

STATE OF NORTH CAROLINA

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2009

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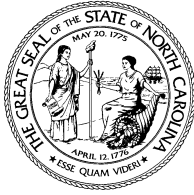
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Montgomery 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 that are detailed in the Audit Findings and Responses section of this report. The College's response is included following each finding.

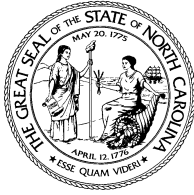
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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Beth A. Wood, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the accompanying financial statements of Montgomery Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Montgomery Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Montgomery Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montgomery Community College and its discretely presented component unit as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 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, CPA
State Auditor

May 17, 2010

MONTGOMERY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

This section of Montgomery Community College's Financial Statement Audit Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2009 with comparative amounts at June 30, 2008. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial Statements. Responsibility for the completeness and fairness of this information rests with the College.

Financial Statement Presentation

The College's basic financial statements are designed to emulate a corporate presentation model whereby all College activities are consolidated into one column. The Statement of Net Assets includes all assets and liabilities. This statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The increase or decrease in net assets is an indicator of the improvement or erosion of the College's financial condition. The focus of the Statement of Revenues, Expenses, and Changes in Net Assets is designed to be similar to the bottom line results for the College. This statement focuses on both the gross and net costs of College activities that are supported mainly by state, local, federal, and other revenues. This approach is intended to simplify the user's analysis of the cost of various College services to students and the public. The Statement of Cash Flows presents information detailing the sources and uses of cash from both operating activities and financing activities.

Statement of Net Assets

The Statement of Net Assets (SNA) presents assets, liabilities and net assets of the College at a point in time for the fiscal year ended June 30, 2009. From the data presented, readers of the SNA are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, the SNA provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the institution's equity in property, plant and equipment owned by the institution. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and construction in progress. Depreciable assets include buildings, general infrastructure, and machinery and equipment. The next asset category is restricted net assets. Expendable restricted net assets are available for expenditures by the College but must be spent for purposes specified by external entities that have placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>June 30, 2009</u>	<u>(As Restated) June 30, 2008</u>	<u>Variance</u>
Assets			
Current Assets	\$ 838,378.19	\$ 850,892.68	\$ (12,514.49)
Capital Assets	7,986,683.38	7,291,678.58	695,004.80
Other Assets	<u>199,188.95</u>	<u>850,004.84</u>	<u>(650,815.89)</u>
Total Assets	<u>9,024,250.52</u>	<u>8,992,576.10</u>	<u>31,674.42</u>
Liabilities			
Current Liabilities	312,496.22	346,331.58	(33,835.36)
Noncurrent Liabilities	<u>364,463.29</u>	<u>331,518.12</u>	<u>32,945.17</u>
Total Liabilities	<u>676,959.51</u>	<u>677,849.70</u>	<u>(890.19)</u>
Net Assets			
Invested in Capital Assets	7,986,683.38	7,291,678.58	695,004.80
Restricted	184,959.45	883,400.34	(698,440.89)
Unrestricted	<u>175,648.18</u>	<u>139,647.48</u>	<u>36,000.70</u>
Total Net Assets	<u>\$ 8,347,291.01</u>	<u>\$ 8,314,726.40</u>	<u>\$ 32,564.61</u>

