



STATE OF NORTH CAROLINA

TRI-COUNTY COMMUNITY COLLEGE

MURPHY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

TRI-COUNTY COMMUNITY COLLEGE

MURPHY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2008

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THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Tri-County Community College

We have completed a financial statement audit of Tri-County 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

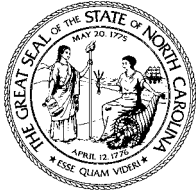
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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, 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 did not audit the financial statements of Tri-County Community College Foundation, Inc., which represent 6 percent, 6 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 provide a reasonable basis for our opinion.

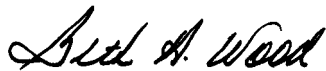
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Community College as of June 30, 2008, and the changes in its financial position and its cash flows for the year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

As discussed in Note 14 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 50, *Pension Disclosures*, during the year ended June 30, 2008.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 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, CPA
State Auditor

March 5, 2009

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

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

The College presents financial statements in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. It is a special purpose government engaged in business-type activities. The College uses the economic resources measurement focus and the accrual basis of accounting. The basic financial statements include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, the Statement of Cash Flows, and the 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 prepaid items. Cash decreased by \$83,451.78 mainly due to the net of decreases in appropriated funds from the participating counties and receipts from the Foundation's Duke Manufacturing Grant of \$86,314.55 and \$88,829.08 and increased receipts in Auxiliary Services and Early College of \$50,971.08 and \$41,631.34. Receivables decreased by \$17,264.59 as a result of increased Foundation Grant funds of \$23,288.32 being received prior to year end.

Current Assets

| Current | 2007-2008 | 2006-2007 | Change | % Change |
|-----------------------------|------------------------|------------------------|------------------------|-----------------|
| Cash | \$ 785,549.11 | \$ 869,000.89 | \$ (83,451.78) | (10) % |
| Certificates of Deposit | 819,500.00 | 819,500.00 | | 0 % |
| Receivables | 89,359.82 | 106,624.41 | (17,264.59) | (16) % |
| Inventories | 76,207.38 | 78,033.54 | (1,826.16) | (2) % |
| Prepaid Items | 20,681.25 | 26,178.71 | (5,497.46) | (21) % |
| Total Current Assets | \$ 1,791,297.56 | \$ 1,899,337.55 | \$ (108,039.99) | |

Noncurrent assets include cash, certificates of deposit, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). Cash and certificates of deposits remained relatively unchanged from the previous fiscal year. Capital assets decreased by \$188,682.28 due to a limited amount of new asset acquisitions compared to recorded depreciation and disposal of equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Noncurrent Assets

| Noncurrent Assets | 2007-2008 | 2006-2007 | Change | % Change |
|--------------------------------|------------------------|------------------------|------------------------|-----------------|
| Cash | \$ 48,169.35 | \$ 47,396.85 | \$ 772.50 | 2 % |
| Certificates of Deposit | 226,500.00 | 226,500.00 | | 0 % |
| Capital Assets | 6,611,278.39 | 6,799,960.67 | (188,682.28) | (3) % |
| Total Noncurrent Assets | \$ 6,885,947.74 | \$ 7,073,857.52 | \$ (187,909.78) | |

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 10 to 75 year period, buildings are depreciated over a 10 to 75 year period, and equipment is depreciated in 2 to 25 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 include 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 increased to \$73,354.82 due to a number of employee retirements causing a greater exhaustion of leave than the prior year based on LIFO calculations. Long-term liabilities decreased by \$77,741.30 because of employee retirements as well.

