STATE OF NORTH CAROLINA

MCDOWELL TECHNICAL COMMUNITY COLLEGE

MARION, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

McDowell Technical Community College

Marion, North Carolina

Financial Statement Audit Report

For the Year Ended June 30, 2011

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of McDowell Technical Community College for the year ended June 30, 2011, 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 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

Beth A. Wood, CPA
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
McDowell Technical Community College
Marion, North Carolina

We have audited the accompanying basic financial statements of McDowell Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, 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 McDowell Technical Community College as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

May 23, 2012

This section of McDowell Technical Community College's Financial Report presents Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2011. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes and currently known facts, please read it in conjunction with the College's basic financial statements which includes the notes to the financial statements. Responsibility for the completeness and fairness of this information rests with the College.

Using This Report

This annual report consists of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public College and Universities*. These financial statements focus on the financial condition of the College, results of operations, and cash flows of the College as a whole. The College's basic financial statements are designed to emulate corporate presentation models whereby all College activities are consolidated into one total. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. In summary, the reporting format is intended to condense and simplify the user's analysis of costs of various College services to students and the public. The three financial statements are featured below with brief descriptions of each financial focus.

Statement of Net Assets: The Statement of Net Assets is designed to be similar to bottom line results for the College. This Statement combines and consolidates current financial resources (short-term consumable resources) with capital assets. The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and the condition of facilities. (Exhibit A-1)

Statement of Revenues, Expenses and Changes in Net Assets: The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year, which are supported mainly by State, local, federal and other revenues. Activities are reported as either operating or nonoperating. A Community College's dependency on State aid and gifts could result in operating deficits because the financial reporting model classifies State appropriations and gifts as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. (Exhibit A-2)

<u>Statement of Cash Flows:</u> The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities, and helps measure the ability to meet financial obligations as they mature. The direct method is used to present the Cash Flow Statement. (Exhibit A-3)

<u>Notes to the Financial Statements:</u> The notes to the financial statements are an integral part of the basic financial statements. The notes to the financial statements communicate information essential for the fair presentation of the financial statements that is not displayed on the face of the financial statements.

Financial Information

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

Condensed Statement of Net Assets
For the Year Ended June 30, 2011
With Comparative Data for the Year Ended June 30, 2010 (as restated)

	2011	2010 (as restated)	Difference
Assets			
Current Assets	$ 1,438,242.14	$ 1,370,283.88	$ 67,958.26
NonCurrent Assets			
Capital Assets, Net	9,336,167.62	9,393,840.23	(57,672.61)
Other	374,703.58	428,575.67	(53,872.09)
Total Assets	11,149,113.34	11,192,699.78	(43,586.44)
Liabilities			
Current Liabilities	527,540.99	602,503.68	(74,962.69)
Noncurrent Liabilities	957,953.29	906,272.78	51,680.51
Total Liabilities	1,485,494.28	1,508,776.46	(23,282.18)
Net Assets			
Invested in Capital Assets	9,336,167.62	9,393,840.23	(57,672.61)
Restricted	738,774.60	766,258.93	(27,484.33)
Unrestricted	(411,323.16)	(476,175.84)	64,852.68
Total Net Assets	$ 9,663,619.06	$ 9,683,923.32	$ (20,304.26)

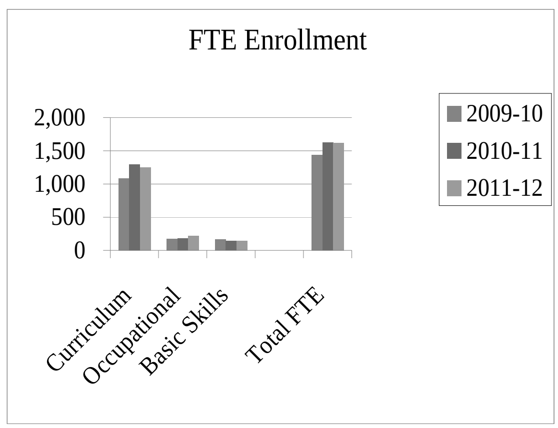
Financial Highlights

For the 2011 fiscal year, total enrollment and FTE were up over the previous year by 13% resulting in an increase in government appropriations for the fiscal year.

Annual FTE (budget year)	**2010-11**	**2009-10**	**Change** **FTE**	**Percent**
Curriculum	1,296	1,090	206	19%
Occupational	185	182	3	2%
Basic Skills	145	168	(23)	-14%
Total FTE	1,626	1,440	186	13%

The College continues to experience atypically high enrollment as a result of the sluggish economy and higher than usual unemployment levels in the region. As a result of this enrollment growth, State budget appropriations are up over the previous year. Even though the legislature imposed budget reductions on all state agencies, community college growth funding was provided. At this point, it appears that enrollment levels have peaked and begun to level off. This year's FTE enrollment (curriculum portion), for which next year's budget will be based, is down slightly over last year but is still significantly higher than 2009-10 as shown in the chart below. As a result, expenditures from servicing student enrollment are generally less this year than last.