As seen in the comparison of current year and prior fiscal year information, the other assets decrease of \$650,815.89 was primarily the result of a reduction of accounts receivable from both the county and the state capital aid for the forestry building. The restricted net assets decrease of \$698,440.89 was primarily for capital project funds that were transferred to invested in capital assets for construction in progress and resulted in the invested in capital assets to increase by \$695,004.80.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally, operating revenues are received to provide goods and services for the College. Operating expenses are expenses paid to acquire or produce those goods and services that carry out the mission of the College for which operating revenue are received. Nonoperating revenues are revenues received for which goods and services are not provided. State aid is considered nonoperating because it is provided by the North Carolina legislature, but that body does not directly receive goods and services for the revenue provided. County appropriations are considered nonoperating because it is provided by the county government but does not receive goods and services. In fiscal year 2009, the noncapital grants for Federal Student Financial Aid and the State grant aid are defined as nonoperating revenue. As a result, the fiscal year 2008 statement has been adjusted and the amounts for these categories moved to nonoperating revenue for better comparison to fiscal year 2009. This is based on a GASB clarification.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2009	As Restated June 30, 2008	Variance
Operating Revenue			
Student Tuition and Fees	\$ 444,042.01	\$ 544,769.48	\$ (100,727.47)
Sales and Services, Net	96,668.94	109,204.27	(12,535.33)
Other Operating Revenue	1,293.28	150.00	1,143.28
Total Operating Revenue	<u>542,004.23</u>	<u>654,123.75</u>	<u>(112,119.52)</u>
Nonoperating Revenue			
State Aid	5,421,551.35	5,394,729.72	26,821.63
State aid - Federal Recovery Funds	235,272.60		235,272.60
County Appropriations	921,743.75	874,987.59	46,756.16
Noncapital Grants - Financial Aid	1,216,963.21	1,314,723.08	(97,759.87)
Noncapital Grants	410,384.72	432,812.19	(22,427.47)
Noncapital Gifts	62,126.07	85,590.74	(23,464.67)
Investment Income	12,287.96	20,374.40	(8,086.44)
Total Nonoperating Revenue	<u>8,280,329.66</u>	<u>8,123,217.72</u>	<u>157,111.94</u>
Total Revenue	<u>8,822,333.89</u>	<u>8,777,341.47</u>	<u>44,992.42</u>
Operating Expenses			
Personal Services	6,438,362.25	6,214,920.63	223,441.62
Supplies and Materials	596,502.11	741,374.95	(144,872.84)
Services	459,208.44	596,821.29	(137,612.85)
Scholarships and Fellowships	1,166,828.41	1,060,709.83	106,118.58
Utilities	216,815.41	261,517.85	(44,702.44)
Depreciation	341,630.20	323,562.14	18,068.06
Total Operating Expenses	<u>9,219,346.82</u>	<u>9,198,906.69</u>	<u>20,440.13</u>
Capital Contribution	<u>429,577.54</u>	<u>805,074.33</u>	<u>(375,496.79)</u>
Increase in Net Assets	32,564.61	383,509.11	(350,944.50)
Net Assets, Beginning (Restated Note 15)	<u>8,314,726.40</u>	<u>7,931,217.29</u>	<u>383,509.11</u>
Net Assets, Ending	<u>\$ 8,347,291.01</u>	<u>\$ 8,314,726.40</u>	<u>\$ 32,564.61</u>

The SRENCA showed an increase of \$32,564.61 in net assets at the end of fiscal year 2009. The beginning net assets included a restatement of \$100,869.98. This consisted of two restatements. The first restatement increased net assets by \$142,853.79 to correct an overstatement of the accumulated depreciation balance that existed since the implementation of fixed assets in Datatel. The second restatement was for a reduction in net assets of \$41,983.81 by correcting the overstated beginning accrued liability balance. The Capital contribution to revenue showed a significant decrease of \$375,496.79. This was due to the reduction of the capital aid requirement since the construction of the new Forestry building was almost complete by the end of fiscal year 2009. This reduction in Capital contribution was the significant portion that contributed to the small increase in net assets in fiscal year 2009 as compared to fiscal year 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

The student tuition and fees portion of operating revenue showed a significant decrease of \$100,727.47 due to the large number of students who received fee waivers in fiscal year 2009. The Continuing Education Department began serving regional emergency medical personnel by offering class credits towards accreditation requirements. These classes resulted in a nine-fold increase in the enrollment of fee-waived students. The federal student financial aid portion of nonoperating revenue also showed a significant decrease of \$97,759.87 in federal aid received by students. This decrease was due to the continued strict enforcement of academic policies and the ineligibility of students who failed to meet the required minimum standards.

