STATE OF
NORTH CAROLINA

MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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, 2009

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, Governor
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, 2009, 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, 2009, 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, 2009, 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. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2010 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, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

February 19, 2010

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, 2009. 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 Cash Flow 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 2009 fiscal year was highlighted by the impact of increasing enrollment and decreased financial support from the state of North Carolina.

Financial Analysis

Analysis of Assets and Net Assets

As of June 30, 2009, the College's current assets increased $917,551.42. This was primarily due to an increase in restricted cash and cash equivalents from a new Duke Energy grant, an increase in net receivables from student accounts resulting from increased enrollment, and a Golden LEAF grant received. The College's noncurrent assets other than capital assets decreased $318,113.89 due to a decrease in amounts due from the State for a future construction project.

Net assets increased $1,021,077.36 in 2009. This account includes the College's capital assets net of accumulated depreciation. Net invested in capital assets increased $597,424.38 during fiscal year 2009. The increase was primarily the result of an increase in construction in progress. Also, an additional increase of $247,846.78 in the restricted net assets was primarily due to the college being granted the Golden Leaf Grant from the State of North Carolina.

Analysis of Liabilities

Total liabilities increased $175,784.55 during fiscal year 2009. Current liabilities increased $176,231.06 reflecting an increase in contracts payable and accounts payable attributable to construction projects and operating goods and services.

Condensed Statement of Net Assets

	2009	2008	Difference
Assets			
Current Assets	$ 1,637,754.20	$ 720,202.78	$ 917,551.42
NonCurrent Assets			
Capital Assets, Net	8,406,024.98	7,808,600.60	597,424.38
Other	921,155.58	1,239,269.47	(318,113.89)
Total Assets	10,964,934.76	9,768,072.85	1,196,861.91
Liabilities			
Current Liabilities	589,304.96	413,073.90	176,231.06
Noncurrent Liabilities	851,861.28	852,307.79	(446.51)
Total Liabilities	1,441,166.24	1,265,381.69	175,784.55
Net Assets			
Invested in Capital Assets	8,406,024.98	7,808,600.60	597,424.38
Restricted	1,632,559.45	1,384,712.67	247,846.78
Unrestricted	(514,815.91)	(690,622.11)	175,806.20
Total Net Assets	$ 9,523,768.52	$ 8,502,691.16	$ 1,021,077.36

Analysis of Revenues

The College is reporting federal student aid as nonoperating revenue instead of operating revenue beginning with the year ended June 30, 2009. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*. Due to the change for the current year, prior year amounts were restated below in order to provide a more accurate comparison.

Total operating revenues increased $386,605.97 in fiscal year 2009, primarily due to increased student enrollment resulting in an increase in tuition and fees and bookstore revenue. Net nonoperating revenues increased $961,069.35. This is due in large part to new grants received by the College in the current year from Duke Energy for the welding and machining programs.

Analysis of Expenditures

The College experienced an overall increase of $558,584.76 in operating expenses from fiscal year ended June 30, 2009, primarily due to increases in expenses for scholarships and fellowships due to the increased enrollment for the fiscal year.

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

	2009	2008 As Restated	Difference
Operating Revenues			
Tuition and Fees	$ 849,812.15	$ 643,249.14	$ 206,563.01
Sales and Services	704,007.98	523,578.51	180,429.47
Other	5,038.76	5,425.27	(386.51)
Total Operating Revenues	1,558,858.89	1,172,252.92	386,605.97
Operating Expenses			
Personal Services	7,941,484.10	7,932,367.58	9,116.52
Supplies and Materials	1,070,634.84	1,123,549.97	(52,915.13)
Services	1,248,018.40	1,249,682.02	(1,663.62)
Scholarships and Fellowships	1,586,360.92	972,111.66	614,249.26
Utilities	181,864.11	194,081.27	(12,217.16)
Depreciation	348,020.05	346,005.16	2,014.89
Total Operating Expenses	12,376,382.42	11,817,797.66	558,584.76
Net Operating Loss	(10,817,523.53)	(10,645,544.74)	(171,978.79)
Nonoperating Revenues			
State Aid	6,738,917.73	6,923,056.17	(184,138.44)
County appropriations	839,448.00	777,345.00	62,103.00
Noncapital Contributions	3,668,318.49	2,114,692.97	1,553,625.52
Investment Income	489.08	22,744.66	(22,255.58)
Other Nonoperating Revenues/(Expenses)	(447,162.65)	1,102.50	(448,265.15)
Total Nonoperating Revenues	10,800,010.65	9,838,941.30	961,069.35
Capital contributions	972,001.54	1,318,547.90	(346,546.36)
Increase in Net Assets	954,488.66	511,944.46	442,544.20
Net Assets, Beginning, as Restated	8,569,279.86	7,990,746.70	578,533.16
Net Assets, Ending	$ 9,523,768.52	$ 8,502,691.16	$ 1,021,077.36

