



STATE OF NORTH CAROLINA

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

A Component Unit of the State of North Carolina

MONTGOMERY COMMUNITY COLLEGE

TROY, NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

STATE BOARD OF COMMUNITY COLLEGES

THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

DR. R. SCOTT RALLS, PRESIDENT

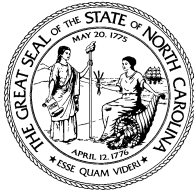
BOARD OF TRUSTEES

GELYNDA T. CAPEL, CHAIRMAN

ADMINISTRATIVE OFFICERS

DR. MARY KIRK, PRESIDENT

MAMIE MANESS, INTERIM VICE PRESIDENT OF ADMINISTRATIVE SERVICES



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, 2012, 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.

The results of our tests disclosed no deficiencies in internal control over financial reporting that we consider to be material weaknesses in relation to our audit scope or any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
College Exhibits	
A-1 Statement of Net Assets	7
A-2 Statement of Revenues, Expenses, and Changes in Net Assets	8
A-3 Statement of Cash Flows	9
Component Unit Exhibits	
B-1 Statement of Financial Position	11
B-2 Statement of Activities	12
Notes to the Financial Statements	13
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 <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	29
ORDERING INFORMATION	31



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

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, 2012, 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 that entity, are based on the report of the other auditors.

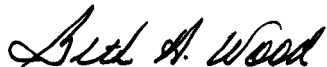
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2012, 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 December 14, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. However, we do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Beth A. Wood, CPA
State Auditor

December 14, 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 presents the Management's Discussion and Analysis of the College's financial activity during the fiscal year ended June 30, 2012 with comparative amounts at June 30, 2011. Since this 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 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, 2012. 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, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>
Assets			
Current Assets	\$ 956,491.70	\$ 913,385.81	\$ 43,105.89
Capital Assets	7,988,618.44	7,914,753.35	73,865.09
Other Assets	30,185.81	37,011.14	-6,825.33
Total Assets	<u>8,975,295.95</u>	<u>8,865,150.30</u>	<u>110,145.65</u>
Liabilities			
Current Liabilities	294,534.66	267,085.59	27,449.07
Noncurrent Liabilities	281,785.94	272,279.53	9,506.41
Total Liabilities	<u>576,320.60</u>	<u>539,365.12</u>	<u>36,955.48</u>
Net Assets			
Invested in Capital Assets	7,988,618.44	7,914,753.35	73,865.09
Restricted	246,653.71	197,344.00	49,309.71
Unrestricted	163,703.20	213,687.83	-49,984.63
Total Net Assets	<u>\$ 8,398,975.35</u>	<u>\$ 8,325,785.18</u>	<u>\$ 73,190.17</u>

As shown above, the College's financial operations in 2012 were similar to 2011. Capital assets increased due to expenditures from an energy grant that were capitalized as infrastructure.

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, 2012	June 30, 2011	Variance
Operating Revenue			
Student Tuition and Fees	\$ 718,397.25	\$ 642,418.73	\$ 75,978.52
Sales and Services, Net	122,770.86	72,498.72	50,272.14
Other Operating Revenue	225.00	443.45	(218.45)
Total Operating Revenue	841,393.11	715,360.90	126,032.21
Nonoperating Revenue (Expenses)			
State Aid	5,141,657.21	5,178,796.17	(37,138.96)
County Appropriations	760,246.38	776,796.75	(16,550.37)
Noncapital Grants - Student Financial Aid	2,032,953.31	2,086,808.37	(53,855.06)
Noncapital Grants	120,411.44	381,753.11	(261,341.67)
Noncapital Gifts	71,669.38	94,485.93	(22,816.55)
Investment Income	1,672.52	2,015.62	(343.10)
Other Nonoperating Expenses	(11,007.51)	0.00	(11,007.51)
Total Nonoperating Revenue	8,117,602.73	8,520,655.95	(403,053.22)
Total Revenue	8,958,995.84	9,236,016.85	(277,021.01)
Operating Expenses			
Salaries and Benefits	6,439,485.26	6,253,987.44	185,497.82
Supplies and Materials	503,843.36	800,916.29	(297,072.93)
Services	448,161.10	449,921.46	(1,760.36)
Scholarships and Fellowships	1,378,519.63	1,691,345.70	(312,826.07)
Utilities	256,445.19	189,271.91	67,173.28
Depreciation	381,771.93	382,214.03	(442.10)
Total Operating Expenses	9,408,226.47	9,767,656.83	(359,430.36)
Loss Before Other Revenues	(449,230.63)	(531,639.98)	82,409.35
Capital Contribution	522,420.80	585,673.41	(63,252.61)
Increase in Net Assets	73,190.17	54,033.43	19,156.74
Net Assets, Beginning	8,325,785.18	8,271,751.75	54,033.43
Net Assets, Ending	\$ 8,398,975.35	\$ 8,325,785.18	\$ 73,190.17

