STATE OF NORTH CAROLINA

TRI-COUNTY COMMUNITY COLLEGE

MURPHY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

Tri-County Community College

Murphy, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2010

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 Eaves Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Tri-County Community College

We have completed a financial statement audit of Tri-County Community College for the year ended June 30, 2010, 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 a deficiency that is detailed in the Audit Findings and Responses section of this report. The College's response is included following the 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, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010, 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 the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Community College as of June 30, 2010, 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. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2011 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.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

June 1, 2011

Purpose

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

The College has elected to report as a special purpose government engaged in business-type activities. Under this option, the College presents financial statements using the economic resources measurement focus and the accrual basis of accounting. The basic financial statements under this option are the following: Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements.

The Statement of Net Assets reports all financial and capital resources available to the College as of the end of the fiscal year. This statement presents assets and liabilities in order of their relative liquidity, meaning those assets that are most easily converted to cash presented first and liabilities whose maturity dates are nearest to the end of the fiscal year presented first. Net Assets are presented in three categories: Invested in Capital Assets, Restricted and Unrestricted. This statement details the College's financial strength and their ability to meet current and future obligations.

The Statement of Revenues, Expenses and Changes in Net Assets reports revenues and expenses by their major sources. Revenues are shown as operating, nonoperating or as an addition to endowments or a capital contribution. Expenses are also shown by major use as either operating or nonoperating. This statement is used to determine the extent the College is dependent upon operating or nonoperating sources of funding to continue operations.

The Statement of Cash Flows displays the cash receipts and cash payments of the College for the fiscal year. This statement is used to assess the College's ability to generate future net cash flows, to meet obligations, to identify needs for external financing, to identify the reasons for differences between operating income on the Statement of Revenues, Expenses and Changes in Net Assets and associated cash receipts and payments, and to identify the effects on the College's financial position of both its cash and noncash investing, capital, and financing transactions through the fiscal year. A reconciliation of operating income to net cash flow from operating activities is provided to detail the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods.

The Notes to the Financial Statements are an integral component of the basic financial statements and should be read in conjunction with the other statements in order to achieve a fuller understanding of the line-items presented in the financial statements.

Total Assets

Total assets of the College increased by $161,461.53 or 1.80%. The assets of the College are divided between current and noncurrent holdings. Current assets include cash, short-term certificates of deposit, receivables, inventories, and prepaid items. Cash decreased by $117,748.25 or 10.76% and investments increased by $207,500.00 or 23.12% as a result of funds being used to acquire certificates of deposit. Receivables increased by $38,952.85 or 37.79% because of an increase in student receivables due to enrollment increasing by 9.14% from the previous year. Inventories increased by $37,688.97 or 57.92% because of a need to maintain more welding supplies on hand for the summer semester.

Current Assets

Current Assets	2009-2010	2008-2009 As Restated	Change	% Change
Cash	$ 976,660.86	$ 1,094,409.11	$ (117,748.25)	-10.76%
Certificates of Deposit	1,105,000.00	897,500.00	207,500.00	23.12%
Receivables, Net	142,040.70	103,087.85	38,952.85	37.79%
Inventories	102,757.28	65,068.31	37,688.97	57.92%
Prepaid Items	17,305.72	21,042.76	(3,737.04)	-17.76%
Total Current Assets	$ 2,343,764.56	$ 2,181,108.03	$ 162,656.53	7.46%

Noncurrent assets include cash, receivables due from the State for construction projects, certificates of deposit, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). Advanced Planning funds, used to plan future construction projects, accounted for the full $90,000.00 increase in Due from Primary Government. Capital assets decreased by $96,195.00 or 1.47% due to asset depreciation and disposals outpacing new asset acquisitions.

Noncurrent Assets

Noncurrent Assets	2009-2010	2008-2009 As Restated	Change	% Change
Cash	$ 4,114.70	$ 4,614.70	$ (500.00)	-10.83%
Due From Primary Government	90,000.00		90,000.00	100.00%
Certificates of Deposit	202,800.00	197,300.00	5,500.00	2.79%
Capital Assets	6,466,833.21	6,563,028.21	(96,195.00)	-1.47%
Total Noncurrent Assets	$ 6,763,747.91	$ 6,764,942.91	$ (1,195.00)	-0.02%

Total Liabilities

The College's liabilities are divided between current liabilities, payable within twelve months, and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies. Accounts Payable and Accrued Liabilities increased by $25,169.34 or 17.96%, due to an increase in capital construction projects whose invoices were not paid at year-end. Long Term Liabilities - Current Portion increased by $14,246.36 or 84.44% because of an increase in compensated absences due to the number of employee retirements when compared to the previous year. Long-term Liabilities decreased by $5,096.17 or 1.84% because of the increase in employee retirements, as well.