Future Capital Asset Activity

As of June 30, 2009, the College has commitments for the renovation of the 9,000 square foot Ford Miller Employment and Training Center. The College also has a commitment for an Advance Planning Project that the College plans on leading to a new educational building on the main campus. There are other various 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, 2009. 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 Technial Community College
Statement of Net Assets
June 30, 2009 *Exhibit A-1*

ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 187,975.93
Restricted Cash and Cash Equivalents	597,370.09
Short-Term Investments	18,466.37
Restricted Short-Term Investments	6,040.82
Receivables, Net (Note 4)	331,813.16
Due from State of North Carolina Component Units	220,000.00
Inventories	182,906.68
Notes Receivable, Net (Note 4)	93,181.15
Total Current Assets	1,637,754.20
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	196,587.92
Receivables	131,814.50
Restricted Due from Primary Government	450,859.73
Restricted Investments	141,893.43
Capital Assets - Nondepreciable (Note 5)	1,197,138.73
Capital Assets - Depreciable, Net (Note 5)	7,208,886.25
Total Noncurrent Assets	9,327,180.56
Total Assets	10,964,934.76
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	317,565.23
Unearned Revenue	125,814.74
Funds Held for Others	10,929.06
Long-Term Liabilities - Current Portion (Note 7)	134,995.93
Total Current Liabilities	589,304.96
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	851,861.28
Total Liabilities	1,441,166.24
NET ASSETS	
Invested in Capital Assets	8,406,024.98
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	39,454.80
Restricted for Specific Programs	203,898.03
Expendable:	
Scholarships and Fellowships	24,043.12
Loans	5,449.11
Capital Projects	571,016.88
Restricted for Specific Programs	788,697.51
Unrestricted	(514,815.91)
Total Net Assets	$ 9,523,768.52

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, 2009

Exhibit A-2

REVENUES	
Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 849,812.15
Sales and Services, Net (Note 9)	704,007.98
Other Operating Revenues	5,038.76
Total Operating Revenues	1,558,858.89
EXPENSES	
Operating Expenses:	
Personal Services	7,941,484.10
Supplies and Materials	1,070,634.84
Services	1,248,018.40
Scholarships and Fellowships	1,586,360.92
Utilities	181,864.11
Depreciation	348,020.05
Total Operating Expenses	12,376,382.42
Operating Loss	(10,817,523.53)
NONOPERATING REVENUES (EXPENSES)	
State Aid	6,738,917.73
County Appropriations	839,448.00
Noncapital Grants - Federal Student Financial Aid	1,639,182.13
Noncapital Grants	2,009,083.55
Noncapital Gifts	20,052.81
Investment Income, Net	489.08
Other Nonoperating (Expenses)	(447,162.65)
Net Nonoperating Revenues	10,800,010.65
Income Before Other Revenues	(17,512.88)
State Capital Aid	149,219.10
County Capital Aid	750,782.44
Capital Gifts	72,000.00
Increase in Net Assets	954,488.66
NET ASSETS	
Net Assets, July 1, 2008 as Restated (Note 16)	8,569,279.86
Net Assets, June 30, 2009	$ 9,523,768.52

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, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,539,104.94
Payments to Employees and Fringe Benefits	(7,941,467.64)
Payments to Vendors and Suppliers	(2,548,484.87)
Payments for Scholarships and Fellowships	(1,586,360.92)
Collection of Loans to Students	3,255.52
Other Payments	(475,513.58)
Net Cash Used by Operating Activities	(11,009,466.55)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	6,738,917.73
County Appropriations	839,448.00
Noncapital Grants - Federal Student Financial Aid	1,639,182.13
Noncapital Grants Received	1,788,506.90
Noncapital Gifts Received	20,052.81
Net Cash Provided by Noncapital Financing Activities	11,026,107.57
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	605,613.19
County Capital Aid	634,967.94
Capital Gifts Received	72,000.00
Proceeds from Sale of Capital Assets	17,300.00
Acquisition and Construction of Capital Assets	(711,331.51)
Net Cash Provided by Capital and Related Financing Activities	618,549.62
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	3,644.28
Purchase of Investments and Related Fees	(5,314.64)
Net Cash Used by Investing Activities	(1,670.36)
Net Increase in Cash and Cash Equivalents	633,520.28
Cash and Cash Equivalents, July 1, 2008	348,413.66
Cash and Cash Equivalents, June 30, 2009	$ 981,933.94

