



# STATE OF NORTH CAROLINA

**MONTGOMERY COMMUNITY COLLEGE**

**TROY, NORTH CAROLINA**

**FINANCIAL STATEMENT AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**



Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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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, Montgomery Community College

We have completed a financial statement audit of Montgomery Community College for the year ended June 30, 2014, 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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# Office of the State Auditor



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## INDEPENDENT AUDITOR'S REPORT

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Board of Trustees  
Montgomery Community College  
Troy, North Carolina

### Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 statements were audited by other auditors, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for Montgomery Community College Foundation, Inc., are based solely 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 from material misstatement. The financial statements of Montgomery Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery Community College, and its discretely presented component unit, as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters – Required Supplementary Information

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 a 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 our audit of the basic financial statements. 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.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2015 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 15, 2015

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## **MONTGOMERY COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **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, 2014 with comparative amounts at June 30, 2013. Since this Management's Discussion and Analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the College's basic financial statements and the notes to the financial statements.

### **Financial Statement Presentation**

The College's basic financial statements are designed to emulate a corporate presentation model whereby all College activities are consolidated into one column. The Statement of Net Position 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 position 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 Position 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.

### **Condensed Statement of Net Position**

The Statement of Net Position (SNP) presents assets, liabilities, and net position of the College at a point in time for the fiscal year ended June 30, 2014. From the data presented, readers of the SNP 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 SNP provides a snapshot of the net position (assets minus liabilities) and their availability for expenditures by the College.

Net position is 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 art. Depreciable assets include buildings, general infrastructure, and machinery and equipment. The next net position category is restricted net position. Expendable restricted net position is 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 position, which is available to the College for any lawful purpose of the institution.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Condensed Statement of Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Variance</u>
Assets			
Current Assets:	\$ 874,300.18	\$ 873,565.29	\$ 734.89
Noncurrent Capital Assets, Net	7,616,853.29	7,862,410.15	(245,556.86)
Other Noncurrent Assets	20,675.71	37,039.71	(16,364.00)
Total Assets	<u>8,511,829.18</u>	<u>8,773,015.15</u>	<u>(261,185.97)</u>
Deferred Outflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Liabilities			
Current Liabilities:	296,941.22	347,186.09	(50,244.87)
Noncurrent Liabilities	218,849.66	242,556.01	(23,706.35)
Total Liabilities	<u>515,790.88</u>	<u>589,742.10</u>	<u>(73,951.22)</u>
Deferred Inflows of Resources	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Net Position			
Invested in Capital Assets	7,616,853.29	7,862,410.15	(245,556.86)
Restricted	202,469.39	153,696.56	48,772.83
Unrestricted	176,715.62	167,166.34	9,549.28
Total Net Position	<u>\$ 7,996,038.30</u>	<u>\$ 8,183,273.05</u>	<u>\$ (187,234.75)</u>

As shown above, the College's financial operations in 2014 were similar to 2013. Total net position decreased by \$187,234.75 mainly as a result of annual depreciation and fewer additions to capital assets.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

Changes in total net position, as presented on the SNP, are based on the activity in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the statement is to present both the operating and non-operating 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 non-operating because the College received revenue without providing a good or service in return.

The Statement of Revenues, Expenses, and Changes in Net Position consists of total revenues of \$8,899,030.32 and total expenses of \$9,273,346.79, resulting in an overall decrease in net position of \$187,234.75 at year-end.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Condensed Statement of Revenues, Expenses, and Changes in Net Position

