



STATE OF NORTH CAROLINA

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

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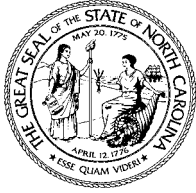
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

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

We have completed a financial statement audit of Montgomery 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 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.

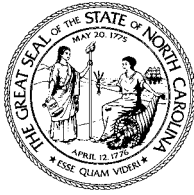
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

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

Beth A. Wood, CPA
State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the accompanying financial statements of Montgomery Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Montgomery Community College Foundation, Inc., the College's discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditors.

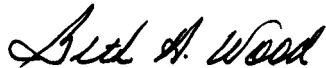
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Montgomery Community College and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 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, CPA
State Auditor

February 15, 2012

MONTGOMERY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements and Financial Analysis

This section of Montgomery Community College's Financial Statements present the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2011 with comparative amounts at June 30, 2010. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

Financial Statement Presentation

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

Statement of Net Assets

The Statement of Net Assets (SNA) presents assets, liabilities and net assets of the College at a point in time for the fiscal year ended June 30, 2011. From the data presented, readers of the SNA are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, the SNA provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>
Assets			
Current Assets	\$ 913,385.81	\$ 816,417.24	\$ 96,968.57
Capital Assets	7,914,753.35	7,921,145.20	(6,391.85)
Other Assets	<u>37,011.14</u>	<u>67,386.02</u>	<u>(30,374.88)</u>
Total Assets	<u>8,865,150.30</u>	<u>8,804,948.46</u>	<u>60,201.84</u>
Liabilities			
Current Liabilities	267,085.59	244,490.23	22,595.36
Noncurrent Liabilities	<u>272,279.53</u>	<u>288,706.48</u>	<u>(16,426.95)</u>
Total Assets	<u>539,365.12</u>	<u>533,196.71</u>	<u>6,168.41</u>
Net Assets			
Invested in Capital Assets	7,914,753.35	7,921,145.20	(6,391.85)
Restricted	197,344.00	190,916.53	6,427.47
Unrestricted	<u>213,687.83</u>	<u>159,690.02</u>	<u>53,997.81</u>
Total Assets	<u>\$ 8,325,785.18</u>	<u>\$ 8,271,751.75</u>	<u>\$ 54,033.43</u>

As seen in the comparison of current year and prior fiscal year information, current assets increased due to the increase in accounts receivable for a new energy grant. The increase in unrestricted net assets is due to an increase in rent from the JobLink Center, which pays monthly rent to the College for the space that they occupy on campus.

Statement of Revenues, Expenses and Changes in Net Assets

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

Generally, operating revenues are received to provide goods and services for the College. Operating expenses are expenses paid to acquire or produce those goods and services that carry out the mission of the College for which operating revenue are received. Nonoperating revenues are revenues received for which goods and services are not provided. State aid and county appropriations are considered nonoperating because no goods or services are provided in return.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	June 30, 2011	June 30, 2010 restated	Variance
Operating Revenue			
Student Tuition and Fees, Net	\$ 642,418.73	\$ 647,835.45	\$ (5,416.72)
Sales and Services	72,498.72	48,773.48	23,725.24
Other Operating Revenue	443.45	101.30	342.15
Total Operating Revenue	<u>715,360.90</u>	<u>696,710.23</u>	<u>18,650.67</u>
Nonoperating Revenue			
State Aid	5,178,796.17	5,364,550.15	(185,753.98)
County Appropriations	776,796.75	818,983.86	(42,187.11)
Noncapital Grants - Federal Student Financial Aid	2,086,808.37	1,708,852.19	377,956.18
Noncapital Grants	381,753.11	502,904.70	(121,151.59)
Noncapital Gifts	94,485.93	63,937.10	30,548.83
Investment Income	2,015.62	3,423.03	(1,407.41)
Total Nonoperating Revenue	<u>8,520,655.95</u>	<u>8,462,651.03</u>	<u>58,004.92</u>
Total Revenue	<u>9,236,016.85</u>	<u>9,159,361.26</u>	<u>76,655.59</u>
Operating Expenses			
Salaries and Benefits	6,253,987.44	6,278,831.20	(24,843.76)
Supplies and Materials	800,916.29	712,107.52	88,808.77
Services	449,921.46	513,897.55	(63,976.09)
Scholarships and Fellowships	1,691,345.70	1,533,347.17	157,998.53
Utilities	189,271.91	230,842.95	(41,571.04)
Depreciation	382,214.03	374,456.46	7,757.57
Total Operating Expenses	<u>9,767,656.83</u>	<u>9,643,482.85</u>	<u>124,173.98</u>
Loss Before Other Revenues	(531,639.98)	(484,121.59)	(47,518.39)
Capital Contribution	585,673.41	408,582.33	177,091.08
Increase (Decrease) in Net Assets	54,033.43	(75,539.26)	129,572.69
Net Assets, Beginning	8,271,751.75	8,347,291.01	(75,539.26)
Net Assets, Ending	<u>\$ 8,325,785.18</u>	<u>\$ 8,271,751.75</u>	<u>\$ 54,033.43</u>

As shown above, the College's financial operations in 2011 were very similar to 2010 except for the increase in Noncapital Grants related to federal student financial aid. This increase was due to an increase in total Pell awards of \$381,083 in 2011.