Liabilities

Current Liabilities	2009-2010	2008-2009	Change	% Change
Accounts Payable and Accrued Liabilities	$ 165,309.87	$ 140,140.53	$ 25,169.34	17.96%
Funds Held for Others	19,964.35	870.46	19,093.89	2193.54%
Long-term Liabilities-Current Portion	31,117.49	16,871.13	14,246.36	84.44%
Unearned Revenue	71,835.19	67,109.15	4,726.04	7.04%
Noncurrent Liabilities				
Long-Term Liabilities	$ 272,467.76	$ 277,563.93	$ (5,096.17)	-1.84%
Total Liabilities	$ 560,694.66	$ 502,555.20	$ 58,139.46	11.57%

Net Assets

Net Assets is the difference between the College's assets and liabilities. For fiscal year 2010, the gain in total net assets of $103,322.07 or 1.22% is attributable to increases relating to unexpended county appropriations and tuition and fee generation.

	2009-2010	2008-2009 As Restated	Change	% Change
Invested in Capital Assets	$ 6,466,833.21	$ 6,563,028.21	$ (96,195.00)	-1.47%
Restricted	1,203,088.04	1,192,045.29	11,042.75	0.93%
Unrestricted	876,896.56	688,422.24	188,474.32	27.38%
Total Net Assets	**$** 8,546,817.81	**$** 8,443,495.74	**$** 103,322.07	1.22%

Revenues

The College's revenues increased by $1,094,032.37 or 10.21% and are classified as operating, nonoperating, capital contributions, and additions to endowments.

Operating Revenues

Operating revenues include student tuition and fees, net, federal, State and local grants and contracts, and the revenue received from sales and services, which is principally comprised of the revenue received from the bookstore and vending. Student tuition, though identified as revenue, is remitted back to the State Treasurer and is not netted against the College's state aid, and is identified as nonoperating revenue. Gross student tuition and fees increased due to an increase in enrollment and an increase in tuition rates. Gross student tuition and fees is reduced by the scholarship discount, which represents payments toward tuition and fees that are not paid by the student or a third-party payer, to arrive at student tuition and fees, net. The scholarship discount increased due to the increase in Pell Grant funding, but increased in a smaller amount than gross student tuition and fees, leading to the $52,656.37 or 7.08% increase in student tuition and fees, net. The decrease in state and local grants and contracts of $138,087.47 or 83.95% was primarily driven by a decline in Distance Learning grant funds.

	2009-2010	2008-2009 As Restated	Change	% Change
Student Tuition and Fees, Net	$ 796,728.03	$ 744,071.66	$ 52,656.37	7.08%
Federal Grants and Contracts	21,851.00	0.00	21,851.00	100.00%
State and Local Grants and Contracts	26,396.53	164,484.00	(138,087.47)	-83.95%
Sales and Services	139,942.03	140,217.37	(275.34)	-0.20%
Other Operating Revenues	6,261.00	13,869.44	(7,608.44)	-54.86%
Total Operating Revenues	**$** 991,178.59	**$** 1,062,642.47	**$** (71,463.88)	-6.73%

Nonoperating Revenue

Nonoperating revenues comprise the major portion of the College's income and include allocations from the North Carolina State Board of Community Colleges for current expenses, equipment purchases, and capital improvements. This revenue source also includes funds appropriated from the Cherokee, Clay, and Graham County Boards of Commissioners. Noncapital grants include funding for items such as program initiation and maintenance. Noncapital gifts include contributions from the Tri-County College Foundation, Inc. State aid decreased by $413,406.88 or 7.09% due to cutbacks in State appropriated funding. Noncapital grants increased by $1,685,738.66 or 72.96%. This increase was due, primarily, to increased Pell Grant awards of $1.55 million, resulting from a change in federal regulations allowing students to receive a second pell grant disbursement within the same fiscal year, after completing twenty-four credit hours. Noncapital gifts decreased by $30,018.20 or 38.38% because of decreased scholarship and miscellaneous donations. Investment income decreased by $12,857.45 or 41.03%, due to reduced earnings. Other nonoperating revenues (expenses) decreased as a result of a loss on sale of fixed assets.

