



# STATE OF NORTH CAROLINA

**TRI-COUNTY COMMUNITY COLLEGE**

**MURPHY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**TRI-COUNTY COMMUNITY COLLEGE**

**MURPHY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**DR. R. SCOTT RALLS, PRESIDENT**

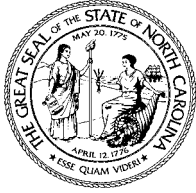
**BOARD OF TRUSTEES**

**LARRY KERNEA, CHAIRMAN**

**ADMINISTRATIVE OFFICERS**

**DR. DONNA TIPTON-ROGERS, PRESIDENT**

**BILL VESPASIAN, VICE PRESIDENT FOR BUSINESS AND FINANCE**



**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>

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Board of Trustees, Tri-County Community College

We have completed a financial statement audit of Tri-County Community College for the year ended June 30, 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

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State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying basic financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Tri-County Community College Foundation, Inc., which represent 4.1 percent, 4.5 percent, and 0.3 percent, respectively, of the assets, net assets, and revenues of the College. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is 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 Tri-County 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 opinion.


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 financial position of Tri-County Community College as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013 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

February 6, 2013

## TRI-COUNTY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Purpose**

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

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

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

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

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Total Assets

Total assets of the College increased by \$814,883.94 or 8.68%. The assets of the College are divided between current and noncurrent holdings. Current assets include cash, short-term certificates of deposit, receivables, inventories, and prepaid items. Current cash increased by \$203,477.30 or 17.15% as result of expense optimization and increased county funding. Inventories decreased by \$10,943.47 or 12.39% because supplies were depleted more extensively at year end.

### Current Assets

Current Assets	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
Cash	\$ 1,389,643.91	\$ 1,186,166.61	\$ 203,477.30	17.15%
Investments	1,003,160.98	997,000.00	6,160.98	0.62%
Receivables, Net	83,380.08	82,998.63	381.45	0.46%
Inventories	77,411.23	88,354.70	(10,943.47)	-12.39%
Prepaid Items	<u>20,453.04</u>	<u>18,774.30</u>	<u>1,678.74</u>	8.94%
<b>Total Current Assets</b>	<u>\$ 2,574,049.24</u>	<u>\$ 2,373,294.24</u>	<u>\$ 200,755.00</u>	8.46%

Noncurrent assets include cash, receivables due from the State for construction projects, certificates of deposit, and capital assets (land, construction in progress, buildings, general infrastructure, and equipment). Due from Primary Government increased because of an in-process capital project reimbursement. Capital assets increased by \$368,360.94 or 5.42% due to the purchase of additional instructional capital asset equipment, building renovations in progress, and the addition of a parking lot.

### Noncurrent Assets

Noncurrent Assets	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
Cash	\$ 2,114.70	\$ 1,114.70	\$ 1,000.00	89.71%
Due From Primary Government	244,768.00		244,768.00	100.00%
Investments	210,800.00	210,800.00		0.00%
Capital Assets	<u>7,166,791.32</u>	<u>6,798,430.38</u>	<u>368,360.94</u>	5.42%
<b>Total Noncurrent Assets</b>	<u>\$ 7,624,474.02</u>	<u>\$ 7,010,345.08</u>	<u>\$ 614,128.94</u>	8.76%

### Total Liabilities

The College's liabilities are divided between current liabilities, payable within twelve months, and noncurrent liabilities that extend beyond a year. Long-term liabilities include the portion of accrued employee annual leave that will not be paid within the next fiscal year, calculated at the current salary rates for each employee, consistent with the institution's leave policies. Accounts Payable and Accrued Liabilities increased by \$199,891.03 or 139.80% in large part due to amounts owed to contractors for construction in progress. Long Term Liabilities -



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Current Portion decreased by \$14,160.60 or 31.95% because of the decrease in employee retirements when compared to the previous year.