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(10,817,523.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		348,020.05
Provision for Uncollectible Loans and Write-Offs		461.22
Miscellaneous Nonoperating Expenses		(459,301.00)
Changes in Assets and Liabilities:		
Receivables, Net		(44,577.87)
Inventories		15,845.34
Accounts Payable and Accrued Liabilities		(62,981.12)
Due to Primary Government		(1,101.92)
Unearned Revenue		12,079.44
Funds Held for Others		(212.58)
Compensated Absences		(174.58)
Cash and Cash Equivalents		187,975.93
Restricted Cash and Cash Equivalents		597,370.09
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		196,587.92
Total Cash and Cash Equivalents - June 30, 2009	$	981,933.94

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	$	172,685.87
Change in Fair Value of Investments		(3,155.20)
Increase in Receivables Related to Nonoperating Income		391,880.59

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 its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's 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 was 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, 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, regardless of the timing of the cash flows.

Nonexchange transactions, in which the College receives (or gives) value without directly giving (or receiving) equal value in exchange includes State appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

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** - Investments are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment income.

Certificates of deposit are reported at cost, if purchased, or at fair value or appraised value at date of gift, if donated.

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 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 value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost in excess of $5,000 at the date of acquisition and an estimated 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. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. 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 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.

There is no liability for unpaid accumulated sick leave because the College has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

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 $1,119,507.64, and a bank balance of $1,174,247.22. Included in the deposits in private financial institutions are certificates of deposit in the amount of $138,473.70 reported as investments in the Statement of Net Assets.

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, 2009, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

B. Investments - The College is authorized to invest idle funds as provided by G.S. 115D-58.6. In accordance with this statute, the College and the 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 Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

		Investment Maturities (in Years)	
	Fair Value	Less Than 1	6 to 10
Investment Type			
Debt Securities			
Money Market Mutual Funds	$ 2,082.12	$ 2,082.12	$ 0.00
Domestic Corporate Bonds	25,844.80		25,844.80
		$ 2,082.12	$ 25,844.80
Other Securities			
Certificates of Deposit	138,473.70		
Total Investments	$ 166,400.62		

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

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2009, the College's investments were rated as follows:

	Fair Value	AAAm	A
Money Market Mutual Funds	$ 2,082.12	$ 2,082.12	$ 0.00
Domestic Corporate Bonds	25,844.80		25,844.80

Rating Agency: Standard and Poors

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. 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 corporate bonds. These investments are 15.5% of College's investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2009, is as follows:

Cash on Hand	$	900.00
Carrying Amount of Deposits with Private Financial Institutions		1,119,507.64
Money Market Mutual Funds		2,082.12
Corporate Bonds		25,844.80
Total Deposits and Investments	$	1,148,334.56
Current:		
Cash and Cash Equivalents	$	187,975.93
Restricted Cash and Cash Equivalents		597,370.09
Short-Term Investments		18,466.37
Restricted Short-Term Investments		6,040.82
Noncurrent:		
Restricted Cash and Cash Equivalents		196,587.92
Restricted Investments		141,893.43
Total	$	1,148,334.56

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, 2009, endowment net assets of $48,964.62 were available to be spent, of which $12,669.54 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

		Gross Receivables		Less Allowance for Doubtful Accounts		Net Receivables
Current Receivables:						
Students	$	167,728.92	$	212.05	$	167,516.87
Accounts		38,958.99		36.45		38,922.54
Intergovernmental		114,130.30				114,130.30
Interest on Loans		3.85				3.85
Other		11,239.60				11,239.60
Total Current Receivables	$	332,061.66	$	248.50	$	331,813.16
Notes Receivable:						
Notes Receivable - Current:						
Institutional Student Loan Programs	$	143,924.81	$	50,743.66	$	93,181.15

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2009, is presented as follows:

		Balance July 1, 2008 (as restated)		Increases		Decreases		Balance June 30, 2009
Capital Assets, Nondepreciable:								
Land	$	230,684.88	$	0.00	$	2,530.09	$	228,154.79
Construction in Progress		116,203.00		852,780.94				968,983.94
Total Capital Assets, Nondepreciable		346,887.88		852,780.94		2,530.09		1,197,138.73
Capital Assets, Depreciable:								
Buildings		9,703,901.37						9,703,901.37
Machinery and Equipment		987,041.15		12,174.44		21,066.05		978,149.54
General Infrastructure		590,095.56		19,062.00				609,157.56
Total Capital Assets, Depreciable		11,281,038.08		31,236.44		21,066.05		11,291,208.47
Less Accumulated Depreciation/ for:								
Buildings		3,175,538.10		240,849.87				3,416,387.97
Machinery and Equipment		260,831.42		99,290.20		18,434.49		341,687.13
General Infrastructure		316,367.14		7,879.98				324,247.12
Total Accumulated Depreciation		3,752,736.66		348,020.05		18,434.49		4,082,322.22
Total Capital Assets, Depreciable, Net		7,528,301.42		(316,783.61)		2,631.56		7,208,886.25
Capital Assets, Net	$	7,875,189.30	$	535,997.33	$	5,161.65	$	8,406,024.98