As shown above, the College's financial operations in 2012 were very similar to 2011 except for the decrease in noncapital grants revenue related to federal financial aid. This decrease was due to a decrease in federal grants that are passed through the State such as Basic Skills. Scholarships and fellowships also decreased due to decreases in federal programs. There was an increase in the tuition rate charged to students which caused an increase in student tuition and fees; however, enrollment remained flat.

The expense for supplies and materials decreased because the College had less equipment dollars than the prior year and was allowed to use some equipment dollars as part of the budget reversions. There was also a decrease in regular supply spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)

Capital Assets

Montgomery Community College is constantly updating equipment and renovating educational areas to better serve its students. The Biology classroom has been updated with new equipment and facility renovations to better serve students. The College also renovated a classroom/workshop to allow HVAC classes to be taught. The College also transferred from construction in progress to infrastructure for lighting enhancements throughout the College.

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.

Montgomery Community College
Statement of Net Assets
June 30, 2012

Exhibit A-1

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 370,721.12
Restricted Cash and Cash Equivalents	267,831.61
Receivables, Net (Note 3)	165,727.97
Inventories	152,211.00

Total Current Assets	956,491.70
----------------------	------------

Noncurrent Assets:

Restricted Cash and Cash Equivalents	9,510.10
Restricted Due from Primary Government	20,675.71
Capital Assets - Nondepreciable (Note 4)	516,930.40
Capital Assets - Depreciable, Net (Note 4)	7,471,688.04

Total Noncurrent Assets	8,018,804.25
-------------------------	--------------

Total Assets	8,975,295.95
--------------	--------------

LIABILITIES

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	196,664.12
Unearned Revenue	22,185.24
Funds Held for Others	36,859.19
Long-Term Liabilities - Current Portion (Note 6)	38,826.11

Total Current Liabilities	294,534.66
---------------------------	------------

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	281,785.94
--------------------------------	------------

Total Liabilities	576,320.60
-------------------	------------

NET ASSETS

Invested in Capital Assets	7,988,618.44
----------------------------	--------------

Expendable:

Capital Projects	30,185.81
Restricted for Specific Programs	163,287.23
Other	53,180.67

Unrestricted	163,703.20
--------------	------------

Total Net Assets	\$ 8,398,975.35
------------------	-----------------

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, 2012

Exhibit A-2

REVENUES

Operating Revenues:

Student Tuition and Fees, Net (Note 7)	\$ 718,397.25
Sales and Services, Net (Note 7)	122,770.86
Other Operating Revenues	225.00

Total Operating Revenues	<u>841,393.11</u>
--------------------------	-------------------

EXPENSES

Operating Expenses:

Salaries and Benefits	6,439,485.26
Supplies and Materials	503,843.36
Services	448,161.10
Scholarships and Fellowships	1,378,519.63
Utilities	256,445.19
Depreciation	381,771.93

Total Operating Expenses	<u>9,408,226.47</u>
--------------------------	---------------------

Operating Loss	<u>(8,566,833.36)</u>
----------------	-----------------------

NONOPERATING REVENUES (EXPENSES)

State Aid	5,141,657.21
County Appropriations	760,246.38
Noncapital Grants - Student Financial Aid	2,032,953.31
Noncapital Grants	120,411.44
Noncapital Gifts	71,669.38
Investment Income	1,672.52
Other Nonoperating Expenses	(11,007.51)

Net Nonoperating Revenues	<u>8,117,602.73</u>
---------------------------	---------------------

Loss Before Other Revenues	(449,230.63)
----------------------------	--------------

State Capital Aid	209,790.34
County Capital Aid	5,420.96
Capital Grants	229,555.40
Capital Gifts	77,654.10

Increase in Net Assets	73,190.17
------------------------	-----------

NET ASSETS

Net Assets, July 1, 2011	<u>8,325,785.18</u>
--------------------------	---------------------