### Liabilities

Current Liabilities	2011-2012	2010-2011	Change	% Change
Accounts Payable and Accrued Liabilities	\$ 342,877.71	\$ 142,986.68	\$ 199,891.03	139.80%
Unearned Revenue	106,314.52	105,874.39	440.13	0.42%
Funds Held for Others	5,440.46	3,051.71	2,388.75	78.28%
Long-Term Liabilities - Current Portion	30,160.87	44,321.47	(14,160.60)	-31.95%
<b>Noncurrent Liabilities</b>				
Long-Term Liabilities	275,111.06	259,250.22	15,860.84	6.12%
<b>Total Liabilities</b>	<u>\$ 759,904.62</u>	<u>\$ 555,484.47</u>	<u>\$ 204,420.15</u>	36.80%

### Net Assets

Net Assets is the difference between the College's assets and liabilities. For fiscal year 2012, the gain in total net assets of \$610,463.79 or 6.91% is a result of an increase in tuition rates and receipts.

	2011-2012	2010-2011	Change	% Change
Invested in Capital Assets	\$ 7,166,791.32	\$ 6,798,430.38	\$ 368,360.94	5.42%
Restricted	1,077,930.06	1,045,560.80	32,369.26	3.10%
Unrestricted	1,193,897.26	984,163.67	209,733.59	21.31%
<b>Total Net Assets</b>	<u>\$ 9,438,618.64</u>	<u>\$ 8,828,154.85</u>	<u>\$ 610,463.79</u>	6.91%

### Revenues

The College's revenues decreased by \$241,936.93 or 1.91% and are classified as operating, nonoperating, capital contributions, and additions to endowments.

### Operating Revenues

Operating revenues include student tuition and fees, federal grants and contracts, and the revenue received from sales and services, which is principally comprised of the revenue received from the bookstore, vending and patron fees. Student tuition, though identified as revenue, is remitted back to the State Treasurer and is not netted against the College's state aid, and is identified as nonoperating revenue. Gross student tuition and fees increased due to an increase in enrollment and an increase in tuition rates. Gross student tuition and fees is reduced by the scholarship discount, which represents payments toward tuition and fees that are not paid by the student or a third-party payer, to arrive at student tuition and fees, net. The scholarship discount increased due to the increase in Pell Grant funding, but increased by a smaller amount than gross student tuition and fees, leading to the \$58,329.03 or 7.01%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

increase in student tuition and fees, net. The decrease in Federal Grants of \$90,000 is the result of the absence of new Federal Grants being issued.

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
Student Tuition and Fees, Net	\$ 890,246.56	\$ 831,917.53	\$ 58,329.03	7.01%
Federal Grants and Contracts		90,000.00	(90,000.00)	-100.00%
Sales and Services	129,653.26	144,379.27	(14,726.01)	-10.20%
Other Operating Revenues	<u>20,019.25</u>	<u>19,514.62</u>	<u>504.63</u>	2.59%
<b>Total Operating Revenues</b>	<b><u>\$ 1,039,919.07</u></b>	<b><u>\$ 1,085,811.42</u></b>	<b><u>\$ (45,892.35)</u></b>	-4.23%

### Nonoperating Revenues (Expenses)

Nonoperating revenues comprise the major portion of the College's income and include allocations from the North Carolina State Board of Community Colleges for current expenses, equipment purchases, and capital improvements. This revenue source also includes funds appropriated from the Cherokee, Clay, and Graham County Boards of Commissioners. Noncapital grants include funding for items such as program initiation and maintenance. Noncapital gifts include contributions from the Tri-County College Foundation, Inc. State aid decreased by \$529,459.29 or 9.28% due to a decrease in state budget appropriations. Noncapital gifts decreased by \$14,462.00 or 37.98% because of decreased scholarship and miscellaneous donations. Investment income decreased by \$6,838.49 or 41.70%, due to reduced interest rates. Other nonoperating expenses increased as a result of a larger loss on disposal of fixed assets.

