STATE OF
NORTH CAROLINA

MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

McDowell Technical Community College

Marion, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2008

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
The General Assembly of North Carolina
Board of Trustees, McDowell Technical Community College

We have completed a financial statement audit of McDowell Technical Community College for the year ended June 30, 2008, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies and/or instances of noncompliance that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

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

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
McDowell Technical Community College
Marion, North Carolina

We have audited the accompanying basic financial statements of McDowell Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, 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 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. 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 provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of McDowell Technical Community College as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2009, 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 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 23, 2009

This section of McDowell Technical Community College's Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2008. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the College's basic financial statements which includes the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (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 and Universities*. These financial statements focus on the financial condition of the College, results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the modified accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three financial statements are featured below with brief descriptions of each financial focus.

The Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year, which are supported mainly by State, local, federal and other revenues. Activities are reported as either operating or nonoperating. A Community College's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the statement.

The notes to the financial statements are an integral part of the basic financial statements. The notes to the financial statements communicate information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements.

Financial Information

In this year's report, a comparative analysis is presented showing prior year information. This analysis includes condensed Statements of Net Assets and of Revenues, Expenses, and Changes in Net Assets.

Financial Highlights

The 2008 fiscal year was highlighted by the impact of declining enrollment and the associated decline in financial aid.

Financial Analysis

Condensed Statement of Net Assets

	2008	As Restated 2007	Difference
Assets			
Current Assets	$ 720,202.78	$ 681,191.06	$ 39,011.72
Noncurrent Assets			
Capital Assets, Net	7,808,600.60	7,734,311.25	74,289.35
Other	1,239,269.47	445,086.10	794,183.37
Total Assets	9,768,072.85	8,860,588.41	907,484.44
Liabilities			
Current Liabilities	413,073.90	315,189.46	97,884.44
Noncurrent Liabilities	852,307.79	790,793.59	61,514.20
Total Liabilities	1,265,381.69	1,105,983.05	159,398.64
Net Assets			
Invested in Capital Assets	7,808,600.60	7,970,452.59	(161,851.99)
Restricted	1,384,712.67	618,201.15	766,511.52
Unrestricted	(690,622.11)	(597,907.04)	(92,715.07)
Total Net Assets	$ 8,502,691.16	$ 7,990,746.70	$ 511,944.46

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

	2008	2007	Difference
Operating Revenues			
Student Tuition and Fees, Net	$ 643,249.14	$ 759,539.51	$ (116,290.37)
Federal Grants and Contracts	1,209,120.80	1,144,387.10	64,733.70
Sales and Services	523,578.51	618,409.02	(94,830.51)
Other Operating Revenues	5,425.27	6,457.32	(1,032.05)
Total Operating Revenues	2,381,373.72	2,528,792.95	(147,419.23)
Operating Expenses			
Personal Services	7,932,367.58	7,565,451.61	366,915.97
Supplies and Materials	1,123,549.97	1,522,929.22	(399,379.25)
Services	1,249,682.02	1,495,477.84	(245,795.82)
Scholarships and Fellowships	972,111.66	948,508.97	23,602.69
Utilities	194,081.27	172,045.34	22,035.93
Depreciation	346,005.16	303,202.33	42,802.83
Total Operating Expenses	11,817,797.66	12,007,615.31	(189,817.65)
Net Operating Loss	(9,436,423.94)	(9,478,822.36)	42,398.42
Nonoperating Revenues			
State Aid	6,923,056.17	6,853,698.32	69,357.85
County Appropriations	777,345.00	664,850.00	112,495.00
Noncapital Contributions	905,572.17	890,399.17	15,173.00
Investment Income	22,744.66	20,657.26	2,087.40
Other Nonoperating Revenues	1,102.50	824.52	277.98
Total Nonoperating Revenues	8,629,820.50	8,430,429.27	199,391.23
Capital Contributions	1,318,547.90	1,936,232.38	(617,684.48)
Increase in Net Assets	511,944.46	887,839.29	(375,894.83)
Net Assets, Beginning, as Restated	7,990,746.70	6,866,766.07	1,123,980.63
Restatement - Note 16		236,141.34	(236,141.34)
Net Assets, Ending	$ 8,502,691.16	$ 7,990,746.70	$ 511,944.46

Analysis of Assets and Net Assets

As of June 30, 2008, the College's current assets increased $39,011.72 primarily due to an increase in net receivables from student accounts and intergovernmental sources and a decline in inventories. The College's noncurrent assets other than capital assets increased $794,183.37 due to an increase in amounts due from the State for an advanced planning project and for repair and renovation projects on campus. Net assets increased $511,944.46 in 2008, primarily as the result of a $766,511.52 increase in restricted net assets due to capital contributions that were received for future capital projects.