Net Assets, June 30, 2012	<u>\$ 8,398,975.35</u>
---------------------------	------------------------

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, 2012

Exhibit A-3
Page 1 of 2

CASH FLOWS FROM OPERATING ACTIVITIES

Received from Customers	\$ 811,512.29
Payments to Employees and Fringe Benefits	(6,439,881.85)
Payments to Vendors and Suppliers	(1,166,820.97)
Payments for Scholarships and Fellowships	(1,378,519.63)
Other Payments	(6,913.07)
	<hr/>
Net Cash Used by Operating Activities	(8,180,623.23)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Aid Received	5,141,657.21
County Appropriations	760,246.38
Noncapital Grants - Student Financial Aid	2,032,953.31
Noncapital Grants Received	120,411.44
Noncapital Gifts Received	71,669.38
	<hr/>
Net Cash Provided by Noncapital Financing Activities	8,126,937.72

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

State Capital Aid Received	209,790.34
County Capital Aid	5,420.96
Capital Grants Received	229,555.40
Capital Gifts Received	77,654.10
Proceeds from Sale of Capital Assets	951.89
Acquisition and Construction of Capital Assets	(462,041.42)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	61,331.27

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	1,672.52
	<hr/>
Net Cash Provided by Investing Activities	1,672.52

Net Increase in Cash and Cash Equivalents	9,318.28
Cash and Cash Equivalents, July 1, 2011	638,744.55
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 648,062.83

Montgomery Community College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2012

Exhibit A-3
Page 2 of 2

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

Operating Loss	\$ (8,566,833.36)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	381,771.93
Miscellaneous Nonoperating Expense	(5,555.00)
Changes in Assets and Liabilities:	
Receivables, Net	(34,356.18)
Inventories	7,393.90
Accounts Payable and Accrued Liabilities	34,234.78
Unearned Revenue	4,475.36
Funds Held for Others	(1,358.07)
Compensated Absences	(396.59)
Net Cash Used by Operating Activities	<u><u>\$ (8,180,623.23)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Current Assets:	
Cash and Cash Equivalents	\$ 370,721.12
Restricted Cash and Cash Equivalents	267,831.61
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>9,510.10</u>
Total Cash and Cash Equivalents - June 30, 2012	<u><u>\$ 648,062.83</u></u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Loss on Disposal of Capital Assets	\$ 5,452.51
------------------------------------	-------------

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, 2012

Exhibit B-1

ASSETS

Cash and Cash Equivalents	\$	320,410
Investments Held by Fiscal Agent		2,146,684
Pledges Receivable		<u>58,590</u>
Total Assets		<u>2,525,684</u>

NET ASSETS

Unrestricted		30,168
Temporarily Restricted		299,028
Permanently Restricted		<u>2,196,488</u>
Total Net Assets	\$	<u><u>2,525,684</u></u>

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, 2012

Exhibit B-2

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support, Revenues and Reclassifications				
Contributions	\$ 0	\$ 218,103	\$ 64,759	\$ 282,862
Fundraising Events	51,189			51,189
Income Earned on Investments			34,942	34,942
Net Realized and Unrealized Losses on Investments			(44,770)	(44,770)
Transfers	42,467		(42,467)	0
Other Income	1,640	1,501		3,141
Net Assets Released From Restrictions:				
Satisfaction of Program Restrictions	117,037	(117,037)		0
Total Public Support, Revenues and Reclassifications	212,333	102,567	12,464	327,364
Expenses				
Contributions to Montgomery Community College for:				
Scholarships	58,647	0	0	58,647
Support of various College Programs	99,784			99,784
Fundraising	15,412			15,412
Management and General	63,401			63,401
Total Expenses	237,244	0	0	237,244
Change in Net Assets	(24,911)	102,567	12,464	90,120
Net Assets as of Beginning of Year	55,079	196,461	2,184,024	2,435,564
Net Assets as of End of Year	<u>\$ 30,168</u>	<u>\$ 299,028</u>	<u>\$ 2,196,488</u>	<u>\$ 2,525,684</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, 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Discretely Presented Component Unit – Montgomery Community College Foundation, Inc. (Foundation) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

During the year ended June 30, 2012, the Foundation distributed \$158,431 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 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 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, include state appropriations, certain grants, and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- D. Cash and Cash Equivalents** - This classification includes petty cash, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.
- E. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** - Inventories, consisting of expendable supplies, 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 75 years for general infrastructure, 25 to 50 years for buildings, and 5 to 36 years for equipment.

