent:	
Restricted Cash and Cash Equivalents	40,091.15
Endowment Investments	85,000.00
Total	\$ 1,353,343.42

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Earned interest on held certificate of deposits is accrued until such time that a sufficient amount exists whereby a student scholarship or scholarships can be awarded agreeable to either guidelines set forth by the College Foundation Board or an established contractual relationship between a funds donor and Tri-County Community College. In no case, however, is it permissible to expend or otherwise compromise the principle balance of any endowment funds without explicit board approved authorization and/or a written agreement between the donor and the College.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2006, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 116,038.31	\$ 27,195.35	\$ 88,842.96
Intergovernmental	5,598.98		5,598.98
Investment Earnings	298.15		298.15
<b>Total Current Receivables</b>	<b>\$ 121,935.44</b>	<b>\$ 27,195.35</b>	<b>\$ 94,740.09</b>

### NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2006, is presented as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Nondepreciable:				
Land	\$ 364,807.78	\$ 0.00	\$ 0.00	\$ 364,807.78
Construction in Progress	1,159,913.43	187,865.00	1,347,778.43	
<b>Total Capital Assets, Nondepreciable</b>	<b>1,524,721.21</b>	<b>187,865.00</b>	<b>1,347,778.43</b>	<b>364,807.78</b>
Capital Assets, Depreciable:				
Buildings	7,663,750.27	1,320,646.43		8,984,396.70
Machinery and Equipment	876,671.70	72,030.61	9,292.57	939,409.74
General Infrastructure	372,842.95	27,132.00		399,974.95
<b>Total Capital Assets, Depreciable</b>	<b>8,913,264.92</b>	<b>1,419,809.04</b>	<b>9,292.57</b>	<b>10,323,781.39</b>
Less Accumulated Depreciation:				
Buildings	2,888,466.63	301,803.27		3,190,269.90
Machinery and Equipment	420,312.23	83,541.54	7,589.12	496,264.65
General Infrastructure	251,941.80	12,600.65		264,542.45
<b>Total Accumulated Depreciation</b>	<b>3,560,720.66</b>	<b>397,945.46</b>	<b>7,589.12</b>	<b>3,951,077.00</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>5,352,544.26</b>	<b>1,021,863.58</b>	<b>1,703.45</b>	<b>6,372,704.39</b>
<b>Capital Assets, Net</b>	<b>\$ 6,877,265.47</b>	<b>\$ 1,209,728.58</b>	<b>\$ 1,349,481.88</b>	<b>\$ 6,737,512.17</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2006, were as follows:

	Amount
Accounts Payable	\$ 20,296.00
Accrued Payroll	72,106.85
Other	8,821.56
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 101,224.41</b>

### NOTE 7 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Compensated Absences	\$ 170,261.08	\$ 197,248.35	\$ 93,550.00	\$ 273,959.43	\$ 14,631.62

### NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
2007	\$ 8,100.00

Rental expense for all operating leases during the year was \$8,100.00.

### NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
<b>Operating Revenues:</b>				
Student Tuition and Fees	\$ 916,548.30	\$ 450,027.25	\$ 13,715.85	\$ 452,805.20

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,290,550.21	\$ 348,435.59	\$ 301,471.31	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,940,457.11
Academic Support	559,481.00	63,246.97	67,557.80				690,285.77
Student Services	315,821.00	112,064.75	22,490.40				450,376.15
Institutional Support	1,562,257.75	280,131.27	249,302.96				2,091,691.98
Operations and Maintenance of Plant	179,780.00	30,301.76	145,100.13		242,495.88		597,677.77
Student Financial Aid				862,510.70			862,510.70
Depreciation						397,945.46	397,945.46
<b>Total Operating Expenses</b>	<u>\$ 5,907,889.96</u>	<u>\$ 834,180.34</u>	<u>\$ 785,922.60</u>	<u>\$ 862,510.70</u>	<u>\$ 242,495.88</u>	<u>\$ 397,945.46</u>	<u>\$ 9,030,944.94</u>

### NOTE 11 - 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, 2006, these rates were set at 2.34% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2006, the College had a total payroll of \$4,905,836.60, of which \$3,960,604.59 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$237,614.44 and \$92,678.15, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2006, 2005, and 2004, which were \$92,678.15, \$78,986.65, and \$7,577.21, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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 \$69,490.00 for the year ended June 30, 2006.

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 \$700.00 for the year ended June 30, 2006.

### NOTE 12 - 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 3.8% of the covered payroll under the Teachers’ and State Employees’ Retirement System for these health care benefits. For the fiscal year ended June 30, 2006, the College’s total contribution to the Plan was \$150,489.11. 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*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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. The College contributes .52% of covered payroll under the Teachers’ and State Employees’ Retirement System to the DIPNC. For the year ended June 30, 2006, the College’s total contribution to the DIPNC was \$20,593.25. 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 13 - 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, and can include participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$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 have not exceeded coverage in any of the past three fiscal years.

Liability insurance for College-owned vehicles is covered by contracts with private insurance companies.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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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.

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. The employer contribution rate was .16% for the current fiscal year.

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

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

STATE OF NORTH CAROLINA  
Office of the State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Trustees  
Tri-County Community College  
Murphy, North Carolina

We have audited the financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2006, and have issued our report thereon dated April 20, 2007. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Tri-County Community College Foundation, Inc. as described in our report on the College's financial statements. The financial statements of Tri-County Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. 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. 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 INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Leslie W. Merritt, Jr.*

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

April 20, 2007



## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647