Capital Assets

Montgomery Community College is constantly updating equipment and renovating educational areas to better serve its students. The Gunsmithing classroom and workshop area has been expanded and updated to serve more students. The College is also the recipient of an energy ARRA grant through the Department of Energy. A portion of the grant renovation was completed in the fiscal year 2010-2011, and the remainder will be completed during the fiscal year 2011-2012. The purpose of this grant is to upgrade our infrastructure to be more cost efficient.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Economic Outlook

Montgomery Community College has taken necessary steps to prepare for anticipated funding shortfalls from the state and county. While these measures have included reductions in force, evaluating programs offered, leaving vacant positions unfilled, and placing restrictions on purchasing and travel, the College has worked to ensure that the results of budget cuts will not negatively impact instruction in the classroom or the quality of its educational product. The College expects to maintain a steady enrollment pattern and does not anticipate that budget cuts will jeopardize the overall financial position of the College.

Montgomery Community College
Statement of Net Assets
June 30, 2011

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 404,298.19
Restricted Cash and Cash Equivalents	218,110.93
Receivables, Net (Note 3)	131,371.79
Inventories	159,604.90

Total Current Assets	913,385.81
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	16,335.43
Restricted Due from Primary Government	20,675.71
Capital Assets - Nondepreciable (Note 4)	730,545.40
Capital Assets - Depreciable, Net (Note 4)	7,184,207.95

Total Noncurrent Assets	7,951,764.49
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Total Assets	8,865,150.30
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LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	162,429.34
Unearned Revenue	17,709.88
Funds Held for Others	38,217.26
Long-Term Liabilities - Current Portion (Note 6)	48,729.11

Total Current Liabilities	267,085.59
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Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	272,279.53
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Total Liabilities	539,365.12
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NET ASSETS

Invested in Capital Assets	7,914,753.35
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Restricted for:

Expendable:

Capital Projects	19,419.14
Restricted for Specific Programs	144,684.59
Other	33,240.27

Unrestricted	213,687.83
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Total Net Assets	\$ 8,325,785.18
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The accompanying notes to the financial statements are an integral part of this statement.

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

Exhibit A-2

REVENUES

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 642,418.73
Sales and Services (Note 7)	72,498.72
Other Operating Revenues	443.45
	<hr/>
Total Operating Revenues	715,360.90
	<hr/>

EXPENSES

Operating Expenses:	
Salaries and Benefits	6,253,987.44
Supplies and Materials	800,916.29
Services	449,921.46
Scholarships and Fellowships	1,691,345.70
Utilities	189,271.91
Depreciation	382,214.03
	<hr/>
Total Operating Expenses	9,767,656.83
	<hr/>
Operating Loss	(9,052,295.93)
	<hr/>

NONOPERATING REVENUES

State Aid	5,178,796.17
County Appropriations	776,796.75
Noncapital Grants - Federal Student Financial Aid	2,086,808.37
Noncapital Grants	381,753.11
Noncapital Gifts	94,485.93
Investment Income	2,015.62
	<hr/>
Nonoperating Revenues	8,520,655.95
	<hr/>
Loss Before Other Revenues	(531,639.98)
	<hr/>

State Capital Aid	387,120.16
County Capital Aid	17,203.25
Capital Grants	171,513.00
Capital Gifts	9,837.00
	<hr/>
Increase in Net Assets	54,033.43

NET ASSETS

Net Assets, July 1, 2010	<hr/> 8,271,751.75
Net Assets, June 30, 2011	<hr/> \$ 8,325,785.18
	<hr/>

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

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 719,064.63
Payments to Employees and Fringe Benefits	(6,241,221.43)
Payments to Vendors and Suppliers	(1,510,435.92)
Payments for Scholarships and Fellowships	(1,691,345.70)
Other Receipts	3,090.98
	<hr/>
Net Cash Used by Operating Activities	(8,720,847.44)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,178,796.17
County Appropriations	776,796.75
Noncapital Grants - Federal Student Financial Aid	2,086,808.37
Noncapital Grants Received	381,753.11
Noncapital Gifts Received	94,485.93
	<hr/>
Cash Provided by Noncapital Financing Activities	8,518,640.33