The pottery collection is capitalized at cost or 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, 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 and certain other revenues from College charges are reported net of scholarship

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

The College is required by *North Carolina General Statute 147-77* to deposit any funds collected or received that belong to the state of North Carolina with the State Treasurer or with a depository institution in the name of the State Treasurer. All funds of the College, other than those required to be deposited with the State Treasurer, are deposited in board-designated official depositories

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$500.00, and deposits in private financial institutions with a carrying value of \$464,781.30 and a bank balance of \$485,494.17.

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, 2012, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

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 any form of investment established or managed by certain investment advisors pursuant to G.S. 115D-58.6 (d1) or 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, 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.

At June 30, 2012, the amount shown on the Statement of Net Assets as cash and cash equivalents includes \$182,781.53 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund. The

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.5 years as of June 30, 2012. 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) 707-0500.

A reconciliation of deposits and investments for the College to the basic financial statements as of June 30, 2012, is as follows:

Cash on Hand	\$ 500.00
Carrying Amount of Deposits with Private Financial Institutions	464,781.30
Investments in the Short-Term Investment Fund	<u>182,781.53</u>
Total Deposits and Investments	<u>\$ 648,062.83</u>
Current:	
Cash and Cash Equivalents	\$ 370,721.12
Restricted Cash and Cash Equivalents	267,831.61
Noncurrent:	
Restricted Cash and Cash Equivalents	<u>9,510.10</u>
Total	<u>\$ 648,062.83</u>

Component Unit - Investments of the College's discretely presented component units, the Montgomery Community College Foundation, Inc. are subject to and restricted by G.S. 36E "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) and any requirements placed on them by contract or donor agreements. Because the Foundation reports under the FASB reporting model, disclosures of the various investment risks are not required. The following is an analysis of investments by type:

Investment Type	<u>Fair Fair Value</u>
Cash and Cash Equivalents	\$ 62,525
Equity Mutual Funds	1,026,901
Fixed Income Funds	<u>1,057,258</u>
Total Investments Held by Fiscal Agent	<u>\$ 2,146,684</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 117,843.01	\$ 28,367.19	\$ 89,475.82
Student Sponsors	11,594.61		11,594.61
Intergovernmental	727.54		727.54
Due From Private Grantors	63,266.60		63,266.60
Other	663.40		663.40
Total Current Receivables	<u>\$ 194,095.16</u>	<u>\$ 28,367.19</u>	<u>\$ 165,727.97</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 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	0.00
Total Capital Assets, Nondepreciable	<u>730,545.40</u>	<u>0.00</u>	<u>213,615.00</u>	<u>516,930.40</u>
Capital Assets, Depreciable:				
Buildings	9,460,052.64	89,726.60		9,549,779.24
Machinery and Equipment	2,119,866.62	60,271.72	35,870.13	2,144,268.21
General Infrastructure	239,610.03	525,658.10		765,268.13
Total Capital Assets, Depreciable	<u>11,819,529.29</u>	<u>675,656.42</u>	<u>35,870.13</u>	<u>12,459,315.58</u>
Less Accumulated Depreciation for:				
Buildings	3,371,845.20	194,496.15		3,566,341.35
Machinery and Equipment	1,188,146.40	172,756.02	29,465.73	1,331,436.69
General Infrastructure	75,329.74	14,519.76		89,849.50
Total Accumulated Depreciation	<u>4,635,321.34</u>	<u>381,771.93</u>	<u>29,465.73</u>	<u>4,987,627.54</u>
Total Capital Assets, Depreciable, Net	<u>7,184,207.95</u>	<u>293,884.49</u>	<u>6,404.40</u>	<u>7,471,688.04</u>
Capital Assets, Net	<u>\$ 7,914,753.35</u>	<u>\$ 293,884.49</u>	<u>\$ 220,019.40</u>	<u>\$ 7,988,618.44</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2012, were as follows:

	Amount
Accounts Payable	\$ 36,907.78
Accrued Payroll	156,798.83
Intergovernmental Payables	1,457.51
Other	1,500.00
Total Accounts Payable and Accrued Liabilities	\$ 196,664.12

NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities for the year ended June 30, 2012, is presented as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Current Portion
Compensated Absences	\$ 321,008.64	\$ 169,894.36	\$ 170,290.95	\$ 320,612.05	\$ 38,826.11