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
State Aid	\$ 5,174,528.65	\$ 5,703,987.94	\$ (529,459.29)	-9.28%
County Appropriations	887,205.04	806,200.08	81,004.96	10.05%
Noncapital Grants	4,099,545.50	4,179,113.18	(79,567.68)	-1.90%
Noncapital Gifts	23,612.00	38,074.00	(14,462.00)	-37.98%
Investment Income	9,561.50	16,399.99	(6,838.49)	-41.70%
Other Nonoperating Expense	<u>(7,264.91)</u>	<u>(1,217.18)</u>	<u>(6,047.73)</u>	496.86%
<b>Total Net Nonoperating Revenue</b>	<b><u>\$ 10,187,187.78</u></b>	<b><u>\$ 10,742,558.01</u></b>	<b><u>\$ (555,370.23)</u></b>	-5.17%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Capital Contributions and Additions to Endowments

Capital contributions are received through appropriations from the North Carolina State Board of Community Colleges under an allocation formula for educational equipment and library books. During 2011-2012, State capital aid increased by \$147,822.48 or 19.89% due to an allocation for capital renovations. Capital Gifts increased substantially as a result of a contribution that provided for the construction of a new driving area (lot) on campus.

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
State Capital Aid	\$ 891,053.54	\$ 743,231.06	\$ 147,822.48	19.89%
County Capital Aid	63,901.08		63,901.08	100.00%
Capital Grants		60,000.00	(60,000.00)	-100.00%
Capital Gifts	211,713.92	2,827.00	208,886.92	7389.00%
Additions to Endowments	<u>1,000.00</u>	<u>1,150.00</u>	<u>(150.00)</u>	-13.04%
<b>Total Contributions</b>	<b><u>\$ 1,167,668.54</u></b>	<b><u>\$ 807,208.06</u></b>	<b><u>\$ 360,460.48</u></b>	44.66%

### Operating Expenses

The College's operating expenses are comprised principally of the direct cost of personnel and their fringe benefits identified as salaries and benefits. The most significant changes are as follows: Salaries and Benefits decreased by \$204,032.35 or 2.97% because of significant number of employees retiring, as well as, a decreased number of part time employees being used. Supplies and Materials decreased by \$164,547.97 or 16.01% due to decreased spending regarding budget vigilance.

	<u>2011-2012</u>	<u>2010-2011</u>	<u>Change</u>	<u>% Change</u>
Salaries and Benefits	\$ 6,663,794.81	\$ 6,867,827.16	\$ (204,032.35)	-2.97%
Supplies and Materials	863,274.53	1,027,822.50	(164,547.97)	-16.01%
Services	929,280.56	965,230.14	(35,949.58)	-3.72%
Scholarships and Fellowships	2,695,139.42	2,871,492.97	(176,353.55)	-6.14%
Utilities	320,296.56	336,189.86	(15,893.30)	-4.73%
Depreciation	<u>312,525.72</u>	<u>286,233.28</u>	<u>26,292.44</u>	9.19%
Total Expenses	<b><u>\$ 11,784,311.60</u></b>	<b><u>\$ 12,354,795.91</u></b>	<b><u>\$ (570,484.31)</u></b>	-4.62%

### Significant Capital Asset Activity

Tri County Community College recorded a net increase in capital assets of \$368,360.94 as a result of needed equipment purchases and the renovation of the Harper Building and ADA compliant improvements, as well as the addition of a new parking lot.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)**

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### **Significant Current or Future Effects on Financial Position**

Tri-County Community College continues to experience growth in enrollment which exemplifies that a reverse economic function still exists. Individuals, still suffering through a turbulent fiscal recovery, rely on community colleges for retraining. As discussed each year, the lack of funding for physical resources continues to impact the institution's ability to adequately serve its students. Ultimately, the college could incur diminished revenues and realize a reduced return on investment.