Operating Revenue	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Variance</u>
Student Tuition and Fees	\$ 720,195.21	\$ 705,342.96	\$ 14,852.25
Sales and Services, Net	94,643.36	102,075.86	(7,432.50)
Other Operating Revenue	<u>135.00</u>	<u>51.00</u>	<u>84.00</u>
Total Operating Revenue	<u>814,973.57</u>	<u>807,469.82</u>	<u>7,503.75</u>
Nonoperating Revenue			
State Aid	5,362,082.62	5,345,689.76	16,392.86
County Appropriations	786,757.60	764,447.51	22,310.09
Noncapital Grants - Student Financial Aid	1,816,421.44	1,739,710.76	76,710.68
Noncapital Grants	111,534.89	105,720.31	5,814.58
Noncapital Gifts	6,344.33	66,466.23	(60,121.90)
Interest Income	915.87	1,106.19	(190.32)
Other Nonoperating Expenses	<u>(1,216.92)</u>	<u>0.00</u>	<u>(1,216.92)</u>
Total Nonoperating Revenue	<u>8,082,839.83</u>	<u>8,023,140.76</u>	<u>59,699.07</u>
Total Revenue	<u>8,897,813.40</u>	<u>8,830,610.58</u>	<u>67,202.82</u>
Operating Expenses			
Salaries and Benefits	6,389,939.54	6,631,232.59	(241,293.05)
Supplies and Materials	642,720.50	513,881.30	128,839.20
Services	500,281.40	475,474.83	24,806.57
Scholarships and Fellowships	1,144,599.96	1,177,830.24	(33,230.28)
Utilities	247,879.76	250,365.30	(2,485.54)
Depreciation	<u>346,708.71</u>	<u>268,485.45</u>	<u>78,223.26</u>
Total Operating Expenses	<u>9,272,129.87</u>	<u>9,317,269.71</u>	<u>(45,139.84)</u>
Loss Before Other Revenues	(374,316.47)	(486,659.13)	112,342.66
Capital Contribution	<u>187,081.72</u>	<u>270,956.83</u>	<u>(83,875.11)</u>
Decrease in Net Position	(187,234.75)	(215,702.30)	28,467.55
Net Position, Beginning	<u>8,183,273.05</u>	<u>8,398,975.35</u>	<u>(215,702.30)</u>
Net Position, Ending	<u>\$ 7,996,038.30</u>	<u>\$ 8,183,273.05</u>	<u>\$ (187,234.75)</u>

As shown above, the College's financial operations in 2014 were very similar to 2013. There was an increase in the tuition rate charged to students which contributed to the increase in student tuition and fees of \$14,852.25. The decrease in salaries and benefits is largely due to a reduction in force and leaving vacant positions unfilled.

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

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### **Analysis of Financial Position**

Based on the comparative data presented above, the College's management concluded that the College's financial position has declined slightly when compared to the previous fiscal year. The increase in supplies and materials contributed to the decline. In addition, there was a decrease in nonoperating revenue of \$60,121.90 for noncapital gifts due to the discontinuation of the College's participation in an energy-savings grant program.

State funding continues to decrease due to a decrease in enrollment and more cuts statewide. Reversions of appropriated funds back to the State are expected to continue. The College continues to implement sound fiscal management to cope with the decrease in funds.

### **Capital Assets**

Montgomery Community College's investment in capital assets as of June 30, 2014, was \$7,616,853.29 net of accumulated depreciation. This investment in capital assets includes land, buildings, infrastructure, equipment and vehicles. The total decrease in the College's investment in capital assets was \$245,556.86 net of depreciation. This decrease was primarily due to net effect of the additions and deletions of the machinery and equipment and general infrastructure and the annual depreciation expense. Montgomery Community College is constantly updating equipment and renovating educational areas to better serve its students. Upgrades to the Firing Range were completed to enable use at night and to deter berm erosion. The Firing Range is used by the Gunsmithing, Criminal Justice, Basic Law Enforcement Programs and other local law enforcement.

The College does not issue debt to fund capital assets. The main funding sources for equipment expenditures are state and county appropriations.

### **Economic Outlook**

As the State's economic recovery continues to struggle, the College must plan for likely budget cuts in the future. 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, and leaving vacant positions unfilled, 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 benefits.