Investment in Capital Assets includes the College's capital assets net of accumulated depreciation. Net invested in capital assets decreased $161,851.99 during fiscal year 2008.

The decrease was the result of error corrections to current and prior year capital asset balances and the effect of current year depreciation expense.

Analysis of Liabilities

Total liabilities increased $159,398.64 during fiscal year 2008. Current liabilities increased $97,884.44 reflecting an increase in accounts payable for operating goods and services and a lack of cash flow at the end of the fiscal year. Noncurrent liabilities attributable to accruals for compensated absences increased $61,514.20 primarily due to salary increases.

Analysis of Revenues

Total operating revenues decreased $147,419.23 in fiscal year 2008, primarily due to a decrease in enrollment and a corresponding decrease in sales and services. Nonoperating revenues increased $199,391.23 primarily as the result of a one percent increase in state aid and 17 percent increase in county appropriations.

Analysis of Expenditures

The College experienced an overall decrease of $189,817.65 in operating expenses from fiscal year ended June 30, 2008, primarily due to decreases in expenses for supplies and materials. Supplies and materials decreased due to a $76,000 increase in construction-in-progress and also a decrease in enrollment.

Future Capital Asset Activity

As of June 30, 2008, the College has commitments for the renovation of the 9,000 square foot Ford Miller Employment and Training Center. The College also has various other renovation projects underway across campus.

Future Operations

The economic position of McDowell Technical Community College is closely tied to that of the State of North Carolina and McDowell County. State and county funding for the College comprised a significant portion of revenues for the fiscal year ending June 30, 2008. The news media has reported almost daily that the State and local economies remain sluggish and may not rebound quickly. This economic downturn could result in smaller increases in the State and local funding for the College in future years. The specific impact on the College is uncertain at this time.

Summary

In summary, this annual report is designed to provide our community, students, donors, and creditors with a general overview of the College's finances and to demonstrate the College's accountability for the funding it receives through grants, donations, and tuition revenues.

McDowell Technical Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 36,710.44
Restricted Cash and Cash Equivalents	120,931.65
Short-Term Investments	15,450.42
Restricted Short-Term Investments	7,546.68
Receivables, Net (Note 4)	247,169.20
Inventories	198,752.02
Notes Receivable, Net (Note 4)	93,642.37
Total Current Assets	720,202.78
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	190,771.57
Restricted Due from Primary Government	907,253.82
Restricted Investments	141,244.08
Capital Assets - Nondepreciable (Note 5)	346,887.88
Capital Assets - Depreciable, Net (Note 5)	7,461,712.72
Total Noncurrent Assets	9,047,870.07
Total Assets	9,768,072.85
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	152,371.04
Due to Primary Government	1,101.92
Unearned Revenue	113,735.30
Funds Held for Others	11,141.64
Long-Term Liabilities - Current Portion (Note 7)	134,724.00
Total Current Liabilities	413,073.90
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	852,307.79
Total Liabilities	1,265,381.69
NET ASSETS	
Invested in Capital Assets	7,808,600.60
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	38,805.45
Restricted for Specific Purposes	203,898.03
Expendable:	
Scholarships and Fellowships	27,826.75
Loans	4,785.11
Capital Projects	983,147.70
Restricted for Specific Purposes	126,249.63
Unrestricted	(690,622.11)
Total Net Assets	$ 8,502,691.16

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

McDowell Technical Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2008 — ***Exhibit A-2***