Annual FTE (budget year)	**2009-10**	**2010-11**	**2011-12**
Curriculum	1,090	1,296	1,251
Occupational	182	185	225
Basic Skills	168	145	149
Total FTE	1,440	1,626	1,625

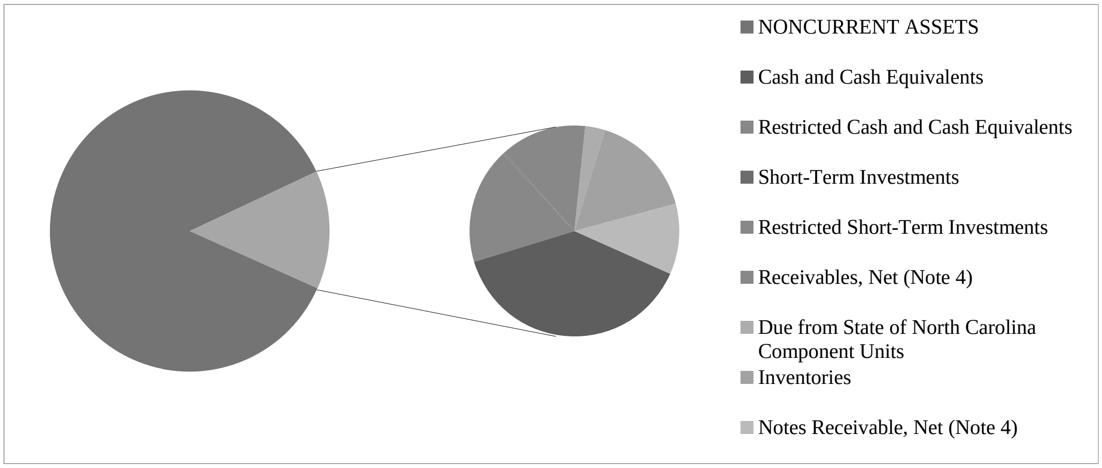


For the year ended June 30, 2011 total assets decreased by $43,586.44 and total liabilities decreased by $23,282.18 resulting in a decrease in net assets for the fiscal year of $20,304.26. Following is a further analysis of this position.

Financial Analysis

Analysis of Assets and Net Assets

The assets of the College are divided between current and noncurrent assets. The composition of assets at June 30, 2011 is illustrated in the accompanying pie chart.



Current assets primarily include cash and cash equivalents, receivables, inventories and notes receivable for student loans.

Noncurrent assets consist of cash, receivables and capital assets. Capital assets are defined as land, construction in progress, buildings, infrastructure, and equipment with a cost of $5,000 or more and a useful life of more than one year. The College's capital assets are stated at historical cost less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 75 years for general infrastructure, 28 to 50 years for buildings, and 5 to 25 years for equipment.

ASSETS	June 30, 2011	June 30, 2010 (as restated)	Change
Current Assets:			
Cash and Cash Equivalents	$ 556,133.13	$ 344,447.36	$ 211,685.77
Restricted Cash and Cash Equivalents	253,074.30	220,719.93	32,354.37
Short-Term Investments		19,814.85	(19,814.85)
Restricted Short-Term Investments	5,332.56	7,765.39	(2,432.83)
Receivables, Net (Note 4)	191,944.22	394,875.42	(202,931.20)
Due from State of North Carolina Component Units	45,000.00	45,000.00	
Inventories	232,940.88	229,460.43	3,480.45
Notes Receivable, Net (Note 4)	153,817.05	108,200.50	45,616.55
Total Current Assets	1,438,242.14	1,370,283.88	67,958.26
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	318,868.60	188,580.96	130,287.64
Restricted Due from Primary Government	24,800.63	98,750.63	(73,950.00)
Restricted Investments	31,034.35	141,244.08	(110,209.73)
Capital Assets - Nondepreciable (Note 5)	428,154.79	428,154.79	
Capital Assets - Depreciable, Net (Note 5)	8,908,012.83	8,965,685.44	(57,672.61)
Total Noncurrent Assets	9,710,871.20	9,822,415.90	(111,544.70)
Total Assets	$ 11,149,113.34	$ 11,192,699.78	$ (43,586.44)

As of June 30, 2011, the College's current assets increased $67,958.26 primarily due to increases in self-supporting, technology fee and bookstore accounts. Net receivables were down primarily due to reduced activity in the NAFTA/TAA program over the previous year.