**Montgomery Community College**  
**Statement of Net Position**  
**June 30, 2014**

**Exhibit A-1**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 394,563.29
Restricted Cash and Cash Equivalents	238,830.60
Receivables, Net (Note 3)	92,996.34
Inventories	147,909.95
	<hr/>
Total Current Assets	874,300.18
Noncurrent Assets:	
Restricted Due from Primary Government	20,675.71
Capital Assets - Nondepreciable (Note 4)	516,930.40
Capital Assets - Depreciable, Net (Note 4)	7,099,922.89
	<hr/>
Total Noncurrent Assets	7,637,529.00
	<hr/>
Total Assets	8,511,829.18

**DEFERRED OUTFLOWS OF RESOURCES**

Total Deferred Outflows of Resources	<hr/> 0.00
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**LIABILITIES**

Current Liabilities:	
Accounts Payable and Accrued Liabilities (Note 5)	186,433.02
Unearned Revenue	20,301.03
Funds Held for Others	44,392.86
Long-Term Liabilities - Current Portion (Note 6)	45,814.31
	<hr/>
Total Current Liabilities	296,941.22
Noncurrent Liabilities:	
Long-Term Liabilities (Note 6)	218,849.66
	<hr/>
Total Liabilities	515,790.88

**DEFERRED INFLOWS OF RESOURCES**

Total Deferred Inflows of Resources	<hr/> 0.00
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**NET POSITION**

Investment in Capital Assets	7,616,853.29
Expendable:	
Capital Projects	20,675.71
Restricted for Specific Programs	181,793.68
	<hr/>
Unrestricted	176,715.62
	<hr/>
Total Net Position	<u><u>\$ 7,996,038.30</u></u>

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 Position**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit A-2**

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 7)	\$ 720,195.21
Sales and Services	94,643.36
Other Operating Revenues	135.00
	<hr/>
Total Operating Revenues	814,973.57
	<hr/>

**EXPENSES**

Operating Expenses:	
Salaries and Benefits	6,389,939.54
Supplies and Materials	642,720.50
Services	500,281.40
Scholarships and Fellowships	1,144,599.96
Utilities	247,879.76
Depreciation	346,708.71
	<hr/>
Total Operating Expenses	9,272,129.87
	<hr/>
Operating Loss	(8,457,156.30)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	5,362,082.62
County Appropriations	786,757.60
Noncapital Grants - Student Financial Aid	1,816,421.44
Noncapital Grants	111,534.89
Noncapital Gifts	6,344.33
Interest Income	915.87
Other Nonoperating Expenses	(1,216.92)
	<hr/>
Nonoperating Revenues	8,082,839.83
	<hr/>
Loss Before Other Revenues	(374,316.47)
	<hr/>
State Capital Aid	136,546.14
County Capital Aid	47,577.40
Capital Gifts	2,958.18
	<hr/>
Decrease in Net Position	(187,234.75)
	<hr/>

**NET POSITION**

Net Position, July 1, 2013	8,183,273.05
	<hr/>
Net Position, June 30, 2014	\$ 7,996,038.30
	<hr/>

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

**Montgomery Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 860,277.19
Payments to Employees and Fringe Benefits	(6,447,053.24)
Payments to Vendors and Suppliers	(1,431,147.53)
Payments for Scholarships and Fellowships	(1,144,599.96)
Other Receipts	6,099.04
	<hr/>
Net Cash Used by Operating Activities	(8,156,424.50)
	<hr/>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	5,362,082.62
County Appropriations	786,757.60
Noncapital Grants - Student Financial Aid	1,816,421.44
Noncapital Grants	111,534.89
Noncapital Gifts	6,344.33
	<hr/>
Cash Provided by Noncapital Financing Activities	8,083,140.88
	<hr/>