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	643,249.14
Federal Grants and Contracts		1,209,120.80
Sales and Services, Net (Note 9)		523,578.51
Other Operating Revenues		5,425.27
Total Operating Revenues		2,381,373.72
EXPENSES		
Operating Expenses:		
Personal Services		7,932,367.58
Supplies and Materials		1,123,549.97
Services		1,249,682.02
Scholarships and Fellowships		972,111.66
Utilities		194,081.27
Depreciation		346,005.16
Total Operating Expenses		11,817,797.66
Operating Loss		(9,436,423.94)
NONOPERATING REVENUES		
State Aid		6,923,056.17
County Appropriations		777,345.00
Noncapital Grants		862,106.72
Noncapital Gifts		43,465.45
Investment Income		22,744.66
Other Nonoperating Revenues		1,102.50
Nonoperating Revenues		8,629,820.50
Loss Before Other Revenues		(806,603.44)
State Capital Aid		1,218,490.96
County Capital Aid		53,405.03
Capital Grants		2,951.91
Capital Gifts		43,700.00
Increase in Net Assets		511,944.46
NET ASSETS		
Net Assets, July 1, 2007 as Restated (Note 16)		7,990,746.70
Net Assets, June 30, 2008	$	8,502,691.16

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

McDowell Technical Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008 *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES		
Received from Customers	$	2,402,452.51
Payments to Employees and Fringe Benefits		(7,861,023.31)
Payments to Vendors and Suppliers		(2,503,924.43)
Payments for Scholarships and Fellowships		(972,111.66)
Other Receipts		1,313.91
Net Cash Used by Operating Activities		(8,933,292.98)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Aid Received		6,923,056.17
County Appropriations		777,345.00
Noncapital Grants Received		857,034.56
Noncapital Gifts		43,465.45
Cash Provided by Noncapital Financing Activities		8,600,901.18
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State Capital Aid Received		326,575.63
County Capital Aid		53,405.03
Capital Grants Received		4,378.37
Capital Gifts Received		43,700.00
Acquisition and Construction of Capital Assets		(184,153.17)
Net Cash Provided by Capital and Related Financing Activities		243,905.86
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income		17,711.79
Purchase of Investments and Related Fees		(29,000.00)
Net Cash Used by Investing Activities		(11,288.21)
Net Decrease in Cash and Cash Equivalents		(99,774.15)
Cash and Cash Equivalents, July 1, 2007		448,187.81
Cash and Cash Equivalents, June 30, 2008	$	348,413.66
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Loss	$	(9,436,423.94)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		346,005.16
Provision for Uncollectible Loans and Write-Offs		31,920.60
Miscellaneous Nonoperating Income		1,102.50
Changes in Assets and Liabilities:		
Receivables, Net		(54,642.48)
Inventories		12,098.71
Accounts Payable and Accrued Liabilities		19,504.17
Due to Primary Government		(1,101.92)
Unearned Revenue		72,461.90
Funds Held for Others		3,470.78
Compensated Absences		72,311.54
Net Cash Used by Operating Activities	$	(8,933,292.98)

McDowell Technical Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2008 — *Page 2*

RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Current Assets:		
Cash and Cash Equivalents	$	36,710.44
Restricted Cash and Cash Equivalents		120,931.65
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		190,771.57
Total Cash and Cash Equivalents - June 30, 2008	$	348,413.66
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in Fair Value of Investments		5,032.87
Increase in Receivables Related to Nonoperating Income		891,915.33

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. **Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. McDowell Technical 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 unit 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 were part of the College.

Blended Component Unit - Although legally separate, McDowell Technical Community College Foundation, Inc. is reported as if it were part of the College. The Foundation is governed by a 20-member board consisting of 12 members elected by the Foundation Board of Trustees, two members of the College's Board of Trustees, one student and five ex officio members of the Foundation Board who are employees of the College. 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 McDowell Technical Community College Board of Trustees and the Foundation's sole purpose is to benefit McDowell Technical Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 54 College Drive, Marion, North Carolina 28752-8728 or by calling 828-652-0627.

B. **Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, 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, cash on deposit with private bank accounts, and money market accounts.

E. **Investments** - This classification includes certificates of deposit and domestic corporate bonds. Certificates of deposits are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated. Investments in domestic corporate bonds are reported at fair value, as determined by quoted market prices. The net increase in the fair value of investments is recognized as a component of investment income.

F. **Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 75 years for general infrastructure, 28 to 50 years for buildings, and 5 to 25 years for equipment.

I. **Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted or designated for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.

J. **Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include 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 June 30 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 North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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.

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*.