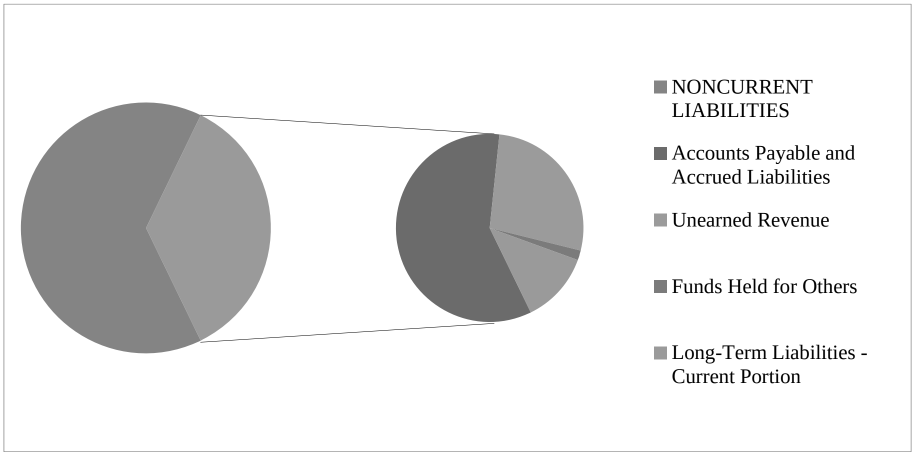
The College's noncurrent assets, other than capital assets, decreased $53,872.09 primarily due to a decrease in due from primary government relative to the progression of Construction Project #1715. The increase in noncurrent restricted cash and cash equivalents and related decrease in restricted investments is due to the sale of investments.

Noncurrent assets also include the College's capital assets net of accumulated depreciation. During fiscal year 2011, the depreciation of capital assets offset by the purchase of educational equipment to support instructional programs resulted in a decrease of $57,672.61 in Capital Assets Depreciable, Net.

As a result, total assets decreased by $43,586.44 for the fiscal year ended June 30, 2011. Additional detail regarding the composition of assets is available in Exhibit A-1.

Analysis of Liabilities

The College's liabilities are divided between current liabilities payable within twelve months and noncurrent liabilities that extend beyond a year. The composition of liabilities at June 30, 2011 is illustrated in the accompanying pie chart.



Current liabilities consist primarily of amounts due to vendors for goods and services, unearned tuition revenue, funds held for others and the current portion of compensated absences. Noncurrent liabilities are the noncurrent portion of compensated absences.

LIABILITIES	June 30, 2011	June 30, 2010	Change
Current Liabilities:			
Accounts Payable and Accrued Liabilities (Note 6)	$ 310,217.89	$ 374,334.63	$ (64,116.74)
Unearned Revenue	143,981.87	161,625.74	(17,643.87)
Funds Held for Others	8,886.59	11,265.43	(2,378.84)
Long-Term Liabilities - Current Portion (Note 7)	64,454.64	55,277.88	9,176.76
Total Current Liabilities	527,540.99	602,503.68	(74,962.69)
Noncurrent Liabilities:			
Long-Term Liabilities (Note 7)	957,953.29	906,272.78	51,680.51
Total Noncurrent Liabilities	957,953.29	906,272.78	51,680.51
Total Liabilities	$ 1,485,494.28	$ 1,508,776.46	$ (23,282.18)

Current liabilities decreased by $74,962.69 during fiscal year 2011 mostly attributable to decreases in accounts payable/accrued liabilities and unearned revenue. The decrease in accounts payable and accrued liabilities were primarily attributable to activity in the NAFTA/TAA program. The decrease in unearned revenue was the result of the College's move to emphasize self-supporting classes over FTE generating classes in the summer semester since the state has eliminated summer term funding.

The College's only long-term liability is employee compensated absences. The current portion of compensated absences increased by $9,176.76 while the noncurrent portion increased by $51,680.51. As a result, total liabilities decreased by $23,282.18 for the year ended June 30, 2011.

Net Assets

Net assets are a measure of the value of the College's assets less the liabilities. The College's net assets are summarily categorized as "Invested in Capital Assets," restricted, and unrestricted. "Invested in Capital Assets" represents the College's investment in capital assets minus depreciation. Restricted net assets include resources which must be spent in accordance with restrictions imposed by external parties. Restricted assets generally include capital, endowment, grant, and gift funds. Unrestricted assets include resources derived from sources not previously identified. The decrease in assets of $43,586.44 combined with the decrease in liabilities of $23,282.18 resulted in a decrease in net assets of $20,304.26 for the fiscal year.

Analysis of Revenues, Expenses and Changes in Net Assets

Below is a condensed comparative analysis of the June 30, 2011 Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit A-2) contained herein and the year ended June 30, 2010, followed by discussion on changes in revenues and expenses.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2011