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Capital Aid Received	399,868.37
County Capital Aid	17,203.25
Capital Grants Received	98,428.80
Capital Gifts Received	9,837.00
Proceeds from Sale of Capital Assets	3,569.31
Acquisition and Construction of Capital Assets	(380,051.21)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	148,855.52

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	2,015.62
	<hr/>
Cash Provided by Investing Activities	2,015.62

Net Decrease in Cash and Cash Equivalents	(51,335.97)
Cash and Cash Equivalents, July 1, 2010	690,080.52
	<hr/>
Cash and Cash Equivalents, June 30, 2011	\$ 638,744.55

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2011

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (9,052,295.93)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	382,214.03
Changes in Assets and Liabilities:	
Receivables, Net	1,128.39
Inventories	(58,062.34)
Accounts Payable and Accrued Liabilities	28,890.15
Unearned Revenue	2,575.34
Funds Held for Others	3,090.98
Compensated Absences	(28,388.06)
Net Cash Used by Operating Activities	<u>\$ (8,720,847.44)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 404,298.19
Restricted Cash and Cash Equivalents	218,110.93
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>16,335.43</u>
Total Cash and Cash Equivalents - June 30, 2011	<u>\$ 638,744.55</u>

NONCASH CAPITAL ACTIVITIES

Loss on Disposal of Capital Assets	\$ 659.72
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The accompanying notes to the financial statements are an integral part of this statement.

Montgomery Community College Foundation, Inc.
Statement of Financial Position
June 30, 2011

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	250,540
Investments Held by Fiscal Agent		2,145,059
Pledges Receivable		39,965
		<hr/>
Total Assets		2,435,564
		<hr/>

LIABILITIES

Accounts Payable		0
		<hr/>
Total Liabilities		0
		<hr/>

NET ASSETS

Unrestricted		55,079
Temporarily Restricted		196,461
Permanently Restricted		2,184,024
		<hr/>
Total Net Assets	\$	2,435,564
		<hr/> <hr/>

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

Montgomery Community College Foundation, Inc.
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Exhibit B-2

CHANGES IN UNRESTRICTED NET ASSETS

Revenues and Gains:	
Fundraising Events	\$ 48,309
Transfers	24,379
Other Income	539
	<hr/>
Total Unrestricted Revenues and Gains	73,227
	<hr/>
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	126,923
	<hr/>
Total Unrestricted Revenues, Gains, and Other Support	200,150
	<hr/>
Expenses and Losses:	
Scholarships	40,419
Support of Various College Programs	101,414
Management and General	29,239
Fund Raising	16,687
	<hr/>
Total Expenses	187,759
	<hr/>
Increase in Unrestricted Net Assets	12,391
	<hr/>

CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	115,845
Refund of Expense	12,934
Other Income	2,064
Net Assets Released from Restrictions:	
Satisfaction of Program Restrictions	(126,923)
	<hr/>
Increase in Temporarily Restricted Net Assets	3,920
	<hr/>

CHANGES IN PERMANENTLY RESTRICTED NET ASSETS

Contributions	65,412
Income Earned on Investments	33,301
Net Realized and Unrealized Gains on Long-Term Investments	305,396
Transfers	(24,379)
	<hr/>
Increase in Permanently Restricted Net Assets	379,730
	<hr/>
Increase in Net Assets	396,041
Net Assets at Beginning of Year	2,039,523
	<hr/>
Net Assets at End of Year	<u>\$ 2,435,564</u>

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

MONTGOMERY COMMUNITY COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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

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

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

The Montgomery Community College Foundation, Inc. is a private not-for-profit organization that reports its financial results under Financial Accounting Standards Board (FASB) Statements. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

been made to the Foundation's financial information in the College's financial reporting entity for these differences.

During the year ended June 30, 2011, the Foundation distributed \$145,732 to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Montgomery Community College Business Office, 1011 Page Street, Troy, NC 27371, or by calling (910) 576-6222.

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

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

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

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

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

- D. Cash and Cash Equivalents** - This classification includes undeposited receipts, petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, State and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, fuel oil held for consumption, and merchandise for resale, are valued at cost using the first-in, first-out method.
- G. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

The College capitalizes assets that have a value or cost 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 10 to 75 years for general infrastructure, 10 to 50 years for buildings, and 2 to 25 years for equipment.