	2009-2010	2008-2009 As Restated	Change	% Change
State Aid	$ 5,415,657.29	$ 5,829,064.17	$ (413,406.88)	-7.09%
County Appropriations	767,752.00	812,634.00	(44,882.00)	-5.52%
Noncapital Grants	3,996,082.36	2,310,343.70	1,685,738.66	72.96%
Noncapital Gifts	48,204.50	78,222.70	(30,018.20)	-38.38%
Investment Income	18,475.93	31,333.38	(12,857.45)	-41.03%
Other Nonoperating Revenues (Expenses)	(4,545.34)	2,496.05	(7,041.39)	282.10%
Total Nonoperating Revenue	**$** 10,241,626.74	**$** 9,064,094.00	**$** 1,177,532.74	12.99%

Capital Contributions and Additions to Endowments

Capital contributions are received through appropriations from the North Carolina State Board of Community Colleges under an allocation formula for educational equipment and library books. During 2009-2010, State capital aid decreased by $45,576.49 or 8.17% due to a reduction in capital appropriations. Capital grants increased by $34,690.00 or 137.06% due to grant funding related to the Fire Training Center.

	2009-2010	2008-2009 As Restated	Change	% Change
State Capital Aid	$ 512,467.40	$ 558,043.89	$ (45,576.49)	-8.17%
Capital Grants	60,000.00	25,310.00	34,690.00	137.06%
Capital Gifts	2,583.00	3,548.00	(965.00)	-27.20%
Additions to Endowments	5,000.00	5,185.00	(185.00)	-3.57%
Total Contributions	$ 580,050.40	$ 592,086.89	$ (12,036.49)	-2.03%

Operating Expenses

The College's operating expenses are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits. The most significant changes are as follows: Services decreased by $177,518.08 or 19.08% due to increased budget constraints and spending modifications. Scholarships and fellowships grew by $1,235,300.40 or 74.95% primarily because of increased Pell Grant awards. Supplies and materials increased by $70,489.60 or 8.00% due to set-up costs for distance learning classes.

	2009-2010	2008-2009 As Restated	Change	% Change
Salaries and Benefits	$ 6,541,052.66	$ 6,456,999.47	$ 84,053.19	1.30%
Supplies and Materials	952,156.92	881,667.32	70,489.60	8.00%
Services	752,704.93	930,223.01	(177,518.08)	-19.08%
Scholarships and Fellowships	2,883,404.47	1,648,104.07	1,235,300.40	74.95%
Utilities	314,866.30	320,505.11	(5,638.81)	-1.76%
Depreciation	265,348.38	252,970.44	12,377.94	4.89%
Total Expenses	$ 11,709,533.66	$ 10,490,469.42	$ 1,219,064.24	11.62%

Significant Capital Asset Activity

There was no significant capital assets activity for this fiscal year.

Significant Effects on Financial Position

Tri-County Community College continues to experience significant student enrollment growth. Uncertain economic conditions and local plant layoffs or closures remain an important reason that community citizens have enrolled in institutions of higher education. The hope and intent of these students being that re-training and enhancement of specific job skills will better prepare them for market changes regarding future employer needs. Tri-County Community College recognizes that to serve student needs, fixed costs, in the form of additional personnel, may need to be incurred. Funding for these additional expenditures will diminish when the job market begins to recover and enrollment decreases occur. The College must continue to be vigilant regarding budget oversight and spending as changes in trends dictate.

Tri-County Community College
Statement of Net Assets
June 30, 2010

Exhibit A-1

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	607,606.26
Restricted Cash and Cash Equivalents		369,054.60
Short-Term Investments		585,000.00
Restricted Short-Term Investments		520,000.00
Receivables, Net (Note 4)		142,040.70
Inventories		102,757.28
Prepaid Items		17,305.72
Total Current Assets		2,343,764.56
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		4,114.70
Restricted Due from Primary Government		90,000.00
Restricted Investments		202,800.00
Capital Assets - Nondepreciable (Note 5)		402,757.78
Capital Assets - Depreciable, Net (Note 5)		6,064,075.43
Total Noncurrent Assets		6,763,747.91
Total Assets		9,107,512.47
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		165,309.87
Unearned Revenue		71,835.19
Funds Held for Others		19,964.35
Long-Term Liabilities - Current Portion (Note 7)		31,117.49
Total Current Liabilities		288,226.90
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		272,467.76
Total Noncurrent Liabilities		272,467.76
Total Liabilities		560,694.66