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2009, were as follows:

	Amount
Accounts Payable	$ 172,560.17
Accrued Payroll	24,312.05
Contract Retainage	38,773.37
Intergovernmental Payables	81,919.64
Total Accounts Payable and Accrued Liabilities	$ 317,565.23

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2009, is presented as follows:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Compensated Absences	$ 987,031.79	$ 484,397.23	$ 484,571.81	$ 986,857.21	$ 134,995.93

NOTE 8 - LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	$ 18,296.64
2011	5,074.20
2012	2,959.95
Total Minimum Lease Payments	$ 26,330.79

Rental expense for all operating leases during the year was $174,926.72.

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	$ 1,269,819.37	$ 0.00	$ 436,191.44	$ (16,184.22)	$ 849,812.15
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 766,445.75	$ 26,517.65	$ 284,516.24	$ (9,483.87)	$ 464,895.73
Child Development Center	177,413.78			(216.05)	177,629.83
Other	26,958.66	3,955.35		212.05	22,791.26
Sales and Services of Education and Related Activities	38,691.16				38,691.16
Total Sales and Services	$ 1,009,509.35	$ 30,473.00	$ 284,516.24	$ (9,487.87)	$ 704,007.98

NOTE 10 - OPERATING EXPENSES BY FUNCTION

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

	Salaries and Benefits	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 4,788,692.36	$ 163,663.03	$ 472,998.84	$ 0.00	$ 0.00	$ 0.00	$ 5,425,354.23
Public Service	106,708.02	3,569.00	202,809.78		964.18		314,050.98
Academic Support	648,060.69	18,796.56	13,048.97				679,906.22
Student Services	618,703.60	18,016.71	28,186.28				664,906.59
Institutional Support	1,277,371.08	79,300.40	359,859.51				1,716,530.99
Operations and Maintenance of Plant	257,664.24	211,962.10	142,941.81		180,899.93		793,468.08
Student Financial Aid				1,586,360.92			1,586,360.92
Auxiliary Enterprises	244,284.11	575,327.04	28,173.21				847,784.36
Depreciation						348,020.05	348,020.05
Total Operating Expenses	$ 7,941,484.10	$ 1,070,634.84	$ 1,248,018.40	$ 1,586,360.92	$ 181,864.11	$ 348,020.05	$ 12,376,382.42

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 is a cost-sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units and local boards of education. The plan is 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, 2009, these rates were set at 3.36% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $6,584,626.81, of which $5,676,548.41 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $190,732.03 and $340,592.90, respectively.

Required employer contribution rates for the years ended June 30, 2008, and 2007, were 3.05% and 2.66%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2009, 2008, and 2007, which were $190,732.03, $173,543.60, and $146,407.59, 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 "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Supplemental Retirement Income Plans** - IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College except for a 5% employer contribution for the College's law enforcement officers, which is mandated under General Statute 143-166.30(e). The voluntary contributions by employees amounted to $120,334.00 for the year ended June 30, 2009.

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 $6,280.48 for the year ended June 30, 2009.

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 *North Carolina General Statute* 135-7 and Chapter 135, Article 3A, 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 of the 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, 2008, and 2007, were 4.1% and 3.8%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2009, 2008, and 2007, which were $232,738.48, $233,288.12, and $209,153.71, 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 "Proceed directly to OSC's index page," then "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, 2009, 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, 2008, and 2007, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2009, 2008, and 2007, which were $29,518.05, $29,587.77, and $28,621.03, 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, including 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 retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to $10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, 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 retains the risk for the $10 million 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 are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the North Carolina Department of Insurance for the coverage. 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. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. In addition, loses for all employees are covered on contracts with private insurance companies with coverage of $10,000 per occurrence and a $250 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a pension and other employee benefit trust fund of the State of North Carolina. The Plan is funded by employer and employee contributions. The Plan has contracted with third parties to process claims.

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 (death benefits) of $25,000 to $50,000 is provided to eligible workers. This Death Benefit Plan 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 $521,126.47 and on other purchases were $217,437.62 at June 30, 2009.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2009, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
>
> GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

GASB Statement No. 49, requires reporting pollution remediation obligations, including reporting pollution remediation obligations that previously may not have been reported.