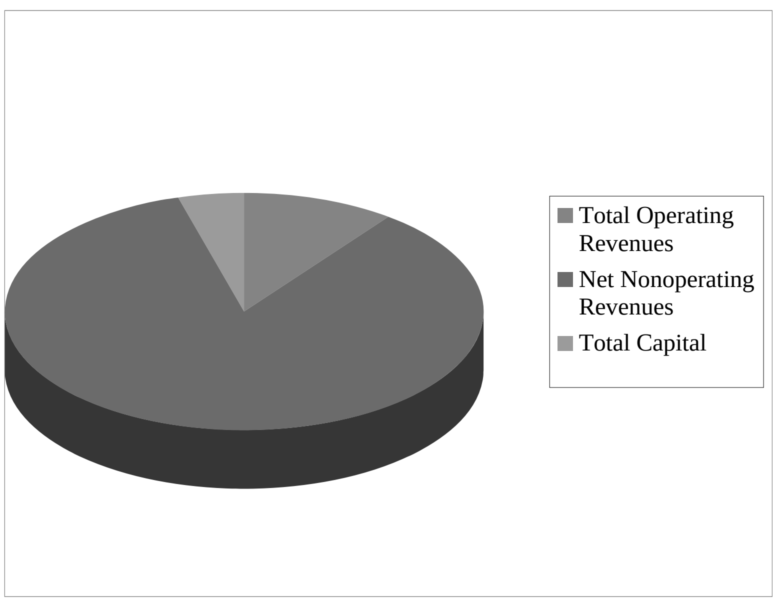
	2011	2010 (as restated)	Difference
Operating Revenues			
Tuition and Fees	$ 956,830.73	$ 1,114,891.00	$ (158,060.27)
Sales and Services	611,147.12	750,420.86	(139,273.74)
Other	2,087.85	2,624.34	(536.49)
Total Operating Revenues	1,570,065.70	1,867,936.20	(297,870.50)
Operating Expenses			
Salaries and Benefits	8,699,032.84	8,301,023.71	398,009.13
Supplies and Materials	2,057,479.31	2,167,927.34	(110,448.03)
Services	1,318,684.69	1,154,729.15	163,955.54
Scholarships and Fellowships	2,881,940.43	3,153,241.68	(271,301.25)
Utilities	199,362.67	184,337.48	15,025.19
Depreciation	326,221.44	312,818.01	13,403.43
Total Operating Expenses	15,482,721.38	15,274,077.37	208,644.01
Net Operating Loss	(13,912,655.68)	(13,406,141.17)	(506,514.51)
Nonoperating Revenues			
State Aid	7,238,477.45	6,580,772.24	657,705.21
County Appropriations	808,450.00	808,450.00	
Noncapital Contributions	5,160,354.49	5,140,952.05	19,402.44
Investment Income	2,348.55	4,175.40	(1,826.85)
Other Nonoperating Revenues		(24,351.94)	24,351.94
Total Nonoperating Revenues	13,209,630.49	12,509,997.75	699,632.74
Capital Contributions	682,720.93	1,031,552.44	(348,831.51)
Increase(Decrease) in Net Assets	(20,304.26)	135,409.02	(155,713.28)
Net Assets, Beginning, as Restated	9,683,923.32	9,548,514.30	135,409.02
Net Assets, Ending	$ 9,663,619.06	$ 9,683,923.32	$ (20,304.26)

The College's revenues are classified as operating, nonoperating, and capital contributions. Operating revenues are derived from activities that are necessary and essential to the mission of the College.

Nonoperating revenues include activities that have nonexchange characteristics; that is, the College received revenue without providing a good or service. Capital contributions consist of state and county appropriations, as well as grants for equipment, construction, building improvements, and infrastructure.

The following table and chart illustrates the composition of the College's revenues:

Operating Revenues:	
Student Tuition and Fees, Net (Note 9)	$ 956,830.73
Sales and Services, Net (Note 9)	611,147.12
Other Operating Revenues	2,087.85
Total Operating Revenues	$ 1,570,065.70
Nonoperating Revenues:	
Government Approprations	$ 8,046,927.45
Noncapital Grants and Gifts	5,160,354.49
Investment Income	2,348.55
Net Nonoperating Revenues	$ 13,209,630.49
Capital Contributions:	
Government Appropriations	$ 658,870.93
Capital Grants and Gifts	23,850.00
Total Capital	$ 682,720.93



Condensed Statement of Revenues, Expenses and Changes in Net Asets
For the Year Ended June 30, 2011 with Comparative Data for the Year Ended

	2011	2010 (as restated)	Change Amount	Change Percent
Operating Revenues	$ 1,570,065.70	$ 1,867,936.20	$ (297,870.50)	-15.95%
Operating Expenses	(15,482,721.38)	(15,274,077.41)	(208,643.97)	1.37%
Nonoperating Revenues	13,209,630.49	12,509,997.75	699,632.74	5.59%
Capital Contributions	682,720.93	1,031,552.44	(348,831.51)	-33.82%
Change in Net Assets	$ (20,304.26)	$ 135,408.98	$ (155,713.24)	-114.99%

The chart above illustrates the revenue effect of the enrollment change from 2010 to 2011 as indicated by the budget FTE table at the beginning of this report.

Operating revenues decreased by $297,870.50 from the previous year. This decrease is due to the recording of a scholarship discount for fees and Self-Supporting Curriculum not recorded in the prior year. Additional detail regarding revenues is presented in Note 9.

Nonoperating revenues; however, increased by $699,632.74 from the previous year with changes detailed as follows:

Change in Nonoperating Revenues

State Aid	$ 657,705.21
County Appropriations	
Noncapital Contributions	19,402.44
Investment Income	(1,826.85)
Other Nonoperating Revenues	24,351.94
Total Nonoperating Revenues	$ 699,632.74

This increase is primarily due to an increase in the State appropriation resulting from the increased budgeted student enrollment and FTE from the previous year as indicated by the enrollment chart included earlier in this report. County appropriations were unchanged from the previous year.

The College recognized a decrease in capital contributions of $348,831.51 as compared to the previous fiscal year as shown below.