NET ASSETS

Invested in Capital Assets	$	6,466,833.21
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		206,914.70
Expendable:		
Scholarships and Fellowships		143,448.88
Capital Projects		649,121.16
Other		203,603.30
Unrestricted		876,896.56
Total Net Assets	$	8,546,817.81

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

Tri-County Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2010

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	796,728.03
Federal Grants and Contracts		21,851.00
State and Local Grants and Contracts		26,396.53
Sales and Services		139,942.03
Other Operating Revenues		6,261.00
Total Operating Revenues		991,178.59
EXPENSES		
Operating Expenses:		
Salaries and Benefits		6,541,052.66
Supplies and Materials		952,156.92
Services		752,704.93
Scholarships and Fellowships		2,883,404.47
Utilities		314,866.30
Depreciation		265,348.38
Total Operating Expenses		11,709,533.66
Operating Loss		(10,718,355.07)
NONOPERATING REVENUES (EXPENSES)		
State Aid		5,415,657.29
County Appropriations		767,752.00
Noncapital Grants - Federal Student Financial Aid		3,265,837.96
Noncapital Grants		730,244.40
Noncapital Gifts		48,204.50
Investment Income, Net		18,475.93
Other Nonoperating Expenses		(4,545.34)
Net Nonoperating Revenues		10,241,626.74
Loss Before Other Revenues (Expenses)		(476,728.33)
State Capital Aid		512,467.40
Capital Grants		60,000.00
Capital Gifts		2,583.00
Additions to Endowments		5,000.00
Increase in Net Assets		103,322.07
NET ASSETS		
Net Assets, July 1, 2009 as Restated (Note 16)		8,443,495.74
Net Assets, June 30, 2010	$	8,546,817.81

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

Tri-County Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2010 — *Exhibit A-3*

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 963,411.35
Payments to Employees and Fringe Benefits	(6,527,257.88)
Payments to Vendors and Suppliers	(2,070,431.64)
Payments for Scholarships and Fellowships	(2,883,404.47)
Other Receipts	13,236.52
Net Cash Used by Operating Activities	(10,504,446.12)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	5,415,657.29
County Appropriations	767,752.00
Noncapital Grants - Federal Student Financial Aid	3,292,054.57
Noncapital Grants Received	716,154.18
Noncapital Gifts and Endowments Received	53,204.50
Cash Provided by Noncapital Financing Activities	10,244,822.54
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	422,467.40
Capital Grants Received	88,500.00
Capital Gifts Received	2,583.00
Proceeds from Sale of Capital Assets	878.11
Acquisition and Construction of Capital Assets	(179,138.71)
Net Cash Provided by Capital and Related Financing Activities	335,289.80
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	19,085.53
Purchase of Investments and Related Fees	(213,000.00)
Net Cash Used by Investing Activities	(193,914.47)
Net Decrease in Cash and Cash Equivalents	(118,248.25)
Cash and Cash Equivalents, July 1, 2009	1,099,023.81
Cash and Cash Equivalents, June 30, 2010	$ 980,775.56

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(10,718,355.07)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation		265,348.38
Miscellaneous Nonoperating Income		4,561.88
Changes in Assets and Liabilities:		
Receivables, Net		(42,912.53)
Inventories		(37,688.97)
Prepaid Items		3,737.04
Accounts Payable and Accrued Liabilities		(12,106.97)
Unearned Revenue		4,726.04
Funds Held for Others		19,093.89
Compensated Absences		9,150.19
Net Cash Used by Operating Activities	$	(10,504,446.12)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	607,606.26
Restricted Cash and Cash Equivalents		369,054.60
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		4,114.70
Total Cash and Cash Equivalents - June 30, 2010	$	980,775.56

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in Receivables Related to Nonoperating Income	$	90,000.00
Loss on Disposal of Capital Assets		(9,985.33)

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and 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 - The Tri-County Community College Foundation Inc. (Foundation) is governed by an 18-member board consisting of 9 ex officio directors and 9 elected directors. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. Because the elected directors of the Foundation are appointed by the members of the Tri-County Community College Board of Trustees and the Foundation's sole purpose is to benefit Tri-County Community College, its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 21 Campus Circle, Murphy, NC 28906, or by calling (828) 837-6810.

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

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 petty cash and cash on deposit with private bank accounts.