Personal services increased by \$223,441.62 or 3.6% over fiscal year 2008. This increase resulted mainly from the 4% salary increase approved by the College's Board of Trustees. The reduction in supplies and materials, services, and utilities expenditures were a result of an austerity program to cut costs due to budget cuts in state and county aid.

Capital Assets

As of June 30, 2009, the College has commitments to finish construction of the Forest Management Technology Building. The College also has a commitment for an advance planning project that will provide the preliminary architectural drawings, costs estimates, and site work for a Health Sciences Building. The College also had cash from the sale of timber restricted for capital projects relating to the paving of the Forestry Building and the renovation of existing classroom space.

Summary of Financial Position

Montgomery Community College continues its mission to serve and educate the students and citizens of Montgomery County. This educational commitment is met while maintaining fiscal responsibility. With construction in progress on a new classroom building and renovation to existing classroom space, the College has utilized its available funding to capitalize on high demand programs and enrollment growth.

Economic Outlook

Montgomery Community College has taken the necessary steps to prepare for funding shortfalls of up to 8% of its previous years initial allocation from the state. While these measures have included reductions in force, leaving vacant positions unfilled, and placing restrictions on purchasing and travel, the College has worked diligently to ensure that the results of budget cuts will not negatively impact instruction in the classroom or the quality of its educational product. It is not anticipated that budget cuts will jeopardize the financial position of the College.

Montgomery Community College
Statement of Net Assets
June 30, 2009

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 584,635.39
Restricted Cash and Cash Equivalents	138,660.31
Receivables, Net (Note 3)	44,596.07
Inventories	70,486.42
	<hr/>
Total Current Assets	838,378.19

Noncurrent Assets:

Restricted Cash and Cash Equivalents	110,350.46
Restricted Due from Primary Government	88,838.49
Capital Assets - Nondepreciable (Note 4)	1,438,587.63
Capital Assets - Depreciable, Net (Note 4)	6,548,095.75
	<hr/>
Total Noncurrent Assets	8,185,872.33

Total Assets	<hr/> <hr/> 9,024,250.52
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	235,511.16
Unearned Revenue	20,127.66
Funds Held for Others	28,453.07
Long-Term Liabilities - Current Portion (Note 6)	28,404.33
	<hr/>
Total Current Liabilities	312,496.22

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	<hr/> 364,463.29
Total Noncurrent Liabilities	<hr/> 364,463.29

Total Liabilities	<hr/> <hr/> 676,959.51
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NET ASSETS

Invested in Capital Assets	7,986,683.38
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Restricted for:

Expendable:

Scholarships and Fellowships	500.00
Capital Projects	75,850.37
Specific Programs	108,609.08

Unrestricted	<hr/> 175,648.18
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Total Net Assets	<hr/> <hr/> <hr/> \$ 8,347,291.01
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The accompanying notes to the financial statements are an integral part of this statement.

Montgomery Community College
Statement of Revenues, Expenses, and
Changes in Net Assets
For the Fiscal Year Ended June 30, 2009

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 444,042.01
Sales and Services, Net (Note 8)	96,668.94
Other Operating Revenues	1,293.28
	<hr/>
Total Operating Revenues	542,004.23
	<hr/>

EXPENSES

Operating Expenses:	
Personal Services	6,438,362.25
Supplies and Materials	596,502.11
Services	459,208.44
Scholarships and Fellowships	1,166,828.41
Utilities	216,815.41
Depreciation	341,630.20
	<hr/>
Total Operating Expenses	9,219,346.82
	<hr/>
Operating Loss	(8,677,342.59)
	<hr/>

NONOPERATING REVENUES

State Aid	5,421,551.35
State Aid- Federal Recovery Funds	235,272.60
County Appropriations	921,743.75
Noncapital Grants - Federal Student Financial Aid	1,216,963.21
Noncapital Grants	410,384.72
Noncapital Gifts	62,126.07
Investment Income	12,287.96
	<hr/>
Nonoperating Revenues	8,280,329.66
	<hr/>
Income Before Other Revenues, Expenses, Gains, and Losses	(397,012.93)
	<hr/>
State Capital Aid	418,970.34
County Capital Aid	10,607.20
	<hr/>
Increase in Net Assets	32,564.61