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

- H. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets and resources whose use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

L. Scholarship Discounts - Student tuition and fees revenues are reported net of scholarship discounts in the accompanying Statement of Revenues,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 and fees, the College has recorded a scholarship discount.

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2011 was \$500.00. The carrying amount of the College's deposits not with the State Treasurer was \$456,908.11, and the bank balance was \$646,428.64.

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.

At June 30, 2011, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$181,336.44, which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.9 years as of June 30, 2011. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Foundation's Pooled Investments Held by Fiscal Agent

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

All investments are valued in the financial statements at fair value based on publicly available trading values. The fair value of the investments held by the fiscal agent at June 30, 2011, was as follows:

Investment	Cost	Fair Value	Carrying Value
First Citizens Equity Fund	\$ 800,310	\$ 1,034,326	\$ 1,034,326
First Citizens Income Fund	1,040,908	1,043,216	1,043,216
First Citizens Cash & Equivalents Fund	67,517	67,517	67,517
Total			<u>\$ 2,145,059</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and Dividends	\$ 0	\$ 0	\$ 33,301	\$ 33,301
Net Realized and Unrealized Gains (Losses) on Investments			305,396	<u>305,396</u>
Total Investments				<u>\$ 338,697</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Reconciliation of College's Deposits and Investments

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

Cash on Hand	\$	500.00
Carrying Amount of Deposits with Private Financial Institutions		456,908.11
Investments in the Short-Term Investment Fund		<u>181,336.44</u>
Total Deposits and Investments	\$	<u><u>638,744.55</u></u>
Current:		
Cash and Cash Equivalents	\$	404,298.19
Restricted Cash and Cash Equivalents		218,110.93
Noncurrent:		
Restricted Cash and Cash Equivalents		<u>16,335.43</u>
Total	\$	<u><u>638,744.55</u></u>

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 66,444.28	\$ 13,263.99	\$ 53,180.29
Intergovernmental	74,701.92		74,701.92
Other	<u>3,489.58</u>		<u>3,489.58</u>
Total Current Receivables	<u><u>\$ 144,635.78</u></u>	<u><u>\$ 13,263.99</u></u>	<u><u>\$ 131,371.79</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 442,186.24	\$ 0.00	\$ 0.00	\$ 442,186.24
Art, Literature, and Artifacts	74,744.16			74,744.16
Construction in Progress		213,615.00		213,615.00
Total Capital Assets, Nondepreciable	<u>516,930.40</u>	<u>213,615.00</u>		<u>730,545.40</u>
Capital Assets, Depreciable:				
Buildings	9,460,052.64			9,460,052.64
Machinery and Equipment	1,980,136.30	158,561.21	18,830.89	2,119,866.62
General Infrastructure	231,735.03	7,875.00		239,610.03
Total Capital Assets, Depreciable	<u>11,671,923.97</u>	<u>166,436.21</u>	<u>18,830.89</u>	<u>11,819,529.29</u>
Less Accumulated Depreciation for:				
Buildings	3,179,858.76	191,986.44		3,371,845.20
Machinery and Equipment	1,018,555.52	184,192.74	14,601.86	1,188,146.40
General Infrastructure	69,294.89	6,034.85		75,329.74
Total Accumulated Depreciation	<u>4,267,709.17</u>	<u>382,214.03</u>	<u>14,601.86</u>	<u>4,635,321.34</u>
Total Capital Assets, Depreciable, Net	<u>7,404,214.80</u>	<u>(215,777.82)</u>	<u>4,229.03</u>	<u>7,184,207.95</u>
Capital Assets, Net	<u>\$ 7,921,145.20</u>	<u>\$ (2,162.82)</u>	<u>\$ 4,229.03</u>	<u>\$ 7,914,753.35</u>

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	Amount
Accounts Payable	\$ 30,421.24
Accrued Payroll	126,030.73
Intergovernmental Payables	4,477.37
Other	1,500.00
Total Accounts Payable and Accrued Liabilities	<u>\$ 162,429.34</u>

NOTE 6 - LONG-TERM LIABILITIES

Changes in 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	<u>\$ 349,396.70</u>	<u>\$ 187,996.01</u>	<u>\$ 216,384.07</u>	<u>\$ 321,008.64</u>	<u>\$ 48,729.11</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - 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	\$ 1,289,136.99	\$ 633,454.27	\$ 13,263.99	\$ 642,418.73
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Vending	\$ 8,800.59	\$ 0.00	\$ 0.00	\$ 8,800.59
Bookstore Vending	14,853.66			14,853.66
Sales and Services of Education and Related Activities	48,844.47			48,844.47
Total Sales and Services	\$ 72,498.72	\$ 0.00	\$ 0.00	\$ 72,498.72