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. Internal Sales Activities - Certain institutional auxiliary operations provide goods and services to College departments, as well as to its customers. These institutional auxiliary operations include activities such as central store and bookstore. These College units operated on either a reimbursement or charge basis. All internal sales activities to College departments from auxiliary operations and sales and service units have been eliminated in the accompanying financial statements. These eliminations are recorded by removing the revenue and expense in the auxiliary operations and sales and service units and, if significant, allocating any residual balances to those departments receiving the goods and services during the year.

P. 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 as approved by the county commissioners.

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 $900.00, and deposits in private financial institutions with a carrying value of $347,513.66, and a bank balance of $386,646.43. Certificates of deposit, in the amount of $135,241.18, and a bank balance of $135,241.18, are shown on the Statement of Net Assets as Investments.

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, 2008, the College's bank balance in excess of federal depository insurance coverage was covered under 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 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.

Investments of the College's component unit, the McDowell Technical 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. All investments included in the Statement of Net Assets belong to the Foundation.

Interest rate risk: Interest rate risk is the risk the College may face should interest rate variances affect the fair value of investments. The College does not have a formal policy that addresses interest rate risk. The College's investments at June 30, 2008 consist of domestic corporate bonds. The fair value of the investments at June 30, 2008 was $27,318.58 with a maturity value of $29,000.00 within six to ten years.

Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

In addition to the interest rate risk disclosed above, the College's investments include investments with fair values highly sensitive to interest rate changes.

Credit Risk: The College does not have a formal policy that addresses credit risk. As of June 30, 2008, the College's investments with credit risk had a fair value of $27,780.10. The credit quality rating of the domestic corporate bonds was Aa3 as rated by Moody's Investor Service.

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in domestic corporate bonds. These investments represent 17.7% of the College's investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2008, is as follows:

Cash on Hand	$	900.00
Carrying Amount of Deposits with Private Financial Institutions		482,754.84
Domestic Corporate Bonds		29,000.00
Total Deposits and Investments	$	512,654.84
Current:		
Cash and Cash Equivalents	$	36,710.44
Restricted Cash and Cash Equivalents		120,931.65
Short-Term Investments		15,450.42
Restricted Short-Term Investments		7,546.68
Noncurrent:		
Restricted Cash and Cash Equivalents		190,771.57
Restricted Investments		141,244.08
Total	$	512,654.84

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.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are limited to earnings available from interest income and realized gains. At June 30, 2008, net appreciation of $45,740.31 was available to be spent, of which $15,029.97 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 73,053.36	$	$ 73,053.36
Accounts	88,976.77	252.50	88,724.27
Intergovernmental	73,551.11		73,551.11
Interest on Loans	3,259.37		3,259.37
Other	8,581.09		8,581.09
Total Current Receivables	$ 247,421.70	$ 252.50	$ 247,169.20
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 170,054.12	$ 76,411.75	$ 93,642.37

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2008, is presented as follows:

	Balance July 1, 2007 (as restated)	Increases	Decreases	Balance June 30, 2008
Capital Assets, Nondepreciable:				
Land	$ 230,684.88	$ 0.00	$ 0.00	$ 230,684.88
Construction in Progress	20,131.00	96,072.00		116,203.00
Total Capital Assets, Nondepreciable	250,815.88	96,072.00		346,887.88
Capital Assets, Depreciable:				
Buildings	9,703,901.37			9,703,901.37
Machinery and Equipment	1,205,430.83	42,927.17	261,316.85	987,041.15
General Infrastructure	544,941.56	45,154.00		590,095.56
Total Capital Assets, Depreciable	11,454,273.76	88,081.17	261,316.85	11,281,038.08
Less Accumulated Depreciation:				
Buildings	2,935,993.61	239,544.49		3,175,538.10
Machinery and Equipment	489,843.22	98,893.75	261,316.85	327,420.12
General Infrastructure	308,800.22	7,566.92		316,367.14
Total Accumulated Depreciation	3,734,637.05	346,005.16	261,316.85	3,819,325.36
Total Capital Assets, Depreciable, Net	7,719,636.71	(257,923.99)		7,461,712.72
Capital Assets, Net	$ 7,970,452.59	$ (161,851.99)	$ 0.00	$ 7,808,600.60

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2008, were as follows:

	Amount
Accounts Payable	$ 101,819.83
Accrued Payroll	24,121.01
Intergovernmental Payables	26,430.20
Total Accounts Payable and Accrued Liabilities	$ 152,371.04