NOTE 7 - REVENUES

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

	Gross Revenues	Less Scholarship Discounts	Less Change in Allowance for Uncollectibles	Net Revenues
Operating Revenues:				
Student Tuition and Fees	\$ 1,447,645.60	\$ 714,145.15	\$ 15,103.20	\$ 718,397.25
Sales and Services:				
Sales and Services of Auxiliary Enterprises:				
Vending	\$ 8,361.22	\$ 0.00	\$ 0.00	\$ 8,361.22
Bookstore Vending	16,472.41			16,472.41
Café	54,908.23			54,908.23
Sales and Services of Education and Related Activities	43,029.00			43,029.00
Total Sales and Services	\$ 122,770.86	\$ 0.00	\$ 0.00	\$ 122,770.86

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 3,815,825.00	\$ 217,260.94	\$ 151,606.10	\$ 0.00	\$ 0.00	\$ 0.00	\$ 4,184,692.04
Academic Support	592,489.57	33,122.62	10,272.16				635,884.35
Student Services	473,754.86	12,933.08	40,076.03				526,763.97
Institutional Support	1,204,456.31	139,623.45	163,018.75				1,507,098.51
Operations and Maintenance of Plant	314,470.35	63,666.92	75,636.98		256,445.19		710,219.44
Student Financial Aid				1,378,519.63			1,378,519.63
Auxiliary Enterprises	38,489.17	37,236.35	7,551.08				83,276.60
Depreciation						381,771.93	381,771.93
Total Operating Expenses	<u>\$ 6,439,485.26</u>	<u>\$ 503,843.36</u>	<u>\$ 448,161.10</u>	<u>\$ 1,378,519.63</u>	<u>\$ 256,445.19</u>	<u>\$ 381,771.93</u>	<u>\$ 9,408,226.47</u>

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 (Plan) 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, 2012, these rates were set at 7.44% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$5,087,723.57, of which \$4,008,857.33 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$298,258.99 and \$240,531.74, respectively.

Required employer contribution rates for the years ended June 30, 2011, and 2010, were 4.93% and 3.57%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2012, 2011, and 2010, which were \$298,258.99, \$201,371.00, and \$153,590.79, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Teachers' and State Employees' Retirement System's financial information is included in the state of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

B. Deferred Compensation and Supplemental Retirement Income Plans

Internal Revenue Code Section 457 Plan - The state of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$21,020.00 for the year ended June 30, 2012.

Internal Revenue Code 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 \$19,409.00 for the year ended June 30, 2012.

Internal Revenue Code 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the College. There were no voluntary contributions by employees for the year ended June 30, 2012.

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 the State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees as authorized by Chapter 135, Article 3B, of the General Statutes. 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 State Treasurer and the Board of Trustees of the State Health Plan for Teachers and State Employees.

For the current fiscal year the College contributed 5.0% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2011, and 2010, were 4.9% and 4.5%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2012, 2011, and 2010, which were \$200,442.87, \$200,145.62, and \$193,601.83, respectively. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) 707-0500.

- 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, 2012, 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, 2011, and 2010, were .52% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$20,846.06, \$21,239.94, and \$22,371.77, 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 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (Fund), a state-administered public entity risk pool. The Fund is financed by premiums and interest collected through membership participation and retains a \$10 million deductible per occurrence. Reinsurance is purchased by the Fund to cover catastrophic events in excess of the \$10 million deductible. Membership insured 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. The College is protected for losses from employee dishonesty and computer fraud for employees paid from county and institutional funds through a policy with a private insurance company.

The College purchased a general liability policy with coverage of \$1,000,000 per occurrence and a general aggregate limit of \$3,000,000 and specific liability coverage for the rifle range with coverage limits of \$1,000,000 per occurrence and a general aggregate limit of \$2,000,000.

Malpractice insurance is provided for instructors and students in high risk programs (nursing, dental assisting, medical assisting, and phlebotomy). This insurance is provided through a private insurance company with coverage of \$1,000,000 per occurrence and no 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.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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.

[This Page Left Blank Intentionally]



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, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 14, 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. Other auditors audited the financial statements of Montgomery Community College Foundation, Inc., the discretely presented component unit, as described in our report on the College's financial statements. The financial statements of Montgomery Community College Foundation, Inc., the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

The College's management is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

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.

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*.

This report is intended solely for the information and use of management of the College, the 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

December 14, 2012

ORDERING INFORMATION

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

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647