Change in Capital Contributions

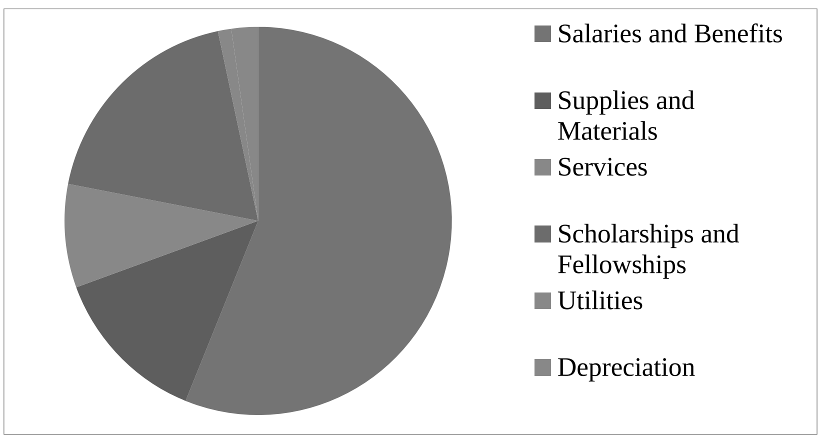
State Capital Aid	$ 226,018.60
County Capital Aid	(304,800.11)
Capital Gifts	(270,050.00)
Total Change in Capital Contributions	$ (348,831.51)

This is due to the acquisition of land from the Forestry Service, capital funds from the Smith Foundation, and County Capital funds applied to the Ford Miller building in the previous fiscal year. Also, State equipment funding was increased over the previous fiscal year.

Expenses

Operating expenses are those that are necessary and essential to the mission of the College; these do not include expenses related to investing, capital and related financing and noncapital financing activities. Depreciation is recognized as an operating expense in accordance with generally accepted accounting principles. The table and chart below illustrate the composition of operating expenses.

Operating Expenses:		
Salaries and Benefits	$	8,699,032.84
Supplies and Materials		2,057,479.31
Services		1,318,684.69
Scholarships and Fellowships		2,881,940.43
Utilities		199,362.67
Depreciation		326,221.44
Total Operating Expenses	$	15,482,721.38



Total Operating expenses were up $208,644.01 over the previous year. Following is analysis of the major contributors to this change.

Salaries and Benefits increased by $398,009.13 over the previous year resulting from several factors. The retirement contribution rate increased from 8.75% to 10.51% and the healthcare premium increased from $4,527.00 to $4,929.00 per employee. In addition, part-time salaries for summer programs increased as a result of full-time faculty being moved to 10 month contracts in the previous year. This move improved the college's position relative to full-time salary commitments during lean budget years.

Supplies and materials cost decreased by $110,448.03 from the previous year primarily resulting from decreased student enrollment.

Services increased for the current fiscal year primarily as a result of contracted instruction costs for student service of $49,842.00 and ARR Jobs Now Program instruction costs of $30,000.00 that occurred during the year.

Scholarships and Fellowships decreased by $271,301.25 from the previous year. This is primarily attributable to the NC Earn Grant which was $142,000.00 in 2009-2010 but which was repealed for the 2010-2011 fiscal year.

Net Assets

The change in net assets is the difference between total revenues and total expenses. The change in net assets as presented in Exhibit A-2, is a decrease of $20,304.26, bringing the College's total net assets to $9,663,619.06.

Future Operations

The economic position of McDowell Technical Community College is closely tied to that of the State of North Carolina and McDowell County. State and county funding for the College comprised a significant portion of revenues for the fiscal year ending June 30, 2011. The news media has continued to report that the State and local economies remain sluggish and are not likely to rebound quickly. This economic downturn could result in smaller increases in the State and local funding for the College in future years. The specific impact on the College is uncertain at this time.

Summary

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

McDowell Technical Community College
Statement of Net Assets
June 30, 2011 — *Exhibit A-1*

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	556,133.13
Restricted Cash and Cash Equivalents		253,074.30
Restricted Short-Term Investments		5,332.56
Receivables, Net (Note 4)		191,944.22
Restricted Due from State of North Carolina Component Units		45,000.00
Inventories		232,940.88
Notes Receivable, Net (Note 4)		153,817.05
Total Current Assets		1,438,242.14
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		318,868.60
Restricted Due from Primary Government		24,800.63
Restricted Investments		31,034.35
Capital Assets - Nondepreciable (Note 5)		428,154.79
Capital Assets - Depreciable, Net (Note 5)		8,908,012.83
Total Noncurrent Assets		9,710,871.20
Total Assets		11,149,113.34
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities (Note 6)		310,217.89
Unearned Revenue		143,981.87
Funds Held for Others		8,886.59
Long-Term Liabilities - Current Portion (Note 7)		64,454.64
Total Current Liabilities		527,540.99
Noncurrent Liabilities:		
Long-Term Liabilities (Note 7)		957,953.29
Total Liabilities		1,485,494.28
NET ASSETS		
Invested in Capital Assets		9,336,167.62
Restricted for:		
Nonexpendable:		
Scholarships and Fellowships		44,644.35
Other		203,898.03
Expendable:		
Scholarships and Fellowships		33,902.76
Loans		3,683.57
Capital Projects		194,785.89
Restricted for Specific Programs		257,860.00
Unrestricted		(411,323.16)
Total Net Assets	$	9,663,619.06