Liabilities

| Current | 2007-2008 | 2006-2007 | Change | % Change |
|---------------------------|----------------------|----------------------|----------------------|-----------------|
| Current | \$ 192,755.44 | \$ 171,821.25 | \$ 20,934.19 | 12 % |
| Funds Held for Others | 13,446.81 | 12,773.56 | 673.25 | 5 % |
| Long-Term-Current Portion | 73,354.82 | 24,535.11 | 48,819.71 | 199 % |
| Noncurrent | | | | |
| Long-Term Liabilities | 186,032.78 | 263,774.08 | (77,741.30) | (29) % |
| Total Liabilities | \$ 465,589.85 | \$ 472,904.00 | \$ (7,314.15) | |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 2007-2008 the decrease in total net assets of \$319,656.61 is attributable, in part, to the fact that capital asset depreciation was much greater than asset acquisition. Further, restricted assets decreased due to specific program funding diminishing in certain areas, namely Occupational Educations Instructions Foundation accounts – Machine Shop, Duke Manufacturing Grant and Cherokee Preservation Fund. Net assets for these accounts decreased \$128,661.25. Net assets for Early College increased \$37,759.34.

| | <u>2007-2008</u> | <u>2006-2007 As Restated</u> | <u>Change</u> | <u>% Change</u> |
|----------------------------|-------------------------------|----------------------------------|-------------------------------|-----------------|
| Invested in Capital Assets | \$ 6,611,278.39 | \$ 6,830,981.66 | \$ (219,703.27) | (3) % |
| Restricted | 1,023,823.23 | 1,133,239.68 | (109,416.45) | (10) % |
| Unrestricted | <u>576,553.83</u> | <u>567,090.72</u> | <u>9,463.11</u> | <u>2 %</u> |
| Total Net Assets | <u>\$ 8,211,655.45</u> | <u>\$ 8,531,312.06</u> | <u>\$ (319,656.61)</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 commissions. Student tuition, though identified as revenue, is remitted back to the State Treasurer and is not netted against the College's state aid identified as nonoperating revenue. Operating revenues increased by \$331,344.27 due to a marginal increase in enrollment, increased Pell grant drawdown receipts of \$148,825.30, greater contributions to scholarship revenue of \$75,380, with the largest increase in the NC Education Lottery Scholarships, and an increase in Commissions Earned of \$29,860.89.

| | <u>2007-2008</u> | <u>2006-2007</u> | <u>Change</u> | <u>% Change</u> |
|--------------------------------|-------------------------------|-------------------------------|-----------------------------|-----------------|
| Student Tuition and Fees, Net | \$ 542,887.89 | \$ 458,584.91 | \$ 84,302.98 | 18 % |
| Federal Grants and Contracts | 1,178,124.70 | 1,029,618.79 | 148,505.91 | 14 % |
| State and Local Grants | 193,994.90 | 127,260.00 | 66,734.90 | 52 % |
| Sales and Service | 147,310.73 | 115,674.17 | 31,636.56 | 27 % |
| Other Operating Revenues | <u>5,693.69</u> | <u>5,529.77</u> | <u>163.92</u> | <u>3 %</u> |
| Total Operating Revenue | <u>\$ 2,068,011.91</u> | <u>\$ 1,736,667.64</u> | <u>\$ 331,344.27</u> | |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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 decreased by \$379,367.06 as result of formula allocations reverting to the most recent year's enrollment rather than a three year average. County appropriations grew by over 28% due to operational funding being provided by local area governments. Cherokee County appropriations increased \$107,702.00 and the remaining counties, Clay and Graham, increased \$71,391.00. 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. This year, noncapital grants decreased as a result of a decrease in receipts from the Duke Manufacturing Grant of \$159,526.52. Noncapital gifts decreased due to a decline of \$148,025.70 in general scholarship funds from the Foundation's endowment accounts. Other revenue decreased as a result of the loss incurred regarding disposal of capitalized equipment.