NET ASSETS

Net Assets, July 1, 2008 as Restated (Note 15)	<hr/> 8,314,726.40
Net Assets, June 30, 2009	<hr/> <hr/> \$ 8,347,291.01

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

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 640,402.60
Payments to Employees and Fringe Benefits	(6,415,009.04)
Payments to Vendors and Suppliers	(1,404,339.33)
Payments for Scholarships and Fellowships	(1,166,828.41)
Other Payments	(4,547.10)
	<hr/>
Net Cash Used by Operating Activities	(8,350,321.28)
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,421,551.35
State Aid- Federal Recovery Funds Received	235,272.60
County Appropriations	921,743.75
Noncapital Grants Received	1,662,347.93
Noncapital Gifts	62,126.07
	<hr/>
Cash Provided by Noncapital Financing Activities	8,303,041.70
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	641,503.85
County Capital Aid	10,607.20
Capital Grants Received	298,083.26
Acquisition and Construction of Capital Assets	(948,160.07)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	2,034.24
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	12,287.96
	<hr/>
Net Cash Provided by Investing Activities	12,287.96
	<hr/>

Net Decrease in Cash and Cash Equivalents	(32,957.38)
Cash and Cash Equivalents, July 1, 2008	866,603.54
	<hr/>
Cash and Cash Equivalents, June 30, 2009	\$ 833,646.16
	<hr/> <hr/>

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

Exhibit A-3
Page 2

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

Operating Loss	\$ (8,677,342.59)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	341,630.20
Changes in Assets and Liabilities:	
Receivables, Net	102,187.00
Inventories	(27,430.77)
Accounts Payable and Accrued Liabilities	(79,232.59)
Unearned Revenue	(3,788.63)
Funds Held for Others	(4,547.10)
Compensated Absences	(1,796.80)
Net Cash Used by Operating Activities	<u>\$ (8,350,321.28)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 584,635.39
Restricted Cash and Cash Equivalents	138,660.31
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>110,350.46</u>
Total Cash and Cash Equivalents - June 30, 2009	<u>\$ 833,646.16</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Assets Acquired through Assumption of a Liability	<u>\$ 88,474.93</u>
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The accompanying notes to the financial statements are an integral part of this statement.

Montgomery Community College Foundation, Inc.
Statement of Financial Position
June 30, 2009

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$ 229,552.00
Investments Held by Fiscal Agent	1,451,068.00
Pledge Receivables	66,942.00

Total Assets 1,747,562.00

LIABILITIES

Total Liabilities 0.00

NET ASSETS

Unrestricted	37,372.00
Temporarily Restricted	204,722.00
Permanently Restricted	1,505,468.00

Total Net Assets \$ 1,747,562.00

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

Montgomery Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Fundraising Events	\$ 54,154.00
Income Earned on Investments	164.00
Transfers	32,386.00
Refund of Expense	22,975.00
Other Income	337.00
	<hr/>
Total Unrestricted Revenues and Gains	110,016.00
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	58,349.00
	<hr/>
Total Net Assets Released from Restrictions	58,349.00
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	168,365.00
Expenses and Losses:	
Scholarships	49,194.00
Support of various College programs	56,337.00
Fund Raising	22,639.00
Management and General	33,868.00
	<hr/>
Total Expenses	162,038.00
Loss	0.00
	<hr/>
Total Expenses and Losses	162,038.00
	<hr/>
Increase in Unrestricted Net Assets	6,327.00

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	63,647.00
Income Earned on Investments	6,216.00
Management and General	(7,247.00)
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(58,349.00)
	<hr/>
Increase in Temporarily Restricted Net Assets	4,267.00

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	59,207.00
Income Earned on Investments	56,317.00
Net Realized and Unrealized Losses on Investments	(314,073.00)
Transfers	(32,386.00)
Management and General	(7,510.00)
Refund of Expense	800.00
Other Income	3,024.00
	<hr/>
Decrease in Permanently Restricted Net Assets	(234,621.00)
Decrease in Net Assets	(224,027.00)
Net Assets at Beginning of Year	1,971,589.00
	<hr/>
Net Assets at End of Year	<u>\$ 1,747,562.00</u>

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

MONTGOMERY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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. Montgomery Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

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

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

The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The Foundation board consists of 19 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Montgomery Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2009, the Foundation distributed \$105,531.00 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Montgomery Community College Business Office, 1011 Page Street, Troy, NC 27371, or by calling (910) 576-6222.