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

McDowell Technical Community College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

Exhibit A-2

REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net (Note 9)	$	956,830.73
Sales and Services, Net (Note 9)		611,147.12
Other Operating Revenues		2,087.85
Total Operating Revenues		1,570,065.70
EXPENSES		
Operating Expenses:		
Salaries and Benefits		8,699,032.84
Supplies and Materials		2,057,479.31
Services		1,318,684.69
Scholarships and Fellowships		2,881,940.43
Utilities		199,362.67
Depreciation		326,221.44
Total Operating Expenses		15,482,721.38
Operating Loss		(13,912,655.68)
NONOPERATING REVENUES		
State Aid		7,238,477.45
County Appropriations		808,450.00
Noncapital Grants - Student Financial Aid		4,410,603.03
Noncapital Grants		740,946.46
Noncapital Gifts		8,805.00
Investment Income		2,348.55
Net Nonoperating Revenues		13,209,630.49
Loss Before Other Revenues		(703,025.19)
State Capital Aid		627,872.93
County Capital Aid		30,998.00
Capital Gifts		23,850.00
Decrease in Net Assets		(20,304.26)
NET ASSETS		
Net Assets, July 1, 2010 as Restated (Note 15)		9,683,923.32
Net Assets, June 30, 2011	$	9,663,619.06

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

McDowell Technical Community College
Statement of Cash Flows — *Exhibit A-3*
For the Fiscal Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from Customers	$ 1,637,321.10
Payments to Employees and Fringe Benefits	(8,629,454.80)
Payments to Vendors and Suppliers	(3,578,082.47)
Payments for Scholarships and Fellowships	(2,881,940.43)
Other Payments	(2,378.84)
Net Cash Used by Operating Activities	(13,454,535.44)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Aid Received	7,238,477.45
County Appropriations	808,450.00
Noncapital Grants - Student Financial Aid	4,410,603.03
Noncapital Grants Received	739,599.68
Noncapital Gifts Received	8,805.00
Cash Provided by Noncapital Financing Activities	13,205,935.16
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Aid Received	701,822.93
County Capital Aid	30,998.00
Capital Gifts Received	23,850.00
Acquisition and Construction of Capital Assets	(268,548.83)
Net Cash Provided by Capital and Related Financing Activities	488,122.10
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	134,586.30
Investment Income	219.66
Cash Provided by Investing Activities	134,805.96
Net Increase in Cash and Cash Equivalents	374,327.78
Cash and Cash Equivalents, July 1, 2010	753,748.25
Cash and Cash Equivalents, June 30, 2011	$ 1,128,076.03

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating Loss	$	(13,912,655.68)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation Expense		326,221.44
Provision for Uncollectible Loans and Write-Offs		(45,616.55)
Changes in Assets and Liabilities:		
Receivables, Net		84,899.27
Inventories		(3,480.45)
Accounts Payable and Accrued Liabilities		55,261.97
Unearned Revenue		(17,643.87)
Funds Held for Others		(2,378.84)
Compensated Absences		60,857.27
Net Cash Used by Operating Activities	$	(13,454,535.44)

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:		
Cash and Cash Equivalents	$	556,133.13
Restricted Cash and Cash Equivalents		253,074.30
Noncurrent Assets:		
Restricted Cash and Cash Equivalents		318,868.60
Total Cash and Cash Equivalents - June 30, 2011	$	1,128,076.03

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Change in Fair Value of Investments	$	2,128.89

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

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial statements present all funds of the College and its component unit for which the College's Board of Trustees is financially accountable. The College's component unit is blended in the College's financial statements. The blended component unit, although legally separate, is, in substance, part of the College's operations and therefore, is reported as if it were part of the College.

Blended Component Unit - Although legally separate, McDowell Technical Community College Foundation, Inc. is reported as if it was part of the College. The Foundation is governed by a 20-member board consisting of 12 members elected by the Foundation Board of Trustees, two members of the College's Board of Trustees, one student, and five ex-officio members of the Foundation Board who are employees of the College. Because the College appointed all of the original Foundation Board members, new members appointed by the Foundation Board are considered to be indirectly appointed by the College. The Foundation's purpose is to aid, support, and promote teaching, research, and service in the various educational, scientific, scholarly, professional, artistic, and creative endeavors of the College. The Foundation's sole purpose is to benefit McDowell Technical Community College. Its financial statements have been blended with those of the College.

Separate financial statements for the Foundation may be obtained from the College Controller's Office, 54 College Drive, Marion, North Carolina 28752-8725, or by calling 828-652-0696.

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

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

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. **Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

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

D. **Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and money market accounts.

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

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

G. **Inventories** - Inventories, consisting of expendable supplies and merchandise for resale are stated at the lower of cost or market using the first-in, first-out method.

H. **Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs. Interest costs incurred are capitalized during the period of construction.

The College capitalizes assets that have a value or cost of $5,000 or greater at the date of acquisition and an estimated useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.