| | <u>2007-2008</u> | <u>2006-2007</u> | <u>Change</u> | <u>% Change</u> |
|-----------------------------------|------------------------|------------------------|------------------------|-----------------|
| State Aid | \$ 5,691,979.35 | \$ 6,071,346.41 | \$ (379,367.06) | (6) % |
| County Appropriations | 808,833.00 | 629,740.00 | 179,093.00 | 28 % |
| Noncapital Grants | 217,095.44 | 391,394.92 | (174,299.48) | (45) % |
| Noncapital Gifts | 53,246.70 | 206,877.99 | (153,631.29) | (74) % |
| Investment Income | 72,336.40 | 68,147.86 | 4,188.54 | 6 % |
| Other Nonoperating Revenues | (25,556.01) | 79.84 | (25,635.85) | |
| Total Nonoperating Revenue | <u>\$ 6,817,934.88</u> | <u>\$ 7,367,587.02</u> | <u>\$ (549,652.14)</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 34/35. The most significant percentage change resulted in a decrease of depreciation expense by almost 37%. This decrease is due to a much greater recapturing of fully depreciated assets occurring last year than this year. Supplies and materials grew by nearly 23% due to increased purchases in instructional supplies and educational computer/printers of \$99,336.55. Scholarships and fellowships also grew by 23% due to increased Pell award disbursements of \$148,798.35.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

| | <u>2007-2008</u> | <u>2006-2007</u> | <u>Change</u> | <u>% Change</u> |
|------------------------------|------------------------|------------------------|-----------------------|-----------------|
| Salaries and Benefits | \$ 6,402,585.58 | \$ 6,497,540.07 | \$ (94,954.49) | (1) % |
| Supplies and Materials | 614,690.38 | 500,498.92 | 114,191.46 | 23 % |
| Services | 938,553.87 | 1,035,122.36 | (96,568.49) | (9) % |
| Scholarships and Fellowships | 913,623.26 | 745,081.29 | 168,541.97 | 23 % |
| Utilities | 292,894.44 | 261,421.25 | 31,473.19 | 12 % |
| Depreciation | 259,702.61 | 411,259.91 | (151,557.30) | (37) % |
| Total Expenses | <u>\$ 9,422,050.14</u> | <u>\$ 9,450,923.80</u> | <u>\$ (28,873.66)</u> | |

Capital Contributions

Capital contributions are received through appropriations from the North Carolina State Board of Community Colleges under a formula allocation for educational equipment and library books. During 2007-2008, Cherokee, Clay and Graham Counties; in addition to providing funds for maintenance equipment and small construction items; authorized a one time funding measure for planned building renovations. As a result, all county appropriations we classified as operating, therefore creating a 100% decrease for the audited fiscal year. Capital gifts are provided for by one-time and/or annual contribution(s) of the Tri-County Community College Foundation, Inc. for designated capital projects. Capital gifts decreased by \$239,951.50 due to a contribution of \$250,000 by a private donor in the prior year that was not received in the current year. The College reported a loss before capital contributions of \$536,103.35.

| | <u>2007-2008</u> | <u>2006-2007</u> | <u>Change</u> | <u>% Change</u> |
|-----------------------------------|----------------------|----------------------|------------------------|-----------------|
| State Capital Aid | \$ 191,608.16 | \$ 262,774.83 | \$ (71,166.67) | (27) % |
| County Capital Appropriations | | 170,000.00 | (170,000.00) | (100) % |
| Capital Grants | 10,628.08 | 8,053.46 | 2,574.62 | 32 % |
| Capital Gifts | 14,210.50 | 254,162.00 | (239,951.50) | (94) % |
| Total Capital Contribution | <u>\$ 216,446.74</u> | <u>\$ 694,990.29</u> | <u>\$ (238,592.05)</u> | |

Significant Asset Activity

The effect on assets for the fiscal year 2007-2008 was primarily impacted by the reduced funding from county and private sources when compared with the same period last year.

Significant Effects on Financial Position

Tri-County Community College has recently begun to experience a cautious measure of growth regarding student enrollment. It has been understood by college administration that the institution's exaggerated growth pattern in years past occurred, in part, due to changes in local economic conditions regarding plant closures and layoffs. Once again, indicators demonstrate that the nervous prospect of sustainable employment might be prompting individuals to re-evaluate their need for further education and skill enhancement. As a result, the college's financial position remains dynamic and subject to local, as well as, national market conditions.