**Tri-County Community College**  
**Statement of Net Assets**  
**June 30, 2012**

**Exhibit A-1**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,046,152.40
Restricted Cash and Cash Equivalents	343,491.51
Short-Term Investments	531,160.98
Restricted Short-Term Investments	472,000.00
Receivables, Net (Note 4)	80,711.57
Due from State of North Carolina Component Units	2,668.51
Inventories	77,411.23
Prepaid Items	20,453.04
	<hr/>
Total Current Assets	2,574,049.24
	<hr/>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	2,114.70
Restricted Due from Primary Government	244,768.00
Restricted Investments	210,800.00
Capital Assets - Nondepreciable (Note 5)	750,824.93
Capital Assets - Depreciable, Net (Note 5)	6,415,966.39
	<hr/>
Total Noncurrent Assets	7,624,474.02
	<hr/>
Total Assets	10,198,523.26
	<hr/>

**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 6)	342,877.70
Unearned Revenue	106,314.52
Funds Held for Others	5,440.46
Long-Term Liabilities - Current Portion (Note 7)	30,160.87
	<hr/>
Total Current Liabilities	484,793.55
	<hr/>
Noncurrent Liabilities:	
Long-Term Liabilities (Note 7)	275,111.07
	<hr/>
Total Liabilities	759,904.62
	<hr/>

**NET ASSETS**

Invested in Capital Assets	7,166,791.32
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	212,914.70
Expendable:	
Scholarships and Fellowships	130,719.36
Capital Projects	439,425.10
Restricted for Specific Programs	287,149.25
Other	7,721.65
Unrestricted	1,193,897.26
	<hr/>
Total Net Assets	\$ 9,438,618.64
	<hr/>

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

***Tri-County Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2012***

***Exhibit A-2***

**REVENUES**

Operating Revenues:

Student Tuition and Fees, Net (Note 8)	\$ 890,246.56
Sales and Services	129,653.26
Other Operating Revenues	20,019.25
	<hr/>
Total Operating Revenues	1,039,919.07
	<hr/>

**EXPENSES**

Operating Expenses:

Salaries and Benefits	6,663,794.81
Supplies and Materials	863,274.53
Services	929,280.56
Scholarships and Fellowships	2,695,139.42
Utilities	320,296.56
Depreciation	312,525.72
	<hr/>

Total Operating Expenses 11,784,311.60

Operating Loss (10,744,392.53)

**NONOPERATING REVENUES (EXPENSES)**

State Aid	5,174,528.65
County Appropriations	887,205.04
Noncapital Grants - Student Financial Aid	3,790,756.67
Noncapital Grants	308,788.83
Noncapital Gifts	23,612.00
Investment Income	9,561.50
Other Nonoperating Expenses	(7,264.91)
	<hr/>

Net Nonoperating Revenues 10,187,187.78

Loss Before Other Revenues (557,204.75)

State Capital Aid	891,053.54
County Capital Aid	63,901.08
Capital Gifts	211,713.92
Additions to Endowments	1,000.00
	<hr/>

Increase in Net Assets 610,463.79

**NET ASSETS**

Net Assets, July 1, 2011	8,828,154.85
	<hr/>
Net Assets, June 30, 2012	\$ 9,438,618.64
	<hr/> <hr/>

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

***Tri-County Community College  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2012***

***Exhibit A-3  
Page 1 of 2***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 1,000,752.61
Payments to Employees and Fringe Benefits	(6,660,214.46)
Payments to Vendors and Suppliers	(2,104,834.68)
Payments for Scholarships and Fellowships	(2,695,139.42)
Other Receipts	30,942.19
	<hr/>
Net Cash Used by Operating Activities	(10,428,493.76)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	5,174,528.65
County Appropriations	887,205.04
Noncapital Grants - Student Financial Aid	3,795,237.65
Noncapital Grants Received	315,445.55
Noncapital Gifts and Endowments Received	24,612.00
	<hr/>
Net Cash Provided by Noncapital Financing Activities	10,197,028.89

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

State Capital Aid Received	640,666.69
County Capital Aid	63,901.08
Capital Gifts Received	2,523.00
Acquisition and Construction of Capital Assets	(274,840.42)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	432,250.35