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

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

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

K. **Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on June 30 is retained by employees and transferred into the next 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.

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

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

Restricted Net Assets - Nonexpendable - Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources, and, as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets - Expendable - Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

M. **Scholarship Discounts** - Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

N. **Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2011 was $900.00. The carrying amount of the College's deposits not with the State Treasurer was $1,127,176.03, and the bank balance was $1,164,485.29.

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, 2011, 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; specified bills of exchange; certain savings certificates; 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 of custodian.

Investments of the College's component unit, the McDowell Technical Community College Foundation, Inc., are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2011, for the College's investments. Interest rate risk is defined by GASB Statement No. 40 as the risk a government may face should interest rate variances affect the fair value of investments. The College does not have a formal investment policy that addresses interest rate risk.

Investments

	Fair Value	Investment Maturities (in Years) Less Than 1	6 to 10
Investment Type			
Debt Securities			
Money Market Mutual Funds	$ 5,332.56	$ 5,332.56	$ 0.00
Domestic Corporate Bonds	31,034.35		31,034.35
		$ 5,332.56	$ 31,034.35
Total Investments	$ 36,366.91		

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College does not have a formal policy that addresses credit risk. As of June 30, 2011, the College's investments were rated as follows:

	Fair Value	AAAm	A
Money Market Mutual Funds	$ 5,332.56	$ 5,332.56	$ 0.00
Domestic Corporate Bonds	31,034.35		31,034.35

Rating Agency: Standard and Poors

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The College places no limit on the amount that may be invested in any one issuer. More than 5% of the College's investments are in HSBC Finance Corporation. These investments are 85.3% of College's investments.

A reconciliation of deposits and investments for the College to the basic financial statements at June 30, 2011, is as follows:

Cash on Hand	$	900.00
Carrying Amount of Deposits with Private Financial Institutions		1,127,176.03
Money Market Mutual Funds		5,332.56
Corporate Bonds		31,034.35
Total Deposits and Investments	$	1,164,442.94
Current:		
Cash and Cash Equivalents	$	556,133.13
Restricted Cash and Cash Equivalents		253,074.30
Restricted Short-Term Investments		5,332.56
Noncurrent:		
Restricted Cash and Cash Equivalents		318,868.60
Restricted Investments		31,034.35
Total	$	1,164,442.94

NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds.

Investment return of the College's endowment funds is predicated under classical trust doctrines. Unless the donor has stipulated otherwise, capital gains and losses are accounted for as part of the endowment principal and are not available for expenditure. Annual payouts from the College's endowment funds are limited to earnings available from interest income and realized gains. At June 30, 2011, endowment net assets of $53,740.02 were available to be spent, of which $16,098.74 was restricted to specific purposes.

NOTE 4 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	$ 2,706.89	$ 211.13	$ 2,495.76
Student Sponsors	56,670.49		56,670.49
Accounts	96,368.42		96,368.42
Intergovernmental	24,148.75		24,148.75
Other	12,260.80		12,260.80
Total Current Receivables	$ 192,155.35	$ 211.13	$ 191,944.22
Notes Receivable:			
Notes Receivable - Current:			
Institutional Student Loan Programs	$ 214,498.38	$ 60,681.33	$ 153,817.05

NOTE 5 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010 (as restated)	Increases	Balance June 30, 2011
Capital Assets, Nondepreciable:			
Land and Permanent Easements	$ 428,154.79	$ 0.00	$ 428,154.79
Total Capital Assets, Nondepreciable	428,154.79		428,154.79
Capital Assets, Depreciable:			
Buildings	11,294,443.38		11,294,443.38
Machinery and Equipment	1,316,438.12	268,548.83	1,584,986.95
General Infrastructure	653,107.06		653,107.06
Total Capital Assets, Depreciable	13,263,988.56	268,548.83	13,532,537.39
Less Accumulated Depreciation for:			
Buildings	3,643,648.32	229,892.17	3,873,540.49
Machinery and Equipment	322,138.99	87,621.11	409,760.10
General Infrastructure	332,515.81	8,708.16	341,223.97
Total Accumulated Depreciation	4,298,303.12	326,221.44	4,624,524.56
Total Capital Assets, Depreciable, Net	8,965,685.44	(57,672.61)	8,908,012.83
Capital Assets, Net	$ 9,393,840.23	$ (57,672.61)	$ 9,336,167.62

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2011, were as follows:

	Amount
Accounts Payable	$ 77,370.62
Accrued Payroll	232,847.27
Total Accounts Payable and Accrued Liabilities	$ 310,217.89

NOTE 7 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2011, is presented as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Compensated Absences	$ 961,550.66	$ 582,873.51	$ 522,016.24	$ 1,022,407.93	$ 64,454.64

NOTE 8 - LEASE OBLIGATIONS

The College entered into operating leases for copiers. Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2011:

Fiscal Year	Amount
2012	$ 47,008.35
2013	11,012.10
Total Minimum Lease Payments	$ 58,020.45

Rental expense for all operating leases during the year was $89,644.04.