Tri-County Community College
Statement of Net Assets
June 30, 2008

Exhibit A-1

ASSETS

Current Assets:

| | |
|--------------------------------------|---------------|
| Cash and Cash Equivalents | \$ 591,897.75 |
| Restricted Cash and Cash Equivalents | 193,651.36 |
| Short-Term Investments | 799,500.00 |
| Restricted Short-Term Investments | 20,000.00 |
| Receivables, Net (Note 4) | 89,359.82 |
| Inventories | 76,207.38 |
| Prepaid Items | 20,681.25 |
| | <hr/> |
| Total Current Assets | 1,791,297.56 |
| | <hr/> |

Noncurrent Assets:

| | |
|--------------------------------------------|--------------|
| Restricted Cash and Cash Equivalents | 48,169.35 |
| Restricted Investments | 226,500.00 |
| Capital Assets - Nondepreciable (Note 5) | 364,807.78 |
| Capital Assets - Depreciable, Net (Note 5) | 6,246,470.61 |
| | <hr/> |
| Total Noncurrent Assets | 6,885,947.74 |
| | <hr/> |
| Total Assets | 8,677,245.30 |
| | <hr/> |

LIABILITIES

Current Liabilities:

| | |
|---------------------------------------------------|------------|
| Accounts Payable and Accrued Liabilities (Note 6) | 137,303.42 |
| Unearned Revenue | 55,452.02 |
| Funds Held for Others | 13,446.81 |
| Long-Term Liabilities - Current Portion (Note 7) | 73,354.82 |
| | <hr/> |
| Total Current Liabilities | 279,557.07 |
| | <hr/> |

Noncurrent Liabilities:

| | |
|--------------------------------|------------|
| Long-Term Liabilities (Note 7) | 186,032.78 |
| | <hr/> |
| Total Liabilities | 465,589.85 |
| | <hr/> |

NET ASSETS

| | |
|------------------------------|-----------------|
| Invested in Capital Assets | 6,611,278.39 |
| Restricted for: | |
| Nonexpendable: | |
| Scholarships and Fellowships | 271,734.35 |
| Other | 2,935.00 |
| Expendable: | |
| Scholarships and Fellowships | 59,063.72 |
| Capital Projects | 524,535.90 |
| Other | 165,554.26 |
| Unrestricted | 576,553.83 |
| | <hr/> |
| Total Net Assets | \$ 8,211,655.45 |
| | <hr/> <hr/> |

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, 2008***

Exhibit A-2

REVENUES

| | |
|----------------------------------------|---------------|
| Operating Revenues: | |
| Student Tuition and Fees, Net (Note 9) | \$ 542,887.89 |
| Federal Grants and Contracts | 1,178,124.70 |
| State and Local Grants and Contracts | 193,994.90 |
| Sales and Services | 147,310.73 |
| Other Operating Revenues | 5,693.69 |
| | <hr/> |
| Total Operating Revenues | 2,068,011.91 |
| | <hr/> |

EXPENSES

| | |
|------------------------------|----------------|
| Operating Expenses: | |
| Personal Services | 6,402,585.58 |
| Supplies and Materials | 614,690.38 |
| Services | 938,553.87 |
| Scholarships and Fellowships | 913,623.26 |
| Utilities | 292,894.44 |
| Depreciation | 259,702.61 |
| | <hr/> |
| Total Operating Expenses | 9,422,050.14 |
| | <hr/> |
| Operating Loss | (7,354,038.23) |
| | <hr/> |

NONOPERATING REVENUES (EXPENSES)

| | |
|------------------------------|--------------|
| State Aid | 5,691,979.35 |
| County Appropriations | 808,833.00 |
| Noncapital Grants | 217,095.44 |
| Noncapital Gifts | 53,246.70 |
| Investment Income | 72,336.40 |
| Other Nonoperating Expenses | (25,556.01) |
| | <hr/> |
| Net Nonoperating Revenues | 6,817,934.88 |
| | <hr/> |
| Income Before Other Revenues | (536,103.35) |
| | <hr/> |
| State Capital Aid | 191,608.16 |
| Capital Grants | 10,628.08 |
| Capital Gifts | 14,210.50 |
| | <hr/> |
| Decrease in Net Assets | (319,656.61) |