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

State Capital Aid Received	152,910.14
County Capital Aid	47,577.40
Capital Gifts	2,958.18
Acquisition and Construction of Capital Assets	(102,368.77)
	<hr/>
Net Cash Provided by Capital and Related Financing Activities	101,076.95
	<hr/>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	915.87
	<hr/>
Net Increase in Cash and Cash Equivalents	28,709.20
Cash and Cash Equivalents, July 1, 2013	604,684.69
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Cash and Cash Equivalents, June 30, 2014	\$ 633,393.89
	<hr/> <hr/>

**Montgomery Community College**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2014**

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

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

Operating Loss	\$ (8,457,156.30)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	346,708.71
Changes in Assets and Liabilities:	
Receivables, Net	51,503.31
Inventories	(23,529.00)
Accounts Payable and Accrued Liabilities	(16,736.87)
Unearned Revenue	(6,199.69)
Funds Held for Others	6,099.04
Compensated Absences	(57,113.70)
Net Cash Used by Operating Activities	<u>\$ (8,156,424.50)</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 394,563.29
Restricted Cash and Cash Equivalents	<u>238,830.60</u>
Total Cash and Cash Equivalents - June 30, 2014	<u>\$ 633,393.89</u>

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

Loss on Disposal of Capital Assets	(1,216.92)
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The accompanying notes to the financial statements are an integral part of this statement.

**Montgomery Community College Foundation, Inc.**  
**Statement of Financial Position**  
**June 30, 2014**

**Exhibit B-1**

**ASSETS**

Cash and Cash Equivalents	\$	389,163
Investments Held by Fiscal Agent		2,836,379
Pledges Receivable		38,010
		<hr/>
Total Assets	\$	3,263,552
		<hr/> <hr/>

**NET ASSETS**

Unrestricted	\$	59,389
Temporarily Restricted		338,079
Permanently Restricted		2,866,084
		<hr/>
Total Net Assets	\$	3,263,552
		<hr/> <hr/>

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



**Montgomery Community College Foundation, Inc.**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2014**

**Exhibit B-2**

<b>Revenues, Gains, and Other Support:</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Contributions	\$ 270	\$ 114,089	\$ 83,898	\$ 198,257
Fundraising Events	44,393			44,393
Income Earned on Investments			34,917	34,917
Net Realized and Unrealized Gains on Investments			324,487	324,487
Transfers	134,062		(134,062)	
Other Income	369	1,310		1,679
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	86,238	(86,238)		
Total Revenues, Gains, and Other Support	<u>265,332</u>	<u>29,161</u>	<u>309,240</u>	<u>603,733</u>
<b>Expenses:</b>				
Contributions to Montgomery Community College for:				
Scholarships	116,020			116,020
Support of Various College Programs	64,752			64,752
Fundraising	11,014			11,014
Management and General	36,909			36,909
Total Expenses	<u>228,695</u>			<u>228,695</u>
Change in Net Assets	36,637	29,161	309,240	375,038
Net Assets as of Beginning of Year	<u>22,752</u>	<u>308,918</u>	<u>2,556,844</u>	<u>2,888,514</u>
Net Assets as of End of Year	<u>\$ 59,389</u>	<u>\$ 338,079</u>	<u>\$ 2,866,084</u>	<u>\$ 3,263,552</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, 2014**

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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. 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. See below for further discussion of the College's component unit.

**Discretely Presented Component Unit** – Montgomery Community College Foundation, Inc. (Foundation) is a legally separate nonprofit 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 18 members. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is reported in separate financial statements because of the difference in its reporting model, as described below.

The Foundation is a private nonprofit organization that reports its financial results under the Financial Accounting Standards Board (FASB) Codification. As such, certain revenue recognition criteria and presentation features are different from the Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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, 2014, the Foundation distributed \$180,722 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.

- 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, cash on deposit with private bank accounts, and deposits held by the State Treasurer in the short-term investment fund (STIF). The STIF 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 fiscal 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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.

**K. Net Position** - The College's net position is classified as follows:

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

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

**Unrestricted Net Position** - Unrestricted net position includes 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. Both restricted and unrestricted net position include consideration of deferred inflows and outflows of resources.