- 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

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 10 to 75 years for general infrastructure, 10 to 75 years for buildings, and 2 to 25 years for equipment.

The pottery collection is capitalized at fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each 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 fiscal year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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.

- K. Net Assets** - The College's net assets are classified as follows:

Invested in Capital Assets - This represents the College's total investment in capital assets.

Restricted Net Assets – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- L. Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.
- M. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.
- Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.
- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the college.

NOTE 2 - DEPOSITS 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$400.00, and deposits in private financial institutions with a carrying value of \$602,372.61, and a bank balance of \$631,724.06.

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 manages 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.

In addition to these legal limits, the College has formally adopted general investment policies to promote investment safety and return, but the policies do not set forth specific requirements to manage investment risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2009, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$230,873.55, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.8 years as of June 30, 2009. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.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.

Investments of the College's component unit, Montgomery 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 Foundation's investments are valued in the financial statements at fair value based on publicly available trading values. The fair value of the investments held by the fiscal agent at June 30, 2009, was as follows:

Investment	Cost	Fair Value	Carrying Value
First Citizens Equity Fund	\$ 954,451.00	\$ 745,210.00	\$ 745,210.00
First Citizens Income Fund	608,234.00	613,522.00	613,522.00
First Citizens Cash & Equivalents Fund	91,427.00	92,336.00	92,336.00
Total	<u>\$ 1,654,112.00</u>	<u>\$ 1,451,068.00</u>	<u>\$ 1,451,068.00</u>

The following schedule summarizes the investment return and its classification in the statement of activities.

	Unrestricted	Temporarily Restricted	Restricted	Total
Interest and Dividends	\$ 163.63	\$ 6,216.00	\$ 56,317.00	\$ 62,696.63
Net Realized and Unrealized Gains (Losses) on Investments			(314,073.00)	(314,073.00)
Total Investments	<u>\$ 163.63</u>	<u>\$ 6,216.00</u>	<u>\$ (257,756.00)</u>	<u>\$ (251,376.37)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of College's Deposits and 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	\$	400.00
Carrying Amount of Deposits with Private Financial Institutions		602,372.61
Investments in the Short Term Investment Fund		<u>230,873.55</u>
 Total Deposits and Investments		 <u><u>\$ 833,646.16</u></u>
 Current:		
Cash and Cash Equivalents	\$	584,635.39
Restricted Cash and Cash Equivalents		138,660.31
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>110,350.46</u>
 Total		 <u><u>\$ 833,646.16</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 68,916.86	\$ 31,907.37	\$ 37,009.49
Intergovernmental	1,880.70		1,880.70
Other	<u>5,705.88</u>		<u>5,705.88</u>
 Total Current Receivables	 <u><u>\$ 76,503.44</u></u>	 <u><u>\$ 31,907.37</u></u>	 <u><u>\$ 44,596.07</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - 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	Balance June 30, 2009
Capital Assets, Nondepreciable:			
Land	\$ 442,186.24	\$ 0.00	\$ 442,186.24
Art, Literature, and Artifacts	74,744.16		74,744.16
Construction in Progress	39,882.62	881,774.61	921,657.23
Total Capital Assets, Nondepreciable	556,813.02	881,774.61	1,438,587.63
Capital Assets, Depreciable:			
Buildings	8,413,179.43		8,413,179.43
Machinery and Equipment	1,719,768.23	154,860.39	1,874,628.62
General Infrastructure	201,648.03		201,648.03
Total Capital Assets, Depreciable	10,334,595.69	154,860.39	10,489,456.08
Less Accumulated Depreciation/Amortization for:			
Buildings	2,837,968.92	168,826.20	3,006,795.12
Machinery and Equipment	704,035.81	167,203.12	1,871,238.93
General Infrastructure	57,725.40	5,600.88	63,326.28
Total Accumulated Depreciation	3,599,730.13	341,630.20	3,941,360.33
Total Capital Assets, Depreciable, Net	6,734,865.56	(186,769.81)	6,548,095.75
Capital Assets, Net	\$ 7,291,678.58	\$ 695,004.80	\$ 7,986,683.38