NET ASSETS

| | |
|------------------------------------------------|-----------------|
| Net Assets, July 1, 2007 as Restated (Note 15) | 8,531,312.06 |
| | <hr/> |
| Net Assets, June 30, 2008 | \$ 8,211,655.45 |
| | <hr/> <hr/> |

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, 2008

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|-------------------------------------------|-----------------|
| Received from Customers | \$ 2,060,080.71 |
| Payments to Employees and Fringe Benefits | (6,423,000.00) |
| Payments to Vendors and Suppliers | (1,830,886.01) |
| Payments for Scholarships and Fellowships | (913,623.26) |
| Other Receipts | 6,325.66 |
| | <hr/> |
| Net Cash Used by Operating Activities | (7,101,102.90) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--------------------------------------------------|--------------|
| State Aid Received | 5,691,979.35 |
| County Appropriations | 808,833.00 |
| Noncapital Grants Received | 249,759.33 |
| Noncapital Gifts | 53,246.70 |
| | <hr/> |
| Cash Provided by Noncapital Financing Activities | 6,803,818.38 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---------------------------------------------------------------|-------------|
| State Capital Aid Received | 191,608.16 |
| Capital Grants Received | 10,628.08 |
| Capital Gifts Received | 14,210.50 |
| Acquisition and Construction of Capital Assets | (71,207.76) |
| | <hr/> |
| Net Cash Provided by Capital and Related Financing Activities | 145,238.98 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|-------------------------------------------|-----------|
| Investment Income | 69,366.26 |
| | <hr/> |
| Net Cash Provided by Investing Activities | 69,366.26 |

| | |
|-------------------------------------------|---------------|
| Net Decrease in Cash and Cash Equivalents | (82,679.28) |
| Cash and Cash Equivalents, July 1, 2007 | 916,397.74 |
| | <hr/> |
| Cash and Cash Equivalents, June 30, 2008 | \$ 833,718.46 |

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

| | |
|-----------------------------------------------------------------------------------|-------------------|
| Operating Loss | \$ (7,354,038.23) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | |
| Depreciation Expense | 259,702.61 |
| Miscellaneous Nonoperating Income | 5,652.41 |
| Changes in Assets and Liabilities: | |
| Receivables, Net | (19,763.80) |
| Inventories | 1,826.16 |
| Prepaid Items | 5,497.46 |
| Accounts Payable and Accrued Liabilities | 16,436.23 |
| Unearned Revenue | 11,832.60 |
| Funds Held for Others | 673.25 |
| Compensated Absences | (28,921.59) |
| | <hr/> |
| Net Cash Used by Operating Activities | \$ (7,101,102.90) |

***Tri-County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2008***

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

RECONCILIATION OF CASH AND CASH EQUIVALENTS

| | |
|-------------------------------------------------|-----------------------------|
| Current Assets: | |
| Cash and Cash Equivalents | \$ 591,897.75 |
| Restricted Cash and Cash Equivalents | 193,651.36 |
| Noncurrent Assets: | |
| Restricted Cash and Cash Equivalents | <u>48,169.35</u> |
| Total Cash and Cash Equivalents - June 30, 2008 | <u><u>\$ 833,718.46</u></u> |

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

| | |
|--------------------------------------------------------|--------------|
| Increase in Receivables Related to Nonoperating Income | \$ 29,681.82 |
| Loss on Disposal of Capital Assets | 31,208.42 |

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

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TRI-COUNTY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

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. 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 were part of the College.

Blended Component Unit - Although legally separate, Tri-County Community College Foundation is reported as if it were part of the College. The Foundation is governed by a 18-member board consisting of 9 ex officio directors and 9 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 members of the Tri-County Community College Board of Trustees appoint the elected directors of the Foundation 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 by contacting Tri-County Community College Business Office at 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)

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 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 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, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

year unless part of a collection and are expensed in the year of acquisition.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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, maintenance of equipment, and faculty/staff salaries. 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 \$260.00, and deposits in private financial institutions with a carrying value of \$1,879,458.46, including certificates of deposit, and a bank balance of \$1,936,323.09.