**L. 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 Position. 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Changes in Net Position. 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 Position. 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 appropriations and county capital appropriations 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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Net Position as cash and cash equivalents includes cash on hand totaling \$500.00, and deposits in private financial institutions with a carrying value of \$448,491.24 and a bank balance of \$496,916.37.

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, 2014, 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 of custodian.

At June 30, 2014, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$184,402.65 which represents the College's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (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 1.3 years as of June 30, 2014. Assets and shares of the STIF are

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 STIF) 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, 2014, is as follows:

Cash on Hand	\$	500.00
Carrying Amount of Deposits with Private Financial Institutions		448,491.24
Investments in the Short-Term Investment Fund		184,402.65
<b>Total Deposits and Investments</b>	<b>\$</b>	<b>633,393.89</b>
Deposits		
Current:		
Cash and Cash Equivalents	\$	394,563.29
Restricted Cash and Cash Equivalents		238,830.60
<b>Total Deposits</b>	<b>\$</b>	<b>633,393.89</b>

**Component Unit** - Investments of the College's discretely presented component unit, 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:

Fidelity Investments	Cost	Fair Value	Carrying Value
Cash and Cash Equivalents	\$ 73,050	\$ 73,050	\$ 73,050
Equity Mutual Funds	783,583	1,274,847	1,274,847
Fixed Income Funds	1,361,528	1,347,084	1,347,084
Real Estate Investments	89,885	141,398	141,398
Total Investments Held by Fiscal Agent	\$ 2,308,046	\$ 2,836,379	\$ 2,836,379



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, were as follows:

	Gross Receivables	Less Allowance for Doubtful Accounts	Net Receivables
<b>Current Receivables:</b>			
Students	\$ 146,100.78	\$ 69,626.14	\$ 76,474.64
Student Sponsors	12,395.13		12,395.13
Other	4,126.57		4,126.57
<b>Total Current Receivables</b>	<b>\$ 162,622.48</b>	<b>\$ 69,626.14</b>	<b>\$ 92,996.34</b>

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2014, is presented as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital Assets, Nondepreciable:				
Land	\$ 442,186.24	\$ 0.00	\$ 0.00	\$ 442,186.24
Art, Literature, and Artifacts	74,744.16			74,744.16
<b>Total Capital Assets, Nondepreciable</b>	<b>516,930.40</b>	<b>0.00</b>	<b>0.00</b>	<b>516,930.40</b>
Capital Assets, Depreciable:				
Buildings	9,549,779.24			9,549,779.24
Machinery and Equipment	2,261,939.05	93,123.17	28,413.79	2,326,648.43
General Infrastructure	777,018.13	9,245.60		786,263.73
Total Capital Assets, Depreciable	12,588,736.42	102,368.77	28,413.79	12,662,691.40
Less Accumulated Depreciation for:				
Buildings	3,761,916.87	195,575.52		3,957,492.39
Machinery and Equipment	1,358,762.70	117,828.51	27,196.87	1,449,394.34
General Infrastructure	122,577.10	33,304.68		155,881.78
Total Accumulated Depreciation	5,243,256.67	346,708.71	27,196.87	5,562,768.51
<b>Total Capital Assets, Depreciable, Net</b>	<b>7,345,479.75</b>	<b>(244,339.94)</b>	<b>1,216.92</b>	<b>7,099,922.89</b>
<b>Capital Assets, Net</b>	<b>\$ 7,862,410.15</b>	<b>\$ (244,339.94)</b>	<b>\$ 1,216.92</b>	<b>\$ 7,616,853.29</b>

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

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**NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities at June 30, 2014, were as follows:

	<u>Amount</u>
<b>Current Accounts Payable and Accrued Liabilities:</b>	
Accounts Payable	\$ 58,582.90
Accrued Payroll	126,421.25
Intergovernmental Payables	<u>1,428.87</u>
<b>Total Current Accounts Payable and Accrued Liabilities</b>	<b><u>\$ 186,433.02</u></b>