NOTE 7 - LONG-TERM LIABILITIES

A. Changes in Long-Term Liabilities - A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Current Portion
Compensated Absences	$ 914,720.25	$ 487,963.21	$ 415,651.67	$ 987,031.79	$ 134,724.00

NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2008:

Fiscal Year	Amount
2009	$ 124,388.40
2010	17,975.76
2011	4,723.32
2012	2,772.77
Total Minimum Lease Payments	$ 149,860.25

Rental expense for all operating leases during the year was $226,025.70.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 991,144.51	$ 0.00	$ 337,343.78	$ 10,551.59	$ 643,249.14
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	511,062.56	18,081.12	204,114.37	4,856.17	284,010.90
Child Development Center	175,594.06			(692.50)	176,286.56
Other	34,169.31	6,384.07		(38.60)	27,823.84
Sales and Services of Education and Related Activities	35,457.21				35,457.21
Total Sales and Services	$ 756,283.14	$ 24,465.19	$ 204,114.37	$ 4,125.07	$ 523,578.51

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	$ 4,733,884.58	$ 432,093.55	$ 504,490.61	$ 107,411.21	$ 0.00	$ 0.00	$ 5,777,879.95
Public Service	119,536.89	2,488.38	64,530.87		1,011.74		187,567.88
Academic Support	635,594.11	31,102.02	16,193.91				682,890.04
Student Services	595,643.29	6,369.48	25,528.95				627,541.72
Institutional Support	1,306,962.93	74,259.69	430,421.55	1,833.51			1,813,477.68
Operations and Maintenance of Plant	273,348.83	141,814.25	177,728.15		193,069.53		785,960.76
Student Financial Aid			218.22	862,866.94			863,085.16
Auxiliary Enterprises	267,396.95	435,422.60	30,569.76				733,389.31
Depreciation						346,005.16	346,005.16
Total Operating Expenses	$ 7,932,367.58	$ 1,123,549.97	$ 1,249,682.02	$ 972,111.66	$ 194,081.27	$ 346,005.16	$ 11,817,797.66

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, 2008, these rates were set at 3.05% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $6,578,877.05, of which $5,689,954.15 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $173,543.60 and $341,397.25 respectively.

Required employer contribution rates for the years ended June 30, 2007, and 2006, were 2.66% and 2.34%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2008, 2007, and 2006, which were $173,543.60, $146,407.59, and $117,339.34, 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.ncosc.net/ 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 $117,056.00 for the year ended June 30, 2008.

The voluntary contributions by employees for the Roth 401(k) Plan amounted to $2,780.00 for the year ended June 30, 2008.

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 $11,788.52 for the year ended June 30, 2008.

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS

A. Health Benefits - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill.

For the current fiscal year the College contributed 4.1% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. The required contribution rate for the years ended June 30, 2007 and 2006 was 3.8%. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were $233,288.12, $209,153.71, and $190,567.10, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page http://www.ncosc.net/ and clicking on "Financial Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Disability Income - The College participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

Disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly. For the fiscal year ended June 30, 2008, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2007 and 2006 was .52%. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were $29,587.77, $28,621.03, and $26,077.60, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

NOTE 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 $1,000,000 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.

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. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of $5,000,000 per occurrence with a $75,000 deductible. In addition, losses for all employees are covered on contracts with private insurance companies with coverage of $10,000 per occurrence and a $250 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.

NOTE 14 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were $591,855.00 and on other purchases were $11,201.20 at June 30, 2008.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2008, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*
>
> GASB Statement No. 50, *Pension Disclosures.*

GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB.*

GASB Statement No. 50, aligns financial reporting requirements for pensions with those of other postemployment benefits, to conform with GASB Statement No. 45. This Statement amends GASB Statement No. 27 to require note disclosure of the employer contribution rates and percentage of the amount contributed for the current and preceding two years and to disclose how the required contribution rates are established.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2007, net assets as previously reported were restated as follows:

		Amount
July 1, 2007 Net Assets as Previously Reported	$	7,754,605.36
Adjustment to Correct Error of Omission of Infrastructure		236,141.34
July 1, 2007 Net Assets as Restated	$	7,990,746.70

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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
McDowell Technical Community College
Marion, North Carolina

We have audited the financial statements of McDowell Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2008, and have issued our report thereon dated July 23, 2009.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 50, *Pension Disclosures*, during the year ended June 30, 2008.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the College's financial statements that is more than inconsequential will not be prevented or detected by the College's internal control. We consider all deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the College's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

<u>Compliance and Other Matters</u>

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

The College's responses to the findings identified in our audit are described in the Audit Findings and Responses section of this report. We did not audit the College's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the College the Board of Trustees, others within the entity, the State Board of Community Colleges, 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.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

July 23, 2009

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Finding number 1 was also reported in the prior audit.