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 the pooling method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

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, 2008, the College held certificates of deposit in the amount of \$1,046,000.00. Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

| | | |
|-----------------------------------------------------------------|-----------|----------------------------|
| Cash on Hand | \$ | 260.00 |
| Carrying Amount of Deposits with Private Financial Institutions | | <u>1,879,458.46</u> |
| Total Deposits and Investments | \$ | <u>1,879,718.46</u> |
| Current: | | |
| Cash and Cash Equivalents | \$ | 591,897.75 |
| Restricted Cash and Cash Equivalents | | 193,651.36 |
| Short-Term Investments | | 799,500.00 |
| Restricted Short-Term Investments | | 20,000.00 |
| Noncurrent: | | |
| Restricted Cash and Cash Equivalents | | 48,169.35 |
| Endowment Investments | | <u>226,500.00</u> |
| Total | \$ | <u>1,879,718.46</u> |

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 certificates of deposit is accrued until such time that a sufficient amount exists whereby a student scholarship(s) 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 fund without explicit board approved authorization and/or a written agreement between the donor and Tri-County Community College.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2008, were as follows:

| | Gross Receivables | Less Allowance for Doubtful Accounts | Net Receivables |
|----------------------------------|-----------------------------|-----------------------------------------------|----------------------------|
| Current Receivables: | | | |
| Students | \$ 61,808.30 | \$ 20,076.06 | \$ 41,732.24 |
| Intergovernmental | 9,682.79 | | 9,682.79 |
| Investment Earnings | 7,248.83 | | 7,248.83 |
| Other | <u>30,695.96</u> | | <u>30,695.96</u> |
| Total Current Receivables | <u>\$ 109,435.88</u> | <u>\$ 20,076.06</u> | <u>\$ 89,359.82</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 | \$ 364,807.78 | \$ 0.00 | \$ 0.00 | \$ 364,807.78 |
| Total Capital Assets, Nondepreciable | <u>364,807.78</u> | | | <u>364,807.78</u> |
| Capital Assets, Depreciable: | | | | |
| Buildings | 8,984,396.70 | | | 8,984,396.70 |
| Machinery and Equipment | 1,103,510.38 | 71,207.76 | 35,000.00 | 1,139,718.14 |
| General Infrastructure | 399,974.95 | | | 399,974.95 |
| Total Capital Assets, Depreciable | <u>10,487,882.03</u> | <u>71,207.76</u> | <u>35,000.00</u> | <u>10,524,089.79</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | 3,378,724.01 | 149,649.04 | | 3,528,373.05 |
| Machinery and Equipment | 361,621.73 | 103,121.47 | 3,791.58 | 460,951.62 |
| General Infrastructure | 281,362.41 | 6,932.10 | | 288,294.51 |
| Total Accumulated Depreciation | <u>4,021,708.15</u> | <u>259,702.61</u> | <u>3,791.58</u> | <u>4,277,619.18</u> |
| Total Capital Assets, Depreciable, Net | <u>6,466,173.88</u> | <u>(188,494.85)</u> | <u>31,208.42</u> | <u>6,246,470.61</u> |
| Capital Assets, Net | <u>\$ 6,830,981.66</u> | <u>\$ (188,494.85)</u> | <u>\$ 31,208.42</u> | <u>\$ 6,611,278.39</u> |

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

| | Amount |
|-------------------------------------------------------|----------------------|
| Accounts Payable | \$ 50,956.06 |
| Accrued Payroll | 80,711.68 |
| Other | 5,635.68 |
| Total Accounts Payable and Accrued Liabilities | <u>\$ 137,303.42</u> |

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 | <u>\$ 288,309.19</u> | <u>\$ 138,911.13</u> | <u>\$ 167,832.72</u> | <u>\$ 259,387.60</u> | <u>\$ 73,354.82</u> |

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - OPERATING LEASE OBLIGATIONS

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

| Fiscal Year | <u>Amount</u> |
|-------------|---------------------------|
| 2009 | <u><u>\$ 8,100.00</u></u> |