NOTE 9 - REVENUES

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

	Gross Revenues	Internal Sales Eliminations	Less Scholarship Discounts	Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:					
Student Tuition and Fees	$ 1,976,364.68	$ 0.00	$ 1,018,494.02	$ 1,039.93	$ 956,830.73
Sales and Services:					
Sales and Services of Auxiliary Enterprises:					
Bookstore	$ 897,721.21	$ 9,234.70	$ 508,449.36	$ (1,488.63)	$ 381,525.78
Child Development Center	177,460.64			(35.00)	177,495.64
Other	18,180.26	8,072.30		135.60	9,972.36
Sales and Services of Education and Related Activities	42,305.50			152.16	42,153.34
Total Sales and Services	$ 1,135,667.61	$ 17,307.00	$ 508,449.36	$ (1,235.87)	$ 611,147.12

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	$ 5,214,006.50	$ 898,804.97	$ 504,244.93	$ 0.00	$ 0.00	$ 0.00	$ 6,617,056.40
Public Service	115,271.64	3,951.68	171,990.12		1,137.56		292,351.00
Academic Support	781,281.52	35,969.41	20,453.31				837,704.24
Student Services	663,009.31	28,133.32	97,353.10				788,495.73
Institutional Support	1,387,391.39	164,875.87	368,746.62				1,921,013.88
Operations and Maintenance of Plant	275,355.31	218,912.18	125,047.21		198,225.11		817,539.81
Student Financial Aid				2,881,940.43			2,881,940.43
Auxiliary Enterprises	262,717.17	706,831.88	30,849.40				1,000,398.45
Depreciation						326,221.44	326,221.44
Total Operating Expenses	$ 8,699,032.84	$ 2,057,479.31	$ 1,318,684.69	$ 2,881,940.43	$ 199,362.67	$ 326,221.44	$ 15,482,721.38

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, 2011, these rates were set at 4.93% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of $6,963,119.60, of which $5,990,668.62 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were $295,339.96 and $359,440.12, respectively.

Required employer contribution rates for the years ended June 30, 2010, and 2009, were 3.57% and 3.36%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2011, 2010, and 2009, which were $295,339.96, $202,622.14, and $190,732.03, 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 "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. **Supplemental Retirement Income Plan** - 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 $126,170.00 for the year ended June 30, 2011.

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 4.9% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2010, and 2009, were 4.5% and 4.1%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2011, 2010, and 2009, which were $293,542.76, $255,406.06, and $232,738.48, 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 "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, 2011, the College made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. The required contribution rate for the years ended June 30, 2010, and 2009, was .52% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were $31,151.48, $29,513.59, and $29,518.05, 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.

The risk of tort claims of up to $1,000,000 per claimant is 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. Property is covered under an all risk coverage contract. Building and contents are valued under a replacement cost basis. No coinsurance penalties apply. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

State-owned vehicles are covered by liability insurance through a private insurance company and handled by the North Carolina Department of Insurance. The liability limits for losses are $1,000,000 per claim and $10,000,000 per occurrence. The community college pays premiums to the

North Carolina Department of Insurance for the coverage. Liability insurance for other College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is $5,000,000 per occurrence. The private insurance company pays 90% of each loss less a $75,000 deductible. In addition, losses for all employees are covered on contracts with private insurance companies with coverage of $10,000 per occurrence and a $250 deductible.

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a discretely presented component unit 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. There were no outstanding commitments on construction contracts. Outstanding commitments on other purchases were $24,761.18 at June 30, 2011.

NOTE 15 - NET ASSET RESTATEMENT

As of July 1, 2010, net assets as previously reported was restated as follows:

		Amount
July 1, 2010 Net Assets as Previously Reported	$	9,643,345.53
Error in Establishing Useful Lives		40,577.79
July 1, 2010 Net Assets as Restated	$	9,683,923.32

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

Board of Trustees
McDowell Technical Community College
Marion, North Carolina

We have audited the financial statements of McDowell Technical Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2011, and have issued our report thereon dated May 23, 2012.

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.

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

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)

identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency 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.

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 College's response to the finding identified in our audit is 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

May 23, 2012

Matters Related to Financial Reporting

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

INAPPROPRIATE INFORMATION SYSTEM ACCESS ASSIGNED

The College has assigned accounting system access rights that are inconsistent with proper segregation of duties. Proper segregation of duties involves assigning responsibilities such that duties of one employee automatically provide a cross-check on the work of other employees. When incompatible duties are not segregated, there is an increased risk of errors or fraud occurring without detection.

We examined access rights for nine business office employees and noted that three had access to screens and forms in Datatel that exceeded the requirements for their jobs. We also noted that one employee has unlimited access to the system.

Recommendation: The College should ensure that each employee is assigned the minimum access rights needed to perform his or her job and assigned duties are appropriately segregated. If it is not practical to completely segregate duties, then the College should implement effective monitoring controls designed to detect errors or inappropriate activity.

College's Response: McDowell Technical Community College recognizes and agrees with the Auditor's findings in dealing with inappropriate information system access. The College will evaluate and implement changes to the access rights of the Business Office staff to strengthen and improve the segregation of duties and internal controls.

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