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 74,493.08
Accrued Payroll	72,543.15
Contract Retainage	88,474.93
Total Accounts Payable and Accrued Liabilities	\$ 235,511.16

NOTE 6 - 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	\$ 394,664.42	\$ 215,926.70	\$ 217,723.50	\$ 392,867.62	\$ 28,404.33

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - LEASE OBLIGATIONS

The College entered into an operating lease for the dental assisting building. Future minimum lease payments under the noncancelable operating lease consist of the following at June 30, 2009:

Fiscal Year	Amount
2010	\$ 2,000.00

Rental expense for the operating lease during the year was \$12,000.

NOTE 8 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 839,944.72	\$ 365,821.46	\$ 30,081.25	\$ 444,042.01
Sales and Services				
Daycare Center	51,557.66	0.00	1,826.12	49,731.54
Vending	9,225.03			9,225.03
Bookstore Vending	15,301.01			15,301.01
Sales and Services of Education and Related Activities	22,411.36			22,411.36
Total Sales and Services	\$ 98,495.06	\$ 0.00	\$ 1,826.12	\$ 96,668.94

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - OPERATING EXPENSES BY FUNCTION

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

	Personal Services	Supplies and Materials	Services	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	\$ 3,828,930.37	\$ 368,707.71	\$ 147,928.87	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,345,566.95
Academic Support	521,537.44	31,185.73	36,502.64				589,225.81
Student Services	463,758.44	23,848.61	26,838.49	21,105.10			535,550.64
Institutional Support	1,278,273.69	56,381.07	143,231.23				1,477,885.99
Operations and Maintenance of Plant	345,862.31	114,365.04	99,307.69		216,815.41		776,350.45
Student Financial Aid			767.42	1,145,723.31			1,146,490.73
Auxiliary Enterprises		2,013.95	4,632.10				6,646.05
Depreciation						341,630.20	341,630.20
Total Operating Expenses	<u>\$ 6,438,362.25</u>	<u>\$ 596,502.11</u>	<u>\$ 459,208.44</u>	<u>\$ 1,166,828.41</u>	<u>\$ 216,815.41</u>	<u>\$ 341,630.20</u>	<u>\$ 9,219,346.82</u>

NOTE 10 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System 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 \$5,291,378.23, of which \$4,424,927.46 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$148,677.56 and \$265,495.65, 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 \$148,677.56, \$128,706.41, and \$106,437.52, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Deferred Compensation and Supplemental Retirement Income Plans

- IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$6,890.00 for the year ended June 30, 2009.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$34,724.00 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 \$7,750.00 for the year ended June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - 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 \$181,422.03, \$173,015.17, and \$152,053.61, 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<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 \$23,009.62, \$21,943.39, and \$20,807.34, 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 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Losses from employees paid from county or institutional funds are covered by private insurance companies.

The College purchased a general liability policy with an aggregate of \$2,000,000.

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 College 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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

NOTE 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$103,517.45.

NOTE 14 - 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 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 revenue as nonoperating revenue instead of operating. This change was the result of a clarification in the *GASB Comprehensive Implementation Guide*.