NOTE 9 - REVENUES

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

| | <u>Gross Revenues</u> | <u>Less Scholarship Discounts</u> | <u>Less Allowance for Uncollectibles</u> | <u>Net Revenues</u> |
|---------------------------------|------------------------|-----------------------------------|------------------------------------------|----------------------|
| Operating Revenues: | | | | |
| Student Tuition and Fees | <u>\$ 1,024,107.40</u> | <u>\$ 461,143.45</u> | <u>\$ 20,076.06</u> | <u>\$ 542,887.89</u> |

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

| | <u>Personal Services</u> | <u>Supplies and Materials</u> | <u>Services</u> | <u>Scholarships and Fellowships</u> | <u>Utilities</u> | <u>Depreciation</u> | <u>Total</u> |
|-------------------------------------|--------------------------|-------------------------------|----------------------|-------------------------------------|----------------------|----------------------|------------------------|
| Instruction | \$ 3,734,474.69 | \$ 264,205.57 | \$ 386,912.96 | \$ 2,064.00 | \$ 0.00 | \$ 0.00 | \$ 4,387,657.22 |
| Academic Support | 430,941.35 | 55,456.26 | 55,979.58 | | | | 542,377.19 |
| Student Services | 398,819.63 | 24,162.08 | 24,066.55 | 32,154.10 | | | 479,202.36 |
| Institutional Support | 1,644,116.48 | 50,523.08 | 251,122.78 | | | | 1,945,762.34 |
| Operations and Maintenance of Plant | 194,233.43 | 216,593.39 | 186,855.99 | | 292,894.44 | | 890,577.25 |
| Student Financial Aid | | | | 879,405.16 | | | 879,405.16 |
| Auxiliary Enterprises | | 3,750.00 | 33,616.01 | | | | 37,366.01 |
| Depreciation | | | | | | 259,702.61 | 259,702.61 |
| Total Operating Expenses | <u>\$ 6,402,585.58</u> | <u>\$ 614,690.38</u> | <u>\$ 938,553.87</u> | <u>\$ 913,623.26</u> | <u>\$ 292,894.44</u> | <u>\$ 259,702.61</u> | <u>\$ 9,422,050.14</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 year ended June 30, 2008, the College had a total payroll of \$5,785,633.66, of which \$4,283,565.87 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$130,648.76 and \$257,013.87, 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 \$130,648.76, \$114,682.72, and \$92,678.15, 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 with no costs incurred by the College. The voluntary contributions by employees amounted to \$99,417.00 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Required contribution rates for the years ended June 30, 2007, and 2006, were 3.8% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2008, 2007, and 2006, which were \$175,626.20, \$163,832.46, and \$150,489.11, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Required contribution rates for the years ended June 30, 2007, and 2006, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2008, 2007, and 2006, which were \$22,274.54, \$22,419.18, and \$20,593.25, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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

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 - 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):

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

GASB Statement No. 50, *Pension Disclosures*.

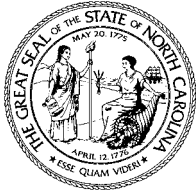
GASB Statement No. 45, requires cost-sharing employers to recognize OPEB expense for their contractually required contributions to the plan generally consistent with the approach in adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers, with modifications 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 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 15 - NET ASSET RESTATEMENT

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

| | <u>Amount</u> |
|--------------------------------------------------------------------|------------------------|
| July 1, 2007 Net Assets as Previously Reported | \$ 8,500,291.07 |
| Restatement: | |
| Correction of Error in Establishing Useful Lives of Capital Assets | <u>31,020.99</u> |
| July 1, 2007 Net Assets as Restated | <u>\$ 8,531,312.06</u> |



Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

**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
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, 2008, and have issued our report thereon dated March 5, 2009. Our report was modified to include a reference to other auditors.

As discussed in Note 14 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 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. Other auditors audited the financial statements of Tri-County Community College Foundation, Inc. as described in our report on the College's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. 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 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.

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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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.


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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 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, CPA
State Auditor

March 5, 2009

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State of North Carolina
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20601 Mail Service Center
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