E. **Investments** - This classification includes certificates of deposit reported at cost.

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

G. **Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost 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.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year except for internally generated software which is capitalized when the value or cost is $1,000,000 or greater and other intangible assets which are capitalized when the value or cost is $100,000 or greater. 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 100 years for buildings, and 2 to 30 years for equipment, and 2 to 30 years for computer software.

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 consist of compensated absences that will not be paid within the next fiscal year.

K. Compensated Absences - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. 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 July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling $410.00, and deposits in private financial institutions with a carrying value of $980,365.56. Certificates of deposit totaling $1,307,800.00 are presented as investments on the Statement of Net Assets and are also on deposit in private institutions.

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, 2010, 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.

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

Investments of the College's component unit, Tri-County 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.

At June 30, 2010 the College held certificates of deposit in the amount of $1,307,800.00. Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposit section of this note.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2010, is as follows:

Cash on Hand	$	410.00
Carrying Amount of Deposits with Private Financial Institutions		980,365.56
Certificates of Deposit		1,307,800.00
Total Deposits and Investments	$	2,288,575.56
Current:		
Cash and Cash Equivalents	$	607,606.26
Restricted Cash and Cash Equivalents		369,054.60
Short-Term Investments		585,000.00
Restricted Short-Term Investments		520,000.00
Noncurrent:		
Restricted Cash and Cash Equivalents		4,114.70
Endowment Investments		202,800.00
Total	$	2,288,575.56

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. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2010, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Earned interest on held certificates of deposits is accrued until such time that a sufficient amount exists whereby a student scholarship(s) can be awarded agreeable to either guidelines set forth by the College Foundation Board or by an established contractual relationship between a funds donor and Tri-County Community College. In no case, however, is it permissible to expend or otherwise compromise the principle balance of any endowment fund without explicit board approval authorization and/or a written agreement between the donor and Tri-County Community College. At June 30, 2010, endowment net assets of $7,734.38 were available to be spent, of which $7,734.38 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2010, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 63,622.86	$ 947.83	$ 62,675.03
Intergovernmental	41,925.39		41,925.39
Investment Earnings	624.50		624.50
Other	36,815.78		36,815.78
Total Current Receivables	$ 142,988.53	$ 947.83	$ 142,040.70

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009 (as restated)	Increases	Decreases	Balance June 30, 2010
Capital Assets, Nondepreciable:				
Land	$ 364,807.78	$ 0.00	$ 0.00	$ 364,807.78
Construction in Progress		37,950.00		37,950.00
Total Capital Assets, Nondepreciable	364,807.78	37,950.00	0.00	402,757.78
Capital Assets, Depreciable:				
Buildings	8,984,396.70			8,984,396.70
Machinery and Equipment	1,333,999.77	141,188.71	57,995.39	1,417,193.09
General Infrastructure	399,974.95			399,974.95
Total Capital Assets, Depreciable	10,718,371.42	141,188.71	57,995.39	10,801,564.74
Less Accumulated Depreciation for:				
Buildings	3,786,507.67	149,649.04		3,936,156.71
Machinery and Equipment	546,902.29	108,767.24	48,010.06	607,659.47
General Infrastructure	186,741.03	6,932.10		193,673.13
Total Accumulated Depreciation	4,520,150.99	265,348.38	48,010.06	4,737,489.31
Total Capital Assets, Depreciable, Net	6,198,220.43	(124,159.67)	9,985.33	6,064,075.43
Capital Assets, Net	$ 6,563,028.21	$ (86,209.67)	$ 9,985.33	$ 6,466,833.21

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2010, were as follows:

	Amount
Accounts Payable	$ 16,168.90
Accrued Payroll	89,377.99
Intergovernmental Payables	59,762.98
Total Accounts Payable and Accrued Liabilities	$ 165,309.87

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2010, is presented as follows:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Compensated Absences	$ 294,435.00	$ 150,901.04	$ 141,750.79	$ 303,585.25	$ 31,117.49

NOTE 8 - LEASE OBLIGATIONS

The College entered into an operating lease for commercial rental space. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2010:

Fiscal Year	Amount
2011	$ 8,100.00

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

NOTE 9 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	$ 1,525,598.14	$ 727,922.28	$ 947.83	$ 796,728.03