**NOTE 6 - LONG-TERM LIABILITIES**

A summary of changes in the long-term liabilities for the year ended June 30, 2014, is presented as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Compensated Absences	<u>\$ 321,777.67</u>	<u>\$ 200,994.45</u>	<u>\$ 258,108.15</u>	<u>\$ 264,663.97</u>	<u>\$ 45,814.31</u>

**NOTE 7 - 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>				
Student Tuition and Fees	<u>\$ 1,472,455.18</u>	<u>\$ 682,633.83</u>	<u>\$ 69,626.14</u>	<u>\$ 720,195.21</u>

## 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	\$ 3,683,483.81	\$ 291,766.84	\$ 184,975.66	\$ 12,737.33	\$ 0.00	\$ 0.00	\$ 4,172,963.64
Academic Support	503,971.17	39,153.16	8,795.04				551,919.37
Student Services	471,647.24	6,149.30	42,242.15	22,488.53			542,527.22
Institutional Support	1,409,440.03	122,365.68	187,914.75				1,719,720.46
Operations and Maintenance of Plant	302,354.36	158,287.36	70,483.31		247,879.76		779,004.79
Student Financial Aid				1,109,374.10			1,109,374.10
Auxiliary Enterprises	19,042.93	24,998.16	5,870.49				49,911.58
Depreciation						346,708.71	346,708.71
<b>Total Operating Expenses</b>	<u>\$ 6,389,939.54</u>	<u>\$ 642,720.50</u>	<u>\$ 500,281.40</u>	<u>\$ 1,144,599.96</u>	<u>\$ 247,879.76</u>	<u>\$ 346,708.71</u>	<u>\$ 9,272,129.87</u>

### NOTE 9 - PENSION PLAN

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 (TSERS) 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 a 14-member Board of Trustees, with the State Treasurer serving as Chairman of the Board.

Benefit and contribution provisions for the TSERS 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, 2014, these rates were set at 8.69% of covered payroll for employers and 6% of covered payroll for members.

For the current fiscal year, the College had a total payroll of \$5,077,193.22, of which \$3,909,883.49 was covered under the TSERS. Total employer and employee contributions for pension benefits for the year were \$339,768.88 and \$234,593.01, respectively.

Required employer contribution rates for the years ended June 30, 2013, and 2012, were 8.33% and 7.44%, respectively, while employee contributions were 6% each year. The College made 100% of its annual required contributions for the years ended June 30, 2014, 2013, and 2012, which were \$339,768.88, \$342,639.19, and \$298,258.99, respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The TSERS 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.

### 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 Chapter 135, Article 3B, of the General Statutes, and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System and contributions to the Fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are established by the General Assembly.

For the current fiscal year the College contributed 5.40% of the covered payroll under the Teachers' and State Employees' Retirement System to the Fund. Required contribution rates for the years ended June 30, 2013, and 2012, were 5.30% and 5.0%, respectively. The College made 100% of its annual required contributions to the Plan for the years ended June 30, 2014, 2013, and 2012, which were \$211,133.71, \$218,005.73, and \$200,442.87, 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)

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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, 2014, the College made a statutory contribution of .44% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. Required contribution rates for the years ended June 30, 2013, and 2012, were .44% and .52%, respectively. The College made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2014, 2013, and 2012, which were \$17,203.49, \$18,098.59, and \$20,846.06, 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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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 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 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). The 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)

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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.

**Office of the State Auditor**

**Beth A. Wood, CPA**  
State Auditor

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

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Board of Trustees  
Montgomery Community College  
Troy, North Carolina

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated May 15, 2015. Our report includes a reference to other auditors who audited the financial statements of Montgomery Community College Foundation, Inc., as described in our report on the College's financial statements. The financial statements of Montgomery Community College Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Montgomery Community College Foundation, Inc.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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



**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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prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

May 15, 2015

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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