GASB Statement No. 52, requires reporting land and other real estate held as investments at fair value. This statement amends GASB Statement No. 31 which required endowments to report land and other real estate investments at historical cost.

In addition, beginning with the year ended June 30, 2009, the College reports federal student aid as nonoperating revenue instead of operating revenue. This change was the result of a clarification in the GASB *Comprehensive Implementation Guide*.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2008, net assets as previously reported was restated as follows:

	Amount
July 1, 2008 Net Assets as Previously Reported	$ 8,502,691.16
Error in Establishing Useful Lives of Capital Assets	66,588.70
July 1, 2008 Net Assets as Restated	$ 8,569,279.86

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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, 2009, and have issued our report thereon dated February 19, 2010.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2009.

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 in 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, of the significant deficiencies described above, we consider Findings 1 and 2 to be a material weakness.

Compliance and Other Matters

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

February 19, 2010

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

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 College reported all noncapital grants as revenue related to federal student financial aid. As a result, noncapital grants from federal student financial aid was overstated by $2,009,083 and other noncapital grants was understated by the same amount.

b. The College failed to reduce its construction commitments disclosure by the amount of liabilities accrued for capital projects. As a result, the commitments amount disclosed in the note was overstated by $172,685.

c. Noncurrent receivables were understated by $115,814 and current receivables were overstated by the same amount due to capital-related receivables that were improperly classified.

d. General infrastructure was understated by $8,312 and supplies and materials expense was overstated by the same amount because the College failed to capitalize the cost of a project that was completed during the year.

e. Land with a carrying value of $2,530 was sold during the audit year for $16,000 but the transaction was not recorded until after year-end. This resulted in an overstatement of land in the amount of $2,530, an understatement of accounts receivable of $16,000, and an understatement of nonoperating revenue of $13,470.

f. Current restricted cash was overstated by $9,011 and noncurrent restricted cash was understated by the same amount as a result of the incorrectly reporting assets held by the College according to their availability for use.

There is a lack of internal control over the financial reporting process. No policies or procedures have been established to provide guidance in the preparation of the financial statements. Also, many journal entries prepared during the year-end closing and financial reporting processes were initiated by one individual without appropriate approval.

Significant aspects of this finding were also reported in a prior year finding.

Recommendation: The College should place greater emphasis on the year-end financial reporting process and implement effective internal control 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. To avoid these and other problems in the future, the College will ensure that the staff involved in the year-end closing had 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 computer access rights and job duties were not properly segregated. As a result, errors or fraud could occur and not be detected in a timely manner.

Access rights granted for business office employees were broad and inconsistent with appropriate segregation of duties. Adequate segregation of duties involves assigning responsibilities for transactions such that the duties of one employee automatically provide a cross-check on the work of other employees. When employees have more access to system functions and information than is needed for their jobs, there is a greater risk of error or fraud.

The controller is responsible for the payroll process and performs the functions of entering payroll data (including pay rate) into the financial system, printing and disbursing payroll checks, and removing separated employees from the financial system. This employee is also responsible for maintaining and monitoring the payroll bank account.

One employee performs all functions related to capital assets. This includes recording and disposing of capital assets in the fixed assets system, tagging capital assets, performing the year-end inventory, and entering journal entries.

The employees responsible for the accounts payable function can initiate and process transactions to completion. This includes adding and updating vendor records, processing checks, accessing the signature disk, disbursing checks, and posting journal entries. Two of these employees also perform cashiering functions. One of the two employees has access to and regularly performs all of these functions in addition to maintaining student accounts receivable records. This employee also has access to and processes all aspects of payroll, and performs these functions on a part-time basis.

General purchasing duties for the college are performed by one individual. This individual is responsible for requisitioning, purchasing, and receiving goods. Also, one employee in the bookstore performs these same incompatible functions for all merchandise sold in the bookstore.

Employees in the bookstore share user login and password information when receipting funds into the point-of-sale system. They also may void receipts and refund transactions without prior supervisory approval.

Significant aspects of this finding were also reported in a prior year finding.

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 was a lack of segregation of duties during the audit year 2008-2009. 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. The College implemented additional controls August 2009, after the 2008 Fiscal Audit was completed. Those controls were not taken into account during the audit. Additional controls have been implemented and have taken 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 27 purchases and identified eight that did not have evidence of proper authorization.

This finding was also reported in the prior year.

Recommendation: The College should strengthen internal control 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. The College has implemented additional controls that will take effect immediately.

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