NOTE 8 - 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	\$ 3,733,307.54	\$ 491,768.18	\$ 147,091.46	\$ 8,006.00	\$ 0.00	\$ 0.00	\$ 4,380,173.18
Academic Support	492,161.34	50,812.91	22,519.64				565,493.89
Student Services	478,074.44	17,663.07	44,560.25	21,788.76			562,086.52
Institutional Support	1,246,632.31	111,276.03	142,765.18				1,500,673.52
Operations & Maint of Plant	294,665.94	97,683.02	83,732.87		189,271.91		665,353.74
Student Financial Aid				1,661,550.94			1,661,550.94
Auxiliary Enterprises	9,145.87	31,713.08	9,252.06				50,111.01
Depreciation						382,214.03	382,214.03
Total Operating Expenses	\$ 6,253,987.44	\$ 800,916.29	\$ 449,921.46	\$ 1,691,345.70	\$ 189,271.91	\$ 382,214.03	\$ 9,767,656.83

NOTE 9 - 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes* 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 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 \$5,023,601.28, of which \$4,084,604.45 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$201,371.00 and \$245,076.27, 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 \$201,371.00, \$153,590.79, and \$148,677.56, 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. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

College. The voluntary contributions by employees amounted to \$26,220 for the year ended June 30, 2011.

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 \$18,999 for the year ended June 30, 2011.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. There were no voluntary contributions by employees for the year ended June 30, 2011.

NOTE 10 - 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$200,145.62, \$193,601.83, and \$181,422.03, 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. Required contribution rates for the years ended June 30, 2010, and 2009, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2011, 2010, and 2009, which were \$21,239.94, \$22,371.77, and \$23,009.62, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

NOTE 11 - 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.

Risk for tort claims of up to \$1,000,000 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

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

loss less a \$75,000 deductible. Losses from employees paid from county or institutional funds are covered by private insurance companies.

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

College employees and retirees are provided comprehensive major medical care benefits. Coverage is funded by contributions to the State Health Plan (Plan), a 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.

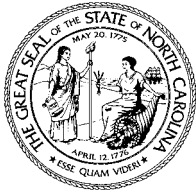
Term life insurance (death benefits) of \$25,000 to \$50,000 is provided to eligible workers. This Death Benefit Plan is administered by the State Treasurer and funded via employer contributions. The employer contribution rate was .16% for the current fiscal year.

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 12 - 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 \$23,735 at June 30, 2011.

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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Trustees
Montgomery Community College
Troy, North Carolina

We have audited the financial statements of Montgomery Community College, a component unit of the State of North Carolina, and its discretely presented component unit, as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements and have issued our report thereon dated February 15, 2012. Our report was modified to include a reference to other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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)**

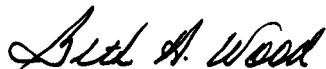
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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.

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 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, CPA
State Auditor

February 15, 2012

AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by Montgomery Community College contained misstatements and misclassifications that were corrected as a result of our audit, which indicates that the College's internal control over financial reporting was not effective. Without our corrections, the financial statements could have been misleading to readers. Misstatements noted during our audit included:

- a. The College utilized an incomplete computer-generated report to calculate the scholarship discount. As a result, the student tuition and fees revenue and the scholarships and fellowships expense accounts were overstated by approximately \$76,200.
- b. The College recognized revenue from an energy grant that was not earned as of the fiscal year-end. As a result, capital gifts and current receivables were overstated by approximately \$41,300.
- c. The College incorrectly reported a payable for renovation costs that were committed but not incurred as of year-end and the related expenditures were incorrectly capitalized as construction in progress. As a result, the capital assets and accounts payable accounts were overstated by approximately \$23,700, and outstanding commitments on construction contracts for that same amount were not disclosed in the notes to the financial statements.
- d. There were various misclassifications within the statement of cash flows. The reported net cash used by operating activities was understated by approximately \$73,000 and net cash provided by capital and related financing activities was overstated by the same amount.
- e. The College overstated the total employer contributions for pension benefits in the pension plans note by approximately \$227,900.

In addition, we identified that the College does not have controls in place over the establishment of new accounts within the accounting system. Although, no adjustments were identified during our audit as a result of this specific control deficiency, in the absence of controls there is an increased risk that accounts could be improperly classified in the financial statements.

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. In addition, the College should implement controls over the establishment of new accounts.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

College Response: The College will proof the year-end financial statements and have more than one person review reports to ensure completeness and accuracy of the financial statements. Reviews will be completed by the accountant and Vice President of Administrative Services.

The College has implemented procedures to complete and file a fund authority form along with backup when establishing a new account in institutional funds.

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