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	$ 3,732,126.08	$ 793,978.22	$ 270,214.59	$ 7,786.00	$ 0.00	$ 0.00	$ 4,804,104.89
Academic Support	631,945.96	47,672.05	37,153.30	2,743.00			719,514.31
Student Services	436,280.29	16,040.05	30,468.73	26,108.00			508,897.07
Institutional Support	1,553,191.50	50,419.70	228,030.05				1,831,641.25
Operations and Maintenance of Plant	187,508.83	44,046.90	184,538.19		314,866.30		730,960.22
Student Financial Aid				2,846,767.47			2,846,767.47
Auxiliary Enterprises			2,300.07				2,300.07
Depreciation						265,348.38	265,348.38
Total Operating Expenses	$ 6,541,052.66	$ 952,156.92	$ 752,704.93	$ 2,883,404.47	$ 314,866.30	$ 265,348.38	$ 11,709,533.66

NOTE 11 - PENSION PLANS

A. Retirement Plans - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System 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, 2010, these rates were set at 3.57% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $5,831,168.85, of which $4,311,955.95 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $153,936.83 and $258,717.39, respectively.

Required employer contribution rates for the years ended June 30, 2009, and 2008, were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008, which were $153,936.83, $143,938.53, and $130,648.76, 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.osc.nc.gov/ 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 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants with no costs incurred by the College. The voluntary contributions by employees amounted to $68,300.00 for the year ended June 30, 2010.

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.

For the current fiscal year the College contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2009, and 2008, were 4.1% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were $194,038.02, $175,639.72, and $175,626.20, 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.osc.nc.gov/ 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 by the General Assembly. For the fiscal year ended June 30, 2010, 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, 2009, and 2008, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were $22,422.17, $22,276.20, and $22,274.54, 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.

Liability insurance for 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 and institutional funds are covered through a contract with a private insurance company.

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 $64,800.00 at June 30, 2010.

NOTE 15 - CHANGES IN FINANCIAL ACCOUNTING AND REPORTING

For the fiscal year ended June 30, 2010, the College implemented the following pronouncements issued by the Governmental Accounting Standards Board (GASB):

> GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

GASB Statement No. 51, requires reporting certain intangible assets as capital assets.

NOTE 16 - NET ASSET RESTATEMENT

As of July 1, 2009, net assets as previously reported were restated as follows:

	Amount
July 1, 2009 Net Assets as Previously Reported	$ 8,443,217.65
Restatement:	
Correction of error in prior year accumulated depreciation	278.09
July 1, 2009 Net Assets as Restated	$ 8,443,495.74

NOTE 17 - SUBSEQUENT EVENTS

In a letter dated February 4, 2010, the Tri-County Community College Foundation Inc. received notification that it had been approved to receive a grant in the amount of $60,000.00 from The Janirve Foundation. The grant is to be used to support the construction of a Fire and Training Center Classroom Building to serve volunteer firemen of Cherokee, Clay, Macon, Graham, and Jackson counties. Grant funds will be payable when needed for construction to begin. Any portion of the grant not used for the specific purpose for which the grant has been approved will be returned to The Janirve Foundation.

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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
Tri-County Community College
Murphy, North Carolina

We have audited the financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2010 and have issued our report thereon dated June 1, 2011.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* during the year ended June 30, 2010.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over financial reporting.

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

June 1, 2011

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the College contained misstatements that were corrected as a result of our audit. These misstatements indicate that the College's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. Misstatements noted during our audit included:

- The College understated both student tuition and fees revenue and scholarships and fellowships expense by $336,316. A scholarship discount was erroneously recorded for bookstore revenues. The College contracts with a vendor to operate its bookstore and does not recognize revenue from sales to students, therefore, no discounting entry was required.

- The College misclassified cash and cash equivalents. Current unrestricted cash and cash equivalents was overstated by $158,600, current restricted cash and cash equivalents was understated by $163,309, and noncurrent restricted cash and cash equivalents was overstated by $4,709. The $158,600 was restricted by various parties for capital projects while the $4,709 was restricted by donors but should have been classified as current.

- The College misclassified investments. Current unrestricted short-term investments was overstated by $390,000, current restricted short-term investments was understated by $465,000, and noncurrent restricted investments was overstated by $75,000. The $390,000 was restricted by various parties for capital projects while the $75,000 was restricted by donors but should have been classified as current.

- The College misclassified restricted net assets related to foundation funds. Expendable scholarships and fellowships was understated by $79,709, nonexpendable scholarships and fellowships was overstated by $76,774, and other nonexpendable net assets was overstated by $2,935.

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

College Response: The College will implement changes as recommended.

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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