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	9,852.80
Purchase of Investments and Related Fees	(6,160.98)
	<hr/>
Net Cash Provided by Investing Activities	3,691.82

Net Increase in Cash and Cash Equivalents	204,477.30
Cash and Cash Equivalents, July 1, 2011	1,187,281.31
	<hr/>
Cash and Cash Equivalents, June 30, 2012	\$ 1,391,758.61

***Tri-County 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	\$ (10,744,392.53)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	312,525.72
Miscellaneous Nonoperating Expense	(3,049.08)
Changes in Assets and Liabilities:	
Receivables, Net	(8,004.07)
Inventories	10,943.47
Prepaid Items	(1,678.74)
Accounts Payable and Accrued Liabilities	632.34
Unearned Revenue	440.13
Funds Held for Others	2,388.75
Compensated Absences	1,700.25
	<u>1,700.25</u>
Net Cash Used by Operating Activities	<u>\$ (10,428,493.76)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 1,046,152.40
Restricted Cash and Cash Equivalents	343,491.51
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>2,114.70</u>
Total Cash and Cash Equivalents - June 30, 2012	<u>\$ 1,391,758.61</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Assets Acquired through Assumption of a Liability	\$ 201,071.15
Assets Acquired through a Gift	209,190.92
Increase in Receivables Related to Nonoperating Income	247,436.51
Loss on Disposal of Capital Assets	4,215.83

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



**TRI-COUNTY COMMUNITY COLLEGE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*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.

- D. Cash and Cash Equivalents** - This classification includes petty cash and cash on deposit with private bank accounts.
- E. Investments** - This classification includes certificates of deposit reported at cost.
- F. Receivables** - Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, state and local governments, and private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants, as well as investment earnings due to the College. Receivables are recorded net of estimated uncollectible amounts.
- G. Inventories** - Inventories, consisting of expendable supplies, are valued at cost using the last invoice cost method.
- H. Capital Assets** - Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The value of assets constructed includes all material direct and indirect construction costs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 10 to 75 years for general infrastructure, 10 to 100 years for buildings, and 2 to 30 years for equipment.

- I. Restricted Assets** - Certain resources are reported as restricted assets because restrictions on asset use change the nature or normal understanding of the availability of the asset. Resources that are not available for current operations and are reported as restricted include resources restricted for the acquisition or construction of capital assets, and resources whose use is limited by external parties or statute.
- J. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.
- K. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous June 30 plus the leave earned, less the leave taken between July 1 and June 30.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**Invested in Capital Assets, Net of Related Debt** - This represents the College's total investment in capital assets.

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

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

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

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

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

**N. Revenue and Expense Recognition** - The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, state, and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

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

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

### NOTE 2 - DEPOSITS AND INVESTMENTS

- A. Deposits** - 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 and are required to be collateralized in accordance with *North Carolina General Statute 115D-58.7*. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money market accounts, and certificates of deposit. Cash on hand at June 30, 2012 was \$430.00. The carrying amount of the College's deposits not with the State Treasurer, including certificates of deposit, was \$2,605,289.59, and the bank balance was \$2,706,100.17.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

- 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 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 (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.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2012 the College held certificates of deposit in the amount of \$1,213,960.98. Certificates of deposit reported as investments are also a component of the deposit totals reported in the deposits section of this note.