1. DEFICIENCIES IN FINANCIAL REPORTING

   The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included the following:

   a. The beginning balances for general infrastructure and related accumulated depreciation were omitted, resulting in a net asset restatement of $236,141.34. The related current year depreciation expense was understated by $7,265.89.

   b. A general infrastructure project completed during the year was reported as an expense rather than a capital asset. As a result, the gross balance of general infrastructure was understated by $45,154.00, supplies and materials expense was overstated by the same amount, and depreciation expense was understated by $301.03.

   c. Construction-in-progress was understated by $71,258.00 and supplies and materials expense was overstated by the same amount because the College failed to capitalize the costs of a building that is being constructed.

   d. Current unrestricted cash was overstated by $37,444.67 and restricted cash was understated by the same amount. The misclassification occurred because the effect of borrowing unrestricted cash to cover deficit balances in restricted funds was not recorded. Other cash classification errors resulted in understated noncurrent restricted cash in the amount of $8,559.61. Current restricted cash was overstated by the same amount.

   e. Investments were disclosed in the notes to the financial statements as both deposits and investments. The effect was an overstatement of cash disclosed in the deposits note in the amount of $29,000.00. Also, the required risk disclosures associated with these investments were omitted.

   f. The operating expense by function note was incomplete and did not agree to the Statement of Revenues, Expenses, and Changes in Net Assets. Services expense was understated by $26,008.68 and supplies and materials expense was understated by $742.13.

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

College's Response: The College acknowledges that its financial statements contained misstatements involving the findings mentioned above. The College went through a change in administration in the Fiscal Affairs Division at the end of the June 30, 2008 fiscal year. To avoid these and other problems in the future, the college will ensure that the staff involved in the year-end closing has adequate training and experience related to these matters in advance of next fiscal closing.

2. LACK OF SEGREGATION OF DUTIES

During our audit, we noted several areas where job duties and related computer access rights were not properly segregated. As a result, errors or misappropriations could occur and not be detected in a timely manner.

The controller is responsible for the payroll process and performs the functions of entering payroll data (including pay rate) into the Colleague system, printing and disbursing payroll checks, and removing separated employees from the Colleague system. Also, each accountant that performs the accounts payable function enters invoices, accesses the signature disk, and prints and disburses checks. Both of these deficiencies make it possible for an employee to create invalid or erroneous transactions without detection by another employee.

Access rights granted for other employees were broad and unnecessary for the duties performed. When employees have more access to system functions and information than is needed for their jobs, there is a greater risk of error, fraud, or disclosure of confidential information than is necessary.

Recommendation: Management should evaluate and reassign job duties and system access rights as necessary to better segregate duties and enhance internal control.

College's Response: The College agrees that there is a lack of segregation of duties at the College. However, with the lack of resources and personnel that the College has at its disposal, the College finds it difficult to properly segregate the duties assigned. In addressing these problems, the College has implemented additional compensating controls, along with the controls that are already in place, that will take effect immediately.

3. PURCHASE AUTHORIZATION NOT DOCUMENTED

Our audit revealed instances where purchase orders were issued without evidence of an authorized purchase requisition. We also noted instances where purchase orders were issued after the purchases were complete. Failure to obtain proper authorization for purchases could result in misappropriation of assets and budget overruns.

We examined a sample of 30 purchases and identified seven that did not have evidence of proper authorization. The exceptions noted totaled $15,714.45.

Recommendation: The College should strengthen internal controls to ensure that purchases are properly authorized and supporting documentation is maintained.

College's Response: The College agrees that there is a need for more segregation of duties in the purchasing area at the College. However, with the lack of resources and personnel that the College has at its disposal, the College finds it difficult to properly segregate the duties assigned. In addressing these problems, the College has implemented additional compensating controls, along with the controls that are already in place, that will take effect immediately.

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