NOTE 15 - NET ASSET RESTATEMENT

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

	<u>Amount</u>
July 1, 2008 Net Assets as Previously Reported	\$ 8,213,856.42
Restatements:	
Correction of an Error Related to the Estimated Useful Lives of Capital Assets	142,853.79
Correction of an Error Related to the Understatement of Accrued Liability	<u>(41,983.81)</u>
July 1, 2008 Net Assets as Restated	<u>\$ 8,314,726.40</u>



Beth A. Wood, CPA
State Auditor

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

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the financial statements of Montgomery Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated May 17, 2010. 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. 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. Other auditors audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit 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.

**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 (CONTINUED)**

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 the deficiencies described in the findings 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, we believe that none of the significant deficiencies described above is a material weakness.

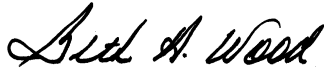
Compliance and Other Matters

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*.

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

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, CPA
State Auditor

May 17, 2010

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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.

1. INTERNAL CONTROL DEFICIENCIES OVER CASH RECEIPTS

The College did not have controls in place to ensure that all cash receipts were deposited. As a result, there is an increased risk that errors or misappropriations will occur and not be detected in a timely manner. Specifically, we identified the following:

- Checks received in the mail were not logged in by the person opening the mail. These checks were given to the cashier who placed them in the cash drawer and entered them into the accounting system.
- Business office personnel who collected receipts during the cashier's absence did not enter the receipts in the accounting system. Instead, they issued the payer a non-consecutively numbered receipt and placed this receipt with the cash in a vault for processing by the cashier.
- The College vault could be accessed by anyone in the Business Office.

In addition, the monthly bank reconciliations were not reviewed and approved by someone other than the preparer.

Recommendation: The College should strengthen internal control over cash receipts to ensure that all receipts are deposited.

College's Response: To ensure adequate controls exist for the proper handling and receipting of AR checks, new procedures have been adopted. The accountant position is now responsible for handling and recording (via a written log) checks being received from any source other than actual face-to-face transactions at the cashier's window. In circumstances when there is not a direct issuance of a receipt to the student, the accountant's responsibility is to record the payment into the log and then turn the payment over to the cashier for proper receipting. This separation of duties is needed to safeguard against the possibility of the cashier not properly handling funds, especially funds received in the mail.

Additionally, preventive steps have been taken to ensure the proper handling of funds received during face-to-face transactions when the computer system is not available for the issuance of a computer generated receipt. When funds can not be directly entered into the computer system for immediate tracking, cashiers are now using numerically sequential "paper" receipts. By tracking "paper" receipts, the college is able to identify manually processed transactions and can easily identify any missing receipts.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Lastly, the College has taken the necessary steps to limit access to cash on-hand. Dual-locking safes have been acquired for each employee who has control over a cash box. By issuing individual safes, the College has taken the preventative steps to reduce the risk of cross contamination, a potential risk when all cashiers were using one common safe.

2. ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES

The College did not adequately segregate duties over payroll. 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. Inadequate segregation of duties increases the risk that errors or misappropriations could occur and not be detected in a timely manner.

The Human Resources (HR) Coordinator had unlimited access to the payroll and personnel systems. This access included the ability to create and delete personnel, input leave and time worked, set up and update direct deposit accounts for full-time personnel, print payroll checks for part-time personnel, and print checks for work-study students. The HR coordinator also manually distributed these checks.

Recommendation: The College should adjust the Human Resources Coordinator's system access to ensure that duties are adequately segregated.

College's Response: In order to safeguard payroll funds, the HR position no longer has the ability to "create" a new employee into the system. The accountant is now the only employee with the ability to generate a new employee in the computer system. By restricting the HR employee's access to the NAE mnemonic, the College has effectively eliminated the possibility of the payroll office creating and paying a rogue employee.

Furthermore, to provide for the necessary separation of duties, the HR office is no longer permitted to transfer checks directly to employees. All checks generated by HR are now delivered to the AR department, whose responsibilities have been expanded to include the proper acknowledgement of all printed payroll checks and the timely delivery of those checks to employees.

Lastly, new procedures are in place to ensure that the HR office details any adjustments to the full-time monthly payroll process. These adjustments are presented to the Vice-President of Administrative Services for his approval.

ORDERING INFORMATION

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

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