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	\$	430.00
Carrying Amount of Deposits with Private Financial Institutions		2,605,289.59
<b>Total Deposits and Investments</b>		<b>\$ 2,605,719.59</b>
Current:		
Cash and Cash Equivalents	\$	1,046,152.40
Restricted Cash and Cash Equivalents		343,491.51
Short-Term Investments		531,160.98
Restricted Short-Term Investments		472,000.00
Noncurrent:		
Restricted Cash and Cash Equivalents		2,114.70
Restricted Investments		210,800.00
<b>Total</b>		<b>\$ 2,605,719.59</b>

### NOTE 3 - ENDOWMENT INVESTMENTS

Investments of the College's endowment funds are pooled, unless required to be separately invested by the donor. If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation, realized and unrealized, of the investments of the endowment funds. Under the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA), authorized by the North Carolina General Assembly on March 19, 2009, the Board may also appropriate expenditures from eligible nonexpendable balances if deemed prudent and necessary to meet program outcomes and for which such spending is not specifically prohibited by the donor agreements. During the year, the Board did not appropriate expenditures from eligible nonexpendable endowment funds.

Earned interest on held certificates of deposit is accrued until such time that a sufficient amount exists whereby a student scholarship can be awarded agreeable to either guidelines set forth by the College Foundation Board or by an established contractual relationship between a funds donor and Tri-County Community College. In no case, however, is it permissible to expend or otherwise compromise the principal balance of any endowment fund without explicit board approval authorization and/or a written agreement between the donor and Tri-County Community College. At June 30, 2012, endowment net assets of \$28,439.88 were available to be spent, of which the entire amount was restricted for specific purposes.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - RECEIVABLES

Receivables at June 30, 2012, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 76,335.83	\$ 34,545.67	\$ 41,790.16
Student Sponsors	31,585.87		31,585.87
Intergovernmental	2,032.87		2,032.87
Investment Earnings	72.42		72.42
Other	5,230.25		5,230.25
<b>Total Current Receivables</b>	<b>\$ 115,257.24</b>	<b>\$ 34,545.67</b>	<b>\$ 80,711.57</b>

### NOTE 5 - 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 (as restated)	Increases	Decreases	Balance June 30, 2012
Capital Assets, Nondepreciable:				
Land	\$ 364,807.78	\$ 0.00	\$ 0.00	\$ 364,807.78
Construction in Progress	90,000.00	296,017.15		386,017.15
<b>Total Capital Assets, Nondepreciable</b>	<b>454,807.78</b>	<b>296,017.15</b>		<b>750,824.93</b>
Capital Assets, Depreciable:				
Buildings	9,175,655.83			9,175,655.83
Machinery and Equipment	1,783,104.77	179,894.42	18,887.59	1,944,111.60
General Infrastructure	399,974.95	209,190.92		609,165.87
<b>Total Capital Assets, Depreciable</b>	<b>11,358,735.55</b>	<b>389,085.34</b>	<b>18,887.59</b>	<b>11,728,933.30</b>
Less Accumulated Depreciation for:				
Buildings	4,087,718.34	153,474.22		4,241,192.56
Machinery and Equipment	726,789.38	150,027.50	14,671.76	862,145.12
General Infrastructure	200,605.23	9,024.00		209,629.23
<b>Total Accumulated Depreciation</b>	<b>5,015,112.95</b>	<b>312,525.72</b>	<b>14,671.76</b>	<b>5,312,966.91</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>6,343,622.60</b>	<b>76,559.62</b>	<b>4,215.83</b>	<b>6,415,966.39</b>
<b>Capital Assets, Net</b>	<b>\$ 6,798,430.38</b>	<b>\$ 372,576.77</b>	<b>\$ 4,215.83</b>	<b>\$ 7,166,791.32</b>

Some accumulated depreciation was reclassified to the appropriate asset classification based on the nature of the asset. As a result, capital assets are more accurately reported in the classifications shown above. The changes are reported in the July 1, 2011 (as restated) column above and have no impact on the total net capital assets.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	<u>Amount</u>
Accounts Payable	\$ 252,074.91
Accrued Payroll	86,996.41
Intergovernmental Payables	<u>3,806.38</u>
<b>Total Accounts Payable and Accrued Liabilities</b>	<b><u><u>\$ 342,877.70</u></u></b>

**NOTE 7 - LONG-TERM LIABILITIES**

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

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 303,571.69</u>	<u>\$ 169,727.13</u>	<u>\$ 168,026.88</u>	<u>\$ 305,271.94</u>	<u>\$ 30,160.87</u>

**NOTE 8 - REVENUES**

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

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>				
<b>Student Tuition and Fees</b>	<u>\$ 2,041,922.43</u>	<u>\$ 1,137,658.25</u>	<u>\$ 14,017.62</u>	<u>\$ 890,246.56</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 9 - 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/ Amortization	Total
Instruction	\$ 3,864,286.05	\$ 687,395.40	\$ 325,602.29	\$ 6,560.00	\$ 0.00	\$ 0.00	\$ 4,883,843.74
Academic Support	711,007.50	41,752.96	21,357.71	3,232.00			777,350.17
Student Services	416,529.23	6,333.55	8,712.69	25,774.00			457,349.47
Institutional Support	1,482,946.37	123,659.95	259,140.34				1,865,746.66
Operations and Maintenance of Plant	189,025.66		304,955.01		320,296.56		814,277.23
Student Financial Aid				2,659,573.42			2,659,573.42
Auxiliary Enterprises		4,132.67	9,512.52				13,645.19
Depreciation/ Amortization						312,525.72	312,525.72
<b>Total Operating Expenses</b>	<b>\$ 6,663,794.81</b>	<b>\$ 863,274.53</b>	<b>\$ 929,280.56</b>	<b>\$ 2,695,139.42</b>	<b>\$ 320,296.56</b>	<b>\$ 312,525.72</b>	<b>\$ 11,784,311.60</b>

### NOTE 10 - PENSION PLANS

**A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (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 \$5,750,483.78, of which \$4,201,871.82 was covered under the Teachers' and State Employees' Retirement System. Total employer and employee contributions for pension benefits for the year were \$312,619.26 and \$252,112.31, 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 \$312,619.26, \$218,969.72, and \$153,936.83, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$1,300 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 \$72,185.52 for the year ended June 30, 2012.

### NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS

- A. Health Benefits** - The College participates in the Comprehensive Major Medical Plan (the Plan), a cost-sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. Coverage eligibility varies depending on years of contributory

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 \$210,093.59, \$217,637.25, and \$194,038.02, 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) 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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% for both years. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2012, 2011, and 2010, which were \$21,849.73, \$23,096.20, and \$22,422.17, respectively. The College assumes no liability for long-term disability benefits under the Plan other than its contribution.

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

### NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in state-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

The risk of tort claims of up to \$1,000,000 per claimant is retained under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$10,000,000 via contract with a private insurance company. The North Carolina Community College System Office pays the premium, based on a composite rate, directly to the private insurer.

Fire and other property losses are covered by the Public School Insurance Fund (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

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Liability insurance for College-owned vehicles is covered by contracts with private insurance companies.

The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from state funds. This coverage is with a private insurance company and is handled by the North Carolina Department of Insurance. North Carolina Community College System Office is charged a premium by the private insurance company. Coverage limit is \$5,000,000 per occurrence. The private insurance company pays 90% of each loss less a \$75,000 deductible. Losses from employee dishonesty and computer fraud paid from county and institutional funds are covered through a contract with a private insurance company.

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

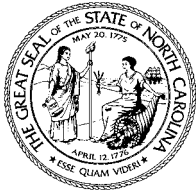
The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from state funds. The College purchases workers' compensation insurance for employees whose salaries 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 13 - COMMITMENTS

The College has established an encumbrance system to track its outstanding commitments on construction projects. Outstanding commitments on construction contracts were \$36,374 at June 30, 2012.



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**

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

We have audited the financial statements of Tri-County Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 6, 2013. 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 Tri-County Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Tri-County Community College Foundation, Inc. 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 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)**

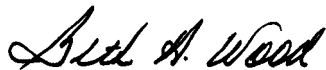
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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be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

February 6, 2013



## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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

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This audit required 412 audit hours at an approximate cost of \$29,664. The cost represents 0.29% of the College's total assets and 0.25% of total